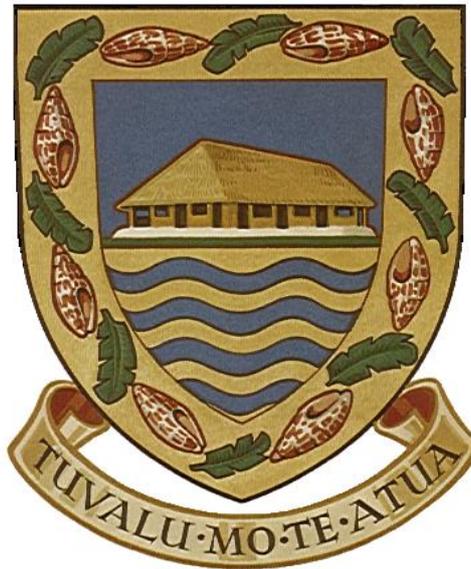


# **REPORT OF THE AUDITOR GENERAL**



## **ON THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF TUVALU FOR THE YEAR ENDED 31 DECEMBER 2020**

Parliamentary Paper  
Number:.....2021

**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 2020**

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 2020 and details 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 31<sup>st</sup> December 2020 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 2020, together with the Government of Tuvalu's financial reports in Appendix 4.**

### **Audit Result 2020**

I expressed a qualified audit opinion on the Government of Tuvalu's financial report for the year ended 31 December 2020. There are discrepancies in regards to figures disclosed in the financial statements which are, significant but not pervasive.

### **Basis for Qualified Audit Opinion**

#### **Cash balance as per the Financial Statement unable to be reconciled to Bank Statements.**

The Cash balance of the General Account as per the Bank Statements (taking into account unrepresented cheques and deposits) was unable to be reconciled to the Cash balance in the Financial Statements. The Cash balance as per the financial statements is overstated by \$530,410. There are mis-posting errors or incomplete receipts balances or incorrect accounting for expenditure.

I have not been able to satisfy myself surrounding the completeness and existence of the Cash balance in the Financial Statements due to the inability to obtain sufficient and appropriate audit evidence to support the Cash balance.

#### **Non-inclusion of Account Receivables and Revenues in the Financial Statements**

The Account Receivable balance is understated in the Financial Statements. This is due to outstanding Taxation, Customs, Marine and Wharfage and Public Works revenues not being recognised as Receivables in the Financial Statements. The Account Receivable balance recorded on the books of the above-mentioned departments was not reflected in the Government of Tuvalu's Financial Management Information System.

I was unable to satisfy myself surrounding the completeness of the Account Receivable balance and corresponding Revenue balances in the Financial Statements. The lack of evidence to support the completeness of the Account Receivable balance and the completeness of the corresponding Revenue transactions in the Financial Statements constitutes a limitation of scope of the audit which is significant.

**The Tuvalu Development Fund Cash balance as per the Financial Statement unable to be reconciled to Bank Statements and the movement in the Tuvalu Development Fund for the year not reconciled to the movement in the Tuvalu Development Fund bank account**  
The Cash balance of the Tuvalu Development Fund (TDF) Account as per the Bank Statements, (taking into account unrepresented cheques and outstanding deposits) was unable to be Reconciled to the Cash balance in the Financial Statements. The Cash balance as per the financial statements is understated by **\$55,219**.

The TDF opening balances (for projects) for the year 2020 does not agree with TDF closing balance for 2019. A variance of **\$32,723** was found of which the 2020 opening balance amount is greater. Accounting for this variance will increase TDF unreconciled cash amount to **\$36,389**. This is an issue that affects the level of assurance placed on TDF balances in the Financial Statements.

I have not been able to obtain sufficient appropriate audit evidence to support the unreconciled movement in the TDF for the year to the movement in the TDF bank account. This constitutes a limitation of scope which is significant.

#### **Limitation of scope surrounding Cabinet minutes and decisions**

Copies of cabinet minutes for the year 2020 was requested during the audit to enable us review if decisions made which could have an effect on the financial position of the Government of Tuvalu, were actually reflected in the financial statements. Not all of the cabinet minutes and decision were not provided to audit.

The inability for Audit to review all Cabinet minutes and Decisions constitutes a limitation of scope which is significant. It is uncertain which areas if any of the Financial Statements were affected.

#### **Report on Other Legal and Regulatory Requirements**

In auditing the Financial Statements of the Government of Tuvalu for the year ended 31 December 2020, 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 of the Audit Act has not been completely complied with.

#### **Scope of the Audit**

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

#### **Acknowledgment**

I thank the Treasury and other Government Ministries staffs' for their courtesy and assistance during the audit process. I again acknowledge improvement made in the preparation of the 2020 financial statements following the decision to shift from the accrual basis of accounting to the cash basis of accounting and now transitioned again to the modified cash basis or elementary accrual. I hope that these improvements continue into the future.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Imase Kaunatu', written in a cursive style.

Imase Kaunatu (Mrs)  
**Auditor General for Tuvalu**  
Funafuti Tuvalu  
10<sup>th</sup> December 2021

## Executive Summary

### Audit Opinion

I expressed a qualified audit opinion on the Government of Tuvalu's financial report for the year ended 31 December 2020. This was due to issues identified during the audit which were considered material and significant however not pervasive which are mentioned as follows;

- Cash balance as per the Financial Statement unable to be reconciled to Bank Statements
- Non-inclusion of Account Receivable and Revenues in the Financial Statements
- The Tuvalu Development Fund Cash balance as per the Financial Statement unable to be Reconciled to Bank Statements and the movement in the Tuvalu Development Fund for the year not reconciled to the movement in the Tuvalu Development Fund bank account
- Limitation of scope surrounding Cabinet minutes and decisions

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:

- the 2019 Qualification issues which remain unresolved are:
  - Statement of Cash Receipts and Payments / Cashflow
  - Non-Existence of an Accounting Framework (Tuvalu GAAP)

### 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
- Special Infrastructure Overspent account balances
- Overspent of account balances in the Tuvalu Development Fund

### 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 2020 TWOG audit;

- Late submission of the financial statements
- Overspent account balances identified in the Special Infrastructure and Tuvalu Development Fund
- Presentation of the Financial Statement
- Asset Management Plan for Public Works
- Unreconciled movement in the Tuvalu Development Fund and Special Infrastructure cash balances in the financial statement to the movement in the said accounts bank balances.
- Non-inclusion of line ministries account receivables and revenues in the financial statements.
- Civil servants' engagement in other income generating services
- Submission and monitoring of Ministries and Departments staff attendance registers

## Content

The Tuvalu Office of the Auditor General has completed the financial audit of the Government of Tuvalu for the year ended 31 December 2020. This report summarises our findings from the audit and draws attention to areas where the Government of Tuvalu is doing well or could improve.

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## 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
SI: Special Infrastructure
PWD: Public Works Department
SOE: State of Public Health Emergency
FMIS: Financial Management Information System

## **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 2020 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 2020.

## **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, Tuvalu declared the State of Public Health Emergency (SOE) due to the Covid19 outbreak that has affected the Global economy. This may have an impact on the Financial Statements of the Government of Tuvalu.

## **Changes in Accounting Policy**

In the preparation of the TWOG Financial Statements for the year ending 31 December 2020, the modified 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.

This issue does not form part of our audit qualification as the FMIS currently used by the Government of Tuvalu ended its usage in 2021 before we actually completed 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 2020 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 2020. 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 2019) Qualification

A qualified adverse opinion was issued for the year ended 31 December 2019 Government of Tuvalu accounts. A qualified adverse opinion means that because of the significance of the matter discussed in the *Basis for Adverse Opinion* the accompanying financial statements do not present fairly the financial position of the Government of Tuvalu.

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 further evolution to a set of Financial Statements which is approaching compliance with general accepted accounting practice (GAAP) was the major improvement in the financial statement. However further improvement is required to align the format currently used in the presentation of the financial statements of the Government of Tuvalu to the format required under IPSAS 1.

The 2019 issues which are considered to be unresolved following the adoption of the modified cash basis are:

- Statement of Cash Receipts and Payments / Cashflow
- Non-Existence of an Accounting Framework (Tuvalu GAAP)

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

### Issues Raised in Previous Management Reports

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

## **Financial Statement Compilation and Compliance with GAAP**

Since the shift in the basis of accounting from accrual to cash, the presentation of the financial statement was aligned with the accrual method under GAAP. This format is not in line with the required format for the presentation of the financial statements under IPSAS 1 cash basis. It is acknowledge that the Treasury is currently revising the format and layout for the presentation of the financial statements of the Government of Tuvalu to be in accordance with IPSAS 1.

The following is an instance 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.

## **Financial Statement Supporting Documentation**

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

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

## **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 Government of Tuvalu has in place a Finance Circular covering the Fraud, Misuse and Loss Policy however 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.

## **Legislative Compliance System**

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

## Performance, waste and probity issues

The following issues raised in 2020 and in the past have recommendations which related to performance waste and probity. See the issues for more detail.

- 1.2020 Late submission of the Government of Tuvalu Financial Statements
- 5.2020 Submission and monitoring of Ministries and Departments staff attendance register
- 8.2020 Civil servants' engagement in other income generating services
- 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
- 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.

## **Travel and Medical Scheme Expenditures**

The process surrounding Travel and Medical Scheme expenditures was reviewed and audit testing were performed. There were minor issues noted which were considered immaterial therefore were not raised in the audit report.

## **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 2020.

## **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 2020. The approved Finance Circulars are yet to be fully implemented. Limited public awareness of the Financial Instructions has been carried out.

## **Fixed Assets**

Audit focused its attention on Public Works as the bulk of high value and important assets are managed by the said department. There was an issue raised in the audit report relating to the lack of asset management plan maintain by the department.

## **Managing of Revenues**

The process surrounding revenue was reviewed and audit testing were performed. There were material misstatements 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 2020.

### **Foreign Embassy monthly 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 2021 audit.

### **Management of Special Fund and Expenditure**

Audit reviewed the Special Funds currently exist in the Government of Tuvalu financial statements. There were special funds identified which no approval has been sought from the Minister of Finance for the said fund to be established. We will review the management of special funds in 2021 particularly surrounding Special Infrastructure spending.

### **Scholarship Educational Loan Scheme (SELF)**

Audit performed documentation of the process surrounding SELF however limited audit testing were performed. We will review the SELF process and expenditures in 2021.

## **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:
  - 14.2020 Special Infrastructure Overspent account balances
  - 10.2020 Overspent project balances in the Tuvalu Development Fund
  - 7.2020 Special Infrastructure Overspent account balances
- 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 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

### 1.2020 Late submission of the Government of Tuvalu Financial Statements

#### Findings and Analysis

The Public Finance Act section 31(2) stated that the Government of Tuvalu 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's financial statement was required to be submitted for audit by the 30 June 2020. However, it was submitted for audit in September, a period of 9 months after the end of the financial year which is not in compliance with the Public Finance Act.

#### Implication

The delayed in the submission of the financial statements will shorten the time available for the Office of the Auditor General to complete the audit within the timeframe provided in the Public Finance Act, delay the overall audit process, the tabling of the audit report to Parliament and will lead to untimely decision making on the audited report.

#### Implication

- 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.
- The Ministry of Finance is encouraged to submit the financial statements to the Office of the Auditor General earlier than or by the end of June. This will allow ample time for the audit to carry out the examination of the accounts effectively.

#### Management Comments

This was noted for future reports. However, for this financial year the major factor that contributes to the delay was a decision to make some reallocation of Covid-19 related spending to be charge under the ADB grant. This is a very significant amount which the Government need to expend within a period of 6 month, hence the reason to make these reallocation or otherwise the funds will be returned to the donor.

### 2.2020 Non-inclusion of line ministries account receivable in the Financial Statements

#### Findings and Analysis

Audit noted significant amount of receivables maintained by registered revenue collecting departments such as Marine and wharfage, Tax, Customs, Fisheries and Public Works. These receivables were not included in the Government of Tuvalu Financial Statements, however as per the modified cash basis of accounting should be recognised in the accounts. These receivables should have been included to correctly reflect revenue earned by the government.

The Financial Instructions section 184 states that *"The Treasury department shall maintain and actively manage a register of all the accounts receivable invoices of government in the FMIS to support the collection of monies owed to Government.."* The Government of Tuvalu's modified cash basis of accounting recognise receivables in the financial statements thus the Treasury should maintain and actively manage a register of all the account receivable invoices of government in FMIS.

#### Implication

Account receivables and its related revenues are understated in the financial statements.

**Recommendation**

- Accounting Officers must report to treasury department any amount receivable at the end of every month.
- The treasury shall check these receivables to supporting documentation to ensure they are valid and with the correct amounts before entering into the register and the ACCPAC.
- Follow up actions should be made by the treasury department with the assistance of the ministry/department concern on all overdue receivables.

**Management Comments**

Given the adopted accounting basis, receivables are not recognised since cash are yet to be received. However recommendation is supported to ensure these receivable are well monitored and recovered within the same financial year.

**3.2020 Cash unable to be reconciled to Bank Statements****Findings and Analysis**

During our review of the cash balance as in the financial statements, we noted that the cash balance of the General Current Account as per the Bank Statements (taking into account unrepresented cheques and outstanding deposits) was unable to be reconciled to the balance in the Financial Statements. The variance was \$530,410.16.

**Implication**

The Cash balance presented in the Financial Statements is misstated by the above-mentioned variance.

**Recommendation**

Reconciliation of the Bank module to the General Ledger should be performed regularly with any variance investigated promptly.

**Management Comments**

Agree to the recommendation. This is an ongoing issue that require urgent action by the department going forward.

**4.2020 Asset Management plan for Public Works****Findings and Analysis**

The Public Works is one of the departments which controls and manages significant amount of high value and important assets as well as inventories of the Government of Tuvalu. It was noted during the audit that the department does not have in place a fixed asset register, inventory listing and an asset management plan despite the requirements for the proper usage and management of assets as per the Financial Instructions chapter 15.

There is also no evidence of regular stock takes being done to ensure assets and inventories are managed appropriately. Asset and inventory utilisation and management is important for determining the requirement for future capital investment or maintenance and for maximising returns and ensuring efficient utilisation of resources.

**Implication**

Without the existence of a proper asset management plan, the risk of fraud and theft would increase. There is a high risk that assets will become impaired quickly than anticipated if not being repaired and maintained regularly. This would cause disruption to the services provides

by PWD and also create significant costs to the Government of Tuvalu to overhaul or replace these assets.

**Recommendation**

- The department concern to develop an asset management plan to ensure assets are properly managed and monitored.
- There should be a fixed asset register and an inventory listing maintained by the department to ensure the movement of assets and inventories are closely monitored.
- Regular stock takes must also be performed to detect and prevent misused of public assets and inventories for personal gain.

**Management Comments**

This is noted with recommendation. This year the Ministry of Finance through the Treasury department has taken the leading role of ensuring that all departments (including PWD) asset register and inventories are maintain and updated on a timely basis.

**5.2020 Submission and monitoring of Ministries and Departments staff attendance register**

**Findings and Analysis**

The submission of attendance register is a requirement prescribed under the General Administrative Order (GAO) section 5.1.11 whereby a designated person from each department authorised by the Head of Department shall prepare an attendance report and submitted to the Secretary responsible for the Ministry on a monthly basis. To improve the monitoring of attendance registers the Human Resource (HR) unit requested the submission of all ministries and departments register to be directed to them for their review.

Audit took a sample of ministries and departments attendance registers and review and assess whether they have been complying with the above requirement. We noted that some ministries and departments do not have attendance register in place and also have not submitted any attendance report to the secretaries or the HR.

**Implication**

There is a high probability that civil servants will not adhere to the prescribed working hours provided in the GAO. This will have a significant financial impact on the Government and to the accomplishment of national targets and priorities.

**Recommendation**

- Management in all ministries and departments must ensure that staff are well informed of their respective duties under the GAO
- Ensure staff responsible for the attendance register within ministries or departments are effectively monitoring staff attendance and make appropriate actions to address issues if any identified.

**Management Comments**

No response received from Management

## **6.2020 TDF cash unable to be reconciled to TDF bank statements, and movement in TDF unable to be reconciled to movement in TDF bank account**

### **Findings and Analysis**

The TDF cash balance as per the Bank Statements (taking into account unrepresented cheques and outstanding deposits) was unable to be reconciled to the balance in the Financial Statements. The variance was \$55,219.

The movement in cash in the Tuvalu Development Fund for the year was unable to be reconciled to the movement in the Tuvalu Development Fund bank account. The variance of \$36,389 was noted.

### **Implication**

The TDF cash balance presented in the Financial Statements is misstated by \$55,219.

### **Recommendation**

- Going forward additional effort is placed in reconciling the movement in the Tuvalu Development Fund for the year.
- Reconciliation of the Bank module to the General Ledger should be performed regularly with any variance investigated promptly.

### **Management Comments**

Agree to the recommendation. This is an ongoing issue that require urgent action by the department going forward.

## **7.2020 Special Infrastructure Overspent account balances**

### **Findings and Analysis**

During the audit, an analysis was performed on closing balances of projects under the special infrastructure account . Negative balances were noted on closing balances of numerous projects under the account. In total, the negative balances amounted to (\$203,215.29). These negative amounts resulted from overspending of amounts approved to be expended from the fund for each project. This indicates poor initial cost estimates by management of line ministries prior submission of their projects to the infrastructure budget committee.

### **Implication**

Overspending of approved amounts could affect government's financial stability.

Poor initial cost estimates could cause projects to take more time and money than initially planned.

### **Recommendation**

- Initial forecasting on projects under special infrastructure fund to be improved.
- Track project budget on a monthly basis to keep informed of all project's financial status.
- Proper scrutiny of project cost estimates to be carried out by the infrastructure budget committee.
- Special Infrastructure Regulation to clearly specify timeframes for completion of projects, for instance two to three years to avoid inactive projects.

### **Management Comments**

There are quite a number of PIF related votes under the SI account of which some are overspending and some have remaining balance. Hence votes with remaining balance need to

apply against these overspending votes. Additionally there is an incorrect virement made from the recurrent to the SI and later on reversed resulting in a negative balance for that vote.

## **8.2020 Civil servants engagement in other income generating services**

### **Findings and Analysis**

We performed audit testing surrounding payment vouchers and came across a number of payments made for catering services for workshops or meetings organised by ministries and departments within the Government. It was identified that there were payments for catering services made to civil servants. In most instances, catering for workshops or meetings were being catered by civil servants within the respective Ministries and Departments.

This is a breach of the General Administrative Order section 5.2.1 and 5.2.2 which states that civil servants are prohibited from engaging in trade or private practices without the permission of the Secretary to Government.

### **Implication**

- The probability of collusion among staff within a particular ministry or department is high increasing the risk of fraud and theft to occur.
- Civil servants may be distracted and not be able to dedicate their whole time performing their normal duties as required thereby affecting the productivity of the ministry or department.

### **Recommendation**

- Civil servants to refrain from engaging in catering services or any other services that will allow them to earn additional income apart from their normal salary.
- The HR department to provide awareness on the GAO to all civil servants to ensure they are well informed of the rules and regulations pertaining to their conducts.
- Secretaries and Head of departments to ensure staff under their supervision do not engage in catering and any other practices that are not in line with the GAO, PSC Rules etc.
- Any Payment Voucher requesting catering payments to civil servants should be rejected by the Secretary for Finance.

### **Management Comments**

For point number 4, the Ministry of Finance has already put in place a control measure that restrict civil servants to receive cheque payments for any services provided to the Government.

## **9.2020 Cabinet Minutes and Records of Decisions**

### **Findings and Analysis**

Audit requested copies of cabinet minutes to review if there were decisions made in 2020 which could affect the financial position of the Government of Tuvalu. Not all cabinet minutes and decisions were presented to audit for review. Therefore, we were unable to verify whether the effect of the key decisions made (if any) have been well reflected in the financial statements.

### **Implication**

Without documentation of the decisions made by Cabinet, the Government is less able to enforce and make the changes to programs which are required. If an approved program is not performed or there is disagreement on the outcomes of the meeting, than there will be no evidence to demonstrate what should have been done.

**Recommendation**

Cabinet minutes to be updated and properly filed and should be easily accessible by the Office of the Auditor General during the audit of the Government of Tuvalu's accounts.

**Management Comments**

No response received from Management

**10.2020 Overspent projects balances in the Tuvalu Development Fund****Findings and Analysis**

Within the Tuvalu Development Fund, it was noted that there were 57 projects with negative closing balances totalling \$1.4m, implying they have been overspent. This amount has increased significantly compared to the last 5 years. This may have resulted from:

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

**Implication**

- The spending controls out of the Tuvalu Development Fund are weak, increasing the risk of overspending of projects continuing to occur.
- These projects were actually using funds allocated to other projects without seeking proper approval to authorize the spending of funds on these overspent projects.

**Recommendation**

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

**Management Comments**

During PIFs there are some project votes being exhausted due to the delay of funds from donor partners. Funds was received at a later date but it require to apply against these overspending project

**11.2020 Reconciliation of TDF balance sheet accounts****Findings and Analysis**

Audit reviewed the TDF trial balance and general ledger and noted the following account balances increased over the years with the following balances; Allocation error \$1,216,023.78, Unidentified Inward Payments (IP) \$5,500,487.66, Account payables \$133,627.81 and Purchase order clearing \$29,770.22.

There were no documentation of reconciliations performed on these accounts. Therefore, we are uncertain that the transactions recorded in each of these accounts have been correctly journalized. The TDF used the cash basis of accounting to recognise revenue and expenses hence there should not be any account payable balance in the accounts.

#### **Implication**

- Without the reconciliation of allocation error and unidentified Ips, expenses and revenues may be understated in the TDF account.
- Purchase order clearing and account payable balances may be misstated in the accounts.

#### **Recommendation**

- Reconciliation of TDF balance sheet accounts is performed at the end of the year to ensure incorrectly posted transactions are corrected and each account reconciled.
- Follow ups with ministries and departments to be made for unidentified inward payments (IP) to ensure they are correctly recognised as revenue.

#### **Management Comments**

Identifying inward payments (IPs) is outside the control of treasury and so the reason for accumulation of funds in the unclaimed IP (allocation error) account. The Ministry of Finance is working on devising a system within the Government that enable treasury to locate and identify the appropriate Ministry/Department that the IP relates to.

## **12.2020 Reconciliation of registered collecting departments revenues**

#### **Findings and Analysis**

We performed audit testing of revenue mainly the Government registered collecting departments such as the Marine, Public Works, Customs, Tax, fisheries. It was noted that the records of revenue maintained by these collecting departments do not matched to the revenues recorded in ACCPAC.

#### **Implication**

Revenues from these collecting departments may be incorrectly allocated by the treasury to other revenue allocations thus understating their balances in the financial statements. These registered collecting departments revenues might not be correctly reflected in the financial statements.

#### **Recommendation**

Reconciliations are performed between the revenue collecting departments and treasury to make sure both records matched. Any variances noted to be updated accordingly.

#### **Management Comments**

There were instance which revenue are paid directly to the main cashier at treasury which may result in discrepancy in records held by the revenue collector department and ACCPAC. For the case of fishing license, the department record revenue once they received the IP from treasury. However treasury does record the revenue when the IP is received but until the funds have appeared on the bank account with NBT.

### 13.2020 Presentation of Financial Statements

#### Findings and Analysis

The Government of Tuvalu uses the modified cash basis of accounting as per the International Public Sector Accounting Standards (IPSAS) to recognise revenues and expense as well as assets and liabilities. Audit note that the format used for the presentation and disclosures of significant information in the financial statements was not in line with the presentation format recommended by IPSAS 1. The current format used for the presentation of financial statement was adopted from IFRS 1 which is applicable for public enterprises.

#### Implication

The format currently used by the Government to present financial information in a given financial year is not in compliance with IPSAS 1.

#### Recommendation

The Treasury to ensure the format used for the fair presentation of the Government of Tuvalu's financial statements is in line with the IPSAS 1 prescribed format.

#### Management Comments

The treasury is currently working with development partners and consultants on revising the format and layout of TWOOG financial statements to ensure it aligns with the adopted accounting standard (IPSAS).

### 14.2020 Special Infrastructure account unreconciled amount

#### Findings and Analysis

Audit review of the Significant Infrastructure account revealed an *unreconciled amount* of \$13,294.32. Transactions that make up these unreconciled amounts is unknown and it is a concern whether they are SI related economic activities and transactions. Contrariwise, if these balances relate to human posting errors, what practices are considered by the department to mitigate it from re-occurring in future.

#### Implication

- High risk to increase in future if not dealt with
- Can be assumed as a balancing item for the SI account

#### Recommendation

- Treasury department to provide more disclosure on the transactions associated with the unreconciled amounts.
- Necessary reconciliations are performed to ensure that SI unreconciled amounts are reconciled before financial year end.
- Appropriate internal controls are put in place if the unreconciled amounts are caused by human posting errors.

#### Management Comments

Support the recommendation to avoid repetition of such unreconciled amount going forward

### 15.2020 Lack of supporting documentation of supplier expenses

#### Findings and Analysis

During the 2020 audit a random sample of expense transactions was selected, excluding payroll to control test. A total of 19 payment vouchers were unable to be located hence testing was unable to be performed. The total amount of these payment vouchers is \$329k. Such amount is

considered significant and without proper supporting documentation we were unable to ascertain if the payments made were valid and appropriate.

**Implication**

- Unauthorised payments may be made without the knowledge of the TWOG
- Without the approved PVs it is unknown if the financial instructions chapter 6 sections 155 to 162 were followed surrounding the approval process of PVs.
- Payments could be made without proper authorization. The risk of fraud occurring is increased.

**Recommendation**

- Additional attention is paid to the filing of payments.
- Desktop instructions are written and updated for the process surrounding the payment of PVs as well as procedures surrounding the safe filing of all PVs
- Multiple staff members are trained on the process of filing PVs

**Management Comments**

It is not clear whether this value of missing PV is significant or not as if it is compare to the value of total PV selected in the sample.

## Appendix 1: Prior Year Audit Issues Which Remain Unresolved as at 31 December 2019

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

#### Findings and Analysis

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

No response received from Management

### 14.2019 Statement of Cash Receipt and Payments / Cashflow Statement

#### Findings and Analysis

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**

No response received from Management

Recommendation	Risk	Management response																																																																																					
<p><b>4.2018 Budget Appropriations not Utilized</b></p> <p>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.</p>	<p>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.</p> <p>The table below justifies Actual Expenditure against the Final Budget Provisions by Heads;</p> <table border="1" data-bbox="584 456 1738 1126"> <thead> <tr> <th>Head</th> <th>Ministry</th> <th>Actual Expenditure</th> <th>Final Budget Provision</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>Office of the Governor General</td> <td>243,672</td> <td>249,368</td> <td>5,696</td> </tr> <tr> <td>B</td> <td>Office of the Prime Minister</td> <td>7,736,981</td> <td>8,549,692</td> <td>812,711</td> </tr> <tr> <td>C</td> <td>Legal Services</td> <td>895,953</td> <td>972,339</td> <td>76,386</td> </tr> <tr> <td>D</td> <td>Parliament</td> <td>1,431,500</td> <td>1,445,015</td> <td>13,515</td> </tr> <tr> <td>E</td> <td>Office of the Auditor General</td> <td>323,804</td> <td>432,126</td> <td>108,322</td> </tr> <tr> <td>F</td> <td>Finance and Economic Development</td> <td>12,268,405</td> <td>12,887,187</td> <td>618,782</td> </tr> <tr> <td>G</td> <td>Public Utilities</td> <td>16,821,250</td> <td>17,122,576</td> <td>301,326</td> </tr> <tr> <td>H</td> <td>Health</td> <td>10,147,239</td> <td>11,558,951</td> <td>1,411,712</td> </tr> <tr> <td>I</td> <td>Natural Resources</td> <td>3,504,074</td> <td>3,866,046</td> <td>361,972</td> </tr> <tr> <td>J</td> <td>Home Affairs</td> <td>6,528,251</td> <td>7,983,513</td> <td>1,455,262</td> </tr> <tr> <td>K</td> <td>Police and Prison Services</td> <td>1,922,240</td> <td>2,117,401</td> <td>195,161</td> </tr> <tr> <td>L</td> <td>Transport and Communication</td> <td>6,681,005</td> <td>6,596,801</td> <td>(84,204)</td> </tr> <tr> <td>M</td> <td>Education. Youth and Sports</td> <td>13,618,354</td> <td>14,039,698</td> <td>421,344</td> </tr> <tr> <td>N</td> <td>Judiciary</td> <td>613,396</td> <td>604,765</td> <td>(8,631)</td> </tr> <tr> <td>O</td> <td>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</td> <td>4,370,438</td> <td>4,619,587</td> <td>249,149</td> </tr> <tr> <td colspan="2" style="text-align: right;"><b>TOTAL</b></td> <td><b>87,106,563</b></td> <td><b>93,045,065</b></td> <td><b>5,938,502</b></td> </tr> </tbody> </table> <p>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.</p> <p>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.</p>	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	<b>TOTAL</b>		<b>87,106,563</b>	<b>93,045,065</b>	<b>5,938,502</b>	
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<p><b>9. 2018 Poor record keeping and lack of TMTS Database</b></p> <ul style="list-style-type: none"> <li>• The Ministry of Health to ensure that TMTS records are filed properly and stored in a safe place.</li> <li>• 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.</li> </ul>	<p>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.</p> <p>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.</p> <p>Audit noted that there has been not as much improvements made on records of the TMTS during this year.</p> <p>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.</p>	
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<p><b>11. 2017 Non-submission of asset register and a summary of changes in asset to Treasury</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Any change to asset as mentioned above must be reported to treasury immediately.</li> </ul>	<p>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.</p> <p>The Financial Instructions section 285 stated that <i>“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”</i>.</p>	
<p><b>17.2017 Non-performance and reporting of asset and inventory stocktake by departments</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<p>The Financial instructions section 301 states that <i>“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.”</i></p> <p>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.</p>	

Recommendation	Risk	Management response
<p><b>6.2016 Reconciliation of Asset and Liability Accounts to the Sub-ledger or Third-Party Evidence is performed</b></p> <ul style="list-style-type: none"> <li>• The reconciliations are performed for all asset and liability accounts. Any variances identified are explained and amended.</li> <li>• Depending on the level of variance (if any) and complexity, more frequent than annual reconciliations are completed.</li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>• All Accounts Payable General Ledger Accounts to the Accounts Payable Sub-Ledger.</li> <li>• Government Current Account General Ledger to the Bank module balance.</li> <li>• Tax Debtors General Ledger Account to the Accounts Receivable Sub-Ledger.</li> <li>• Purchase Order Clearing General Ledger Account to the Accounts Payable Sub-Ledger.</li> <li>• Tuvalu Development Fund Bank Account General Ledger Account to the Bank Module Balance.</li> </ul> <p>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.</p>	<p>Reconciliation has improved significantly from 2018 to date. For liability accounts, Government managed to extract 3<sup>rd</sup> party statements from Lenders and this provides an accurate position of the Government. Similarly in asset, the provision of bank accounts statements has improved significantly.</p>

Recommendation	Risk	Management response
<p><b>7.2016 Lack of Documentation Detailing the Benefits Entitled by the Overseas Missions Top Management</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Documentation of all the entitlements of Overseas Mission staff benefits is performed to ensure consistency.</li> <li>• Ensure that these benefits are well documented and reflected in their signed contracts of staff.</li> </ul>	<p>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.</p> <p>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.</p> <p>Implication Without documentation of these benefits we could not confirm whether these payments are legitimate and should be received by the Missions’ staff.</p>	<p>No response received from Management.</p>

<p><b>8.2016 No acquittal reports submitted to the Aid Coordination Unit upon completion of projects within the Tuvalu Development Fund</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <ul style="list-style-type: none"> <li>There is a risk that the project may overspend its budget or expenditure on ineligible items is performed.</li> <li>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.</li> </ul>	<p>No response received from Management.</p>
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<p><b>9.2016 No proper closure of projects in the Tuvalu Development Fund after completion</b></p> <ul style="list-style-type: none"> <li>• Projects which have been completed are closed out of the Tuvalu Development Fund.</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p>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, <i>“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”</i>. There are projects dating back to 2009.</p> <p>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.</p> <p>Implication</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Without a proper closure of the projects any overspent amount will not be identified and reported to the donor for reimbursement.</li> </ul>	<p>No response received from Management.</p>
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<p><b>10.2016 Negative Project Balances within the Tuvalu Development Fund to be cleared</b></p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• A payment from the Consolidated Fund is made to clear the remaining negative balance projects;</li> <li>• Controls are put in place to ensure that overspending of projects is prevented; and</li> <li>• Monitoring is conducted in the future on balances of projects, to ensure that projects are not overspent.</li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>• a lack of monitoring of balances of projects by vote keepers, and</li> <li>• approved payments for an individual project located and processed after the remaining fund balances were returned to the Donor.</li> </ul> <p>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.</p>	<p>No response received from Management.</p>
<p><b>11.2016 Accounts Payable balances which are negative, and payables not allocated appropriately</b></p> <ul style="list-style-type: none"> <li>• Review is undertaken as part of the financial statements preparation process to ensure that all vendors within Accounts Payable have a positive balance.</li> <li>• Any negative balances are investigated and are either amended if they are misstatements or are reported as Accounts Receivables.</li> </ul>	<p>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.</p>	<p>No response received from Management.</p>

<p><b>13.2016 Tuvalu Development Fund Account Payable</b> Findings and Analysis</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The Accounts Payable balance is investigated and removed from future reporting and accounting processes.</li> </ul>	<p>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.</p> <ul style="list-style-type: none"> <li>• There is a high risk that payable and expenditure amount is overstated in the TDF account.</li> <li>• The project balances could be understated due to double posting of TDF expenditure.</li> </ul>	<p>No response received from Management.</p>
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<p><b>14.2016 TDF vote ledgers were not updated and the non-performance of vote ledger reconciliations</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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</li> </ul>	<p>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.</p>	<p>No response received from Management.</p>
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<p><b>15.2016 Preparation of the monthly reports not in compliance with Financial Instructions</b></p> <ul style="list-style-type: none"> <li>All the required information in the Government of Tuvalu monthly report is provided as required under the Financial Instructions.</li> </ul>	<p>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.</p> <p>Audit noted that the following are not included in the Whole of Government monthly reports;</p> <ul style="list-style-type: none"> <li>Government borrowings and guarantee balances and details</li> <li>Account receivable balances</li> <li>Assets and inventory details</li> <li>Summary of projects funded from Development Fund outlining funds received, funds expended, and the remaining funds available.</li> </ul> <p>Risk:</p> <ul style="list-style-type: none"> <li>Without the inclusion of the above information the Government of Tuvalu monthly report is not in compliance with the requirements of the Financial Instructions.</li> <li>There is a risk that these accounts will not be updated and reviewed in a timely manner.</li> </ul>	<p>No response received from Management.</p>
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<p><b>17.2016 Agreements between Development Partners and Government of Tuvalu not on file</b></p> <ul style="list-style-type: none"> <li>• Agreements are kept on file, in soft copy and are easily accessible when requested by Audit.</li> <li>• Agreements are used to monitor the progress of projects, record commitments and the value of assets provided.</li> </ul>	<p>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.</p> <p>Implication There is an increased risk that without these agreements:</p> <ul style="list-style-type: none"> <li>• the Government of Tuvalu does not receive all the support that it is entitled to under the agreements;</li> <li>• in the case of a project, the project is not completed to the specifications of the agreement and the benefit is reduced;</li> <li>• monitoring of the projects without these agreements is not able to be performed effectively as deliverables and milestones are contained within the agreements; and</li> <li>• the resource commitments that the Government of Tuvalu has made will not be accounted for in future financial forecasting.</li> </ul>	<p>No response received from Management.</p>
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Recommendation	Risk	Management response
<p><b>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.</b></p> <ul style="list-style-type: none"> <li>• A record of all pledges is established and all un-paid pledges are followed up and payment requested.</li> <li>• 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</li> </ul>	<p>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.</p> <p>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.</p> <p>Implication</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<p><b>9.2015 Advances improperly accounted for in 2017</b></p> <ul style="list-style-type: none"> <li>• Advances are entered into ACCPAC as a receivable and then after a certain period, taken out of the appropriate ministries budget.</li> <li>• Regular monitoring of the repayment of advances is completed and follow up with parties who committed to making payment is performed.</li> </ul>	<p>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.</p> <p>Implication</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Additionally, the advances are receivable assets from the entity who has made the commitment, the financial statements are understating the receivables and overstating expenses.</li> </ul> <p>a</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<p><b>10.2015 Payments out of Coin Security Fund without proper declaration under the Currency Act</b></p> <ul style="list-style-type: none"> <li>In future, all payments out of the Coinage Security Fund are made in accordance with the Currency Act.</li> <li>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.</li> </ul>	<p>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:</p> <p><i>(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.</i></p> <p><i>(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.</i></p> <p>There was no determination of net profits by the Fund in 2016 and 2017.</p> <p>Implication The transfer of funds out of the Coin Security Fund is contrary to the requirements of the Currency Act.</p>	<p>No response received from Management.</p>
<p><b>11.2015 Cash only reconciled at year end, causing budget expenditure reporting to be inaccurate</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>In future, assets purchases should not be recognised as an expense and subsequently</li> </ul>	<p>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.</p> <p>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</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<p>recognised as an asset through equity. Rather asset purchases should be recognised as an asset.</p>	<p>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.</p>	
<p><b>18.2015 Local purchase orders and transfers to be taken into account when deriving cash movement</b>            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.</p>		<p>No response received from Management.</p>
<p><b>1.2014 Over expenditure of Budget Heads</b>            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.</p>	<p>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</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
	<ul style="list-style-type: none"> <li>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:   <i>“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...”</i> </li> <li>Payments are being made without due consideration of the budget framework.</li> <li>The controls in place to prevent these overpayments are not effective.</li> </ul>	
<p><b>7.2014 Strategic planning for the Government of Tuvalu to be improved, including linking Corporate plans to the TKIII</b></p> <ul style="list-style-type: none"> <li>The function of monitoring and reporting on the TKIII progress is performed by the Headquarters of each Ministry.</li> <li>Emphasis is placed on performance of the functions required to achieve the goals in the TKIII and any goals identified in Corporate</li> </ul>	<p>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.</p> <p>Currently there are Corporate Plans for most Ministries and Departments; however, they are not well linked to the TKIII.</p>	<ul style="list-style-type: none"> <li>➤ 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</li> <li>➤ MECD does not work with line Ministries on their Corporate plans in terms of updating, it is the full</li> </ul>

Recommendation	Risk	Management response
<p>Plans which are not aligned to the TKII, are not considered a high priority.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• If there is a priority goal not identified in the TKIII, than the ECU recommends that the TKIII is updated with that goal.</li> <li>• Identify during the Strategic Planning process the risks of not completing the tasks in order to achieve the goals. Approaches to minimise these risks should also be considered. Include these risks in the TKIII Progress Report Updates.</li> <li>• 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.</li> <li>• The ECU continues the practice of monitoring the Special Development</li> </ul>	<p>There is limited monitoring of the process of being accountable for each Ministry and Department's Corporate Plan.</p> <p>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.</p> <p>In April 2016 the Evaluation and Co-ordination Unit (ECU) was established under the Office of the Prime Minister to monitor the progress against the TKIII. A TKIII Progress Report is in use to review progress against the TKIII, however, the detail was limited, and the ECU was not monitoring the progress against Ministries' Corporate Plans.</p> <p>Implication</p> <ul style="list-style-type: none"> <li>• There is limited accountability of the Ministries and Departments surrounding their Corporate Plans.</li> <li>• 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.</li> </ul>	<p>responsibility of line Ministries to update their CPs and report to MECD; Thus, MECD will remind, follow up and report progresses</p> <ul style="list-style-type: none"> <li>➤ 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</li> <li>➤ 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 knows well too why they had formulated such development</li> <li>➤ 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</li> </ul>

Recommendation	Risk	Management response
<p>Expenditure (SDE), links the SDE expenditure to the TKIII milestones and provides more detail in the SDE sheet similar to the TKIII Progress Report.</p>		<ul style="list-style-type: none"> <li>➤ 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</li> <li>➤ MECD monitors Line Ministries CPs meaning MFED and MoH</li> </ul>
<p><b>8.2014 Loan to SELF (Student Educational Loan Fund) awardees and RSE workers being treated as expense and repayments treated as revenue</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• SELF and RSE payments should be recognised as a Loan (Asset) when they are paid out, rather than an expense.</li> <li>• SELF and RSE repayments should be recognised as reduction in the loan amount i.e. reduction to receivables but not charged as revenue.</li> <li>• The Treasury Department should assist the Education Department and Labour</li> </ul>	<p>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.</p> <p>The student educational loan fund policy Section 4.7 states that <i>“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”</i>.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>Further there is an intension to establish a debts recovery officer within the Department of HR to focus mainly on the recovery of</p>

Recommendation	Risk	Management response
<p>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.</p>	<p>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.</p> <p>The Labour Department were not able to provide the updated list of outstanding loans in the RSE scheme and their balances when requested.</p> <p>The SELF and RSE loans are not being recognised as loans in the Government of Tuvalu’s Financial Statements, rather they are recognised as expenses when paid out and revenues when they are re-paid. There is limited monitoring of the balances of amounts owed by each SELF awardee and RSE participant, nor is there any follow up on amounts which are now due.</p> <p>Implication</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>	<p>loans and from those who are currently under the SELF</p> <p>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.</p>

Recommendation	Risk	Management response
	<ul style="list-style-type: none"> <li>Expenses in the year that the loans are paid out are overstated and the Loan balance (Asset) is understated.</li> <li>Revenues in the year which loans are repaid are overstated.</li> </ul>	
<p><b>10.2014 No recording of annual leave and sick leave balances by Government of Tuvalu</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Annual leave and sick leave balances are calculated for each staff member and are updated with each leave form submitted.</li> </ul>	<p>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.</p> <p>We acknowledge that a new payroll module within ACCPAC has been installed in 2016.</p> <p>Implication</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>

Recommendation	Risk	Management response
<ul style="list-style-type: none"> <li>Instructions for Personnel are developed to consistently and effectively manage annual leave balances.</li> </ul>		
<p><b>13.2014 Information and Communications Technology Weaknesses</b></p> <ol style="list-style-type: none"> <li>An ICT strategic committee is formed and meets on a regular basis.</li> <li>The National ICT policy is approved and implemented.</li> <li>An ICT security policy is drafted and approved.</li> <li>Detailed process and procedures are documented for the requirements of the above policies.</li> <li>The Antivirus software defined in the Standardisation policy is rolled out to all computers.</li> <li>New upgrades are formally and rigorously tested in an isolated environment.</li> <li>Physical access policies are defined and adhered to.</li> <li>Appropriate environmental controls are put in place in the server room and wherever else key IT infrastructure is located.</li> <li>A backup process is formalised and followed.</li> <li>A DRP and subsequent procedures are put into place and are tested on a regular basis.</li> <li>User access controls are defined and reviewed to ensure that they are appropriate.</li> </ol>	<p>During our discussions with the Information, Communications and Technology (ICT) Department in the Ministry of Communications and Transport, the following issues were noted:</p> <ol style="list-style-type: none"> <li>There is no ICT strategic committee giving overall strategic guidance and direction to the ICT Department.</li> <li>A National ICT policy has been drafted, and presented to the DCC for approval, however, is yet to be approved by Cabinet or implemented.</li> <li>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.</li> <li>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.</li> <li>Lack of consistent antivirus software usage and antivirus management. This is included in the Standardisation policy, however, further effort is required to implement.</li> <li>Lack of testing of new upgrades to computer software and servers.</li> </ol>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<p>12. A consistent framework of IT platforms is approved and rolled out to all Government of Tuvalu IT users.</p>	<p>7. No physical access policies in place restricting access to key IT areas. This includes the server room.</p> <p>8. Lack of appropriate environmental controls in the server room, ensuring correct humidity, temperature and consistent power supply.</p> <p>9. Lack of documented backup processes and lack of offsite backups performed.</p> <p>10. No disaster recovery plan and procedures are in place.</p> <p>11. Lack of user access control policies and processes, apart from the Standardisation Policy.</p> <p>12. Lack of consistent framework of IT platforms. We acknowledge that the Standardisation Policy is attempting to implement this.</p> <p>Implication</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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</li> </ol>	

Recommendation	Risk	Management response
	<p>security will be performed inconstantly and without direction.</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>6. Without testing new upgrades in a systematic and thorough way, there is an increased risk of changes made which do not address user requirements, downtime to computer users if the change is unsuccessful or causes issues and unknown effects on the ICT service being delivered.</li> <li>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.</li> <li>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.</li> <li>9. Without a formal documented backup process of key information, in the event of a failure of an information</li> </ol>	

Recommendation	Risk	Management response
	<p>system, there will be significant cost and risk to the loss of key information of the Government of Tuvalu.</p> <p>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.</p> <p>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.</p> <p>12. Without a consistent IT platform (for example all staff using a single version of Windows and single version of Office), there are inefficiencies in managing these systems by the ICT department. This includes not being able to roll out updates to one platform, having to ensure that different user platforms work with the infrastructure in place, and an increased risk of virus infection</p>	
<p><b>14.2014 Publication and approval of the Finance Circulars</b></p> <ul style="list-style-type: none"> <li>The Finance Circulars are finalised, approved and are distributed for use. This will enable consistency of the application of finance</li> </ul>	<p>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.</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<p>functions and will give guidance in the application of the financial instructions.</p> <ul style="list-style-type: none"> <li>Education of key stakeholders is performed on the requirements of the revised Finance Circulars.</li> </ul>	<p>These draft Finance Circulars are yet to be reviewed, approved and published in 2016.</p> <p><b>Implication</b> Without these Finance Circulars being approved, circulated and implemented there are significant processes which required to be performed with limited guidance.</p>	
<p><b>15.2014 Promotion and education of stakeholders of the revised financial instructions</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Feedback on the implementation of the revised Financial Instructions is obtained and considered for the next revision of the Financial Instructions.</li> </ul>	<p>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.</p> <p>No further progress has been assessed by during 2017.</p> <p><b>Implication</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>The requirements of the revised financial instructions will not be adhered to.</li> </ul>	No response received from Management.
<p><b>18.2014 Bank accounts not controlled by the Chief Accountant</b></p> <ul style="list-style-type: none"> <li>All departments and projects (including the above) hand over to the Chief Accountant all the accounts that are separately administered by them.</li> </ul>	<p>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</p>	No response received from Management.

Recommendation	Risk	Management response
<ul style="list-style-type: none"> <li>These accounts are then closed and consolidated in the Consolidated Revenue Fund and are appropriated in the normal budget process.</li> </ul>	<p>Consolidated Revenue Fund. In 2016 these accounts included:</p> <ul style="list-style-type: none"> <li>Tuvalu Eye Spectacles account and;</li> </ul> <p>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”.</p> <p><b>Implication</b></p> <ul style="list-style-type: none"> <li>Without the involvement of the Chief Accountant in administering these accounts, the risk of funds being misused will be increased.</li> <li>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).</li> </ul>	
<p><b>19.2014 Reconciliation of Aged Purchase Order listing to the General Ledger</b></p> <ul style="list-style-type: none"> <li>Reconciliation between the Aged Purchase Order listing and the General Ledger is performed on a regular basis.</li> <li>The reason for the variance is determined and amended in the General Ledger.</li> <li>Once the practice which causes the variance between the General Ledger and the Purchase Order Module is identified, this practice is discontinued.</li> </ul>	<p>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.</p> <p>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.</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
	<p>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.</p> <p><b>Implication</b></p> <ul style="list-style-type: none"> <li>• Audit was unable to receive a listing of outstanding purchase orders which reconciled to the General Ledger account at 31 December 2016 and 2017.</li> <li>• Due to the account not reconciling, audit was unable to gain assurance surrounding the accounts payable figure for 2016 and 2017.</li> <li>• There is an increased risk that purchase order amount is misstated in the financial statement.</li> </ul>	
<p><b>20.2014 Monitoring of upper air space revenue</b></p> <ul style="list-style-type: none"> <li>• A copy of the agreement is obtained, reviewed for the revenue share calculation and filed properly for ease of access in the future.</li> <li>• 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.</li> <li>• The agreement with NFIR should be reviewed to ensure that there is adequate transparency of reporting of information</li> </ul>	<p>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.</p> <p>We acknowledge that the Aviation Department is aware of this issue.</p> <p><b>Implication</b></p> <ul style="list-style-type: none"> <li>• Given the split of revenue shares was unable to be reconciled with the agreement as the agreement was</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

Recommendation	Risk	Management response
<p>relating to the distribution of revenue shares and other entitlements of the Government of Tuvalu.</p>	<p>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.</p> <ul style="list-style-type: none"> <li>• The Aviation Department is unaware if it is receiving all the benefits from the NFIR agreement.</li> </ul>	<ul style="list-style-type: none"> <li>• 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 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.</li> <li>• 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</li> </ul>

Recommendation	Risk	Management response
		<p>know how that money was been calculated.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p>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.</p>
<p><b>21.2014 Lack of Procurement Planning</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The Central Procurement Unit should follow up with Ministries and Departments who are yet to submit their Annual Procurement Plan.</li> </ul>	<p>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 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.</p> <p>Not all procurement plans were submitted for 2017 to the Central Procurement Unit.</p> <p><b>Implication</b></p> <ul style="list-style-type: none"> <li>• 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</li> </ul>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
	<p>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).</p> <ul style="list-style-type: none"> <li>• The Central Procurement Unit is unable to plan major procurements nor is the budgeting process in allocating funds effective.</li> <li>• The Ministries and Departments who have not submitted procurement plans are in breach of the Section 14 of Procurement Regulations.</li> </ul>	
<p><b>22.2014 Goods receipting process not being followed</b></p> <ul style="list-style-type: none"> <li>• Goods receipting is performed as per the financial instructions. Invoices presented to Treasury which do not have a Goods Receipt on them are returned to the accounting officer for them to verify that the goods/services have been received.</li> <li>• Education of accounting officers is performed surrounding the requirements of raising POs before a commitment is made and goods receipting on the invoice.</li> </ul>	<p>The Government of Tuvalu has in 2014 implemented the use of Purchase Orders. A Purchase Order is raised to ensure that:</p> <ul style="list-style-type: none"> <li>• funds are available within the budget for the purchase of the goods and services,</li> <li>• the Government of Tuvalu does not commit to purchase goods in which it does not have funds allocated,</li> <li>• it is clear what goods are to be purchased, and</li> <li>• approval of purchases is made prior to committing to purchase or receive goods.</li> </ul> <p>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</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
	<p>the goods/services required in the purchase order and charged to the Government of Tuvalu on the invoice.</p> <p>It was noted in 2017 that:</p> <ul style="list-style-type: none"> <li>• There was limited goods receipting occurring.</li> </ul> <p>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.</p>	
<p><b>26.2014 Grants and Subsidy Weaknesses</b></p> <ol style="list-style-type: none"> <li>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.</li> <li>2. A consistent standard acquittal report template is created (in conjunction with the Ministry of Finance), approved and put to use. Training is provided to grant recipients on how to fill out the acquittal form.</li> </ol>	<p>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 &amp; Labour, the following issues were noted.</p> <ol style="list-style-type: none"> <li>1. There is no formal agreement in place with the recipients of the grants for each of the Ministries above.</li> <li>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.</li> </ol> <p>Implication</p> <ol style="list-style-type: none"> <li>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.</li> <li>2. Without a standardised report the Ministry creates an acquittal report, which may not contain all the</li> </ol>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
	information required by the Treasury and implementing Ministry.	
<p><b>32.2014 Payroll committee record of minutes</b></p> <p>Prepare a fortnightly workpaper to show the movement of the current fortnightly payroll costs from previous period.</p> <p>The reconciliation can also be signed off by the Payroll committee to indicate review of approval prior to payroll payment.</p>	<p>From our review of the payroll system we noted that there is no evidence of check by payroll committee after payroll is processed.</p> <p>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.</p> <p>Implication</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Without movement from pay to pay analysis performed, the payroll committee's review will take longer and will be less targeted.</li> </ul>	<p>There are no minutes taken in 2017.</p> <p>Treasury is implementing that in 2018.</p>
<p><b>LC 2013.1 Schedule to the Public Finance Act – Estimates of Expenditure</b></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>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.</p> <p>No resolution of Parliament has been performed to approve expenditure out of the TDF for 2015, 2016 and 2017.</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
	<ul style="list-style-type: none"> <li>The expenditure made from the TDF is unlawful because there has been non-compliance with the Public Finance Act requirements.</li> </ul>	
<p><b>LC 2013.3 Section 7 of the Currency Act</b></p> <ul style="list-style-type: none"> <li>The Currency Act should be amended to make clear the purpose of the Fund.</li> <li>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.</li> </ul>	<p>Section 7 of the Currency Act requires the Commissioner of Currency (Minister for Finance) to:</p> <p><i>(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;</i></p> <p><i>(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;</i></p> <p><i>(f) perform all such other duties as are or may be imposed on him by or under this Act.</i></p> <p>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.</p> <p>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.</p>	<p>No response received from Management.</p>
<p><b>5.2013 Lack of Assets management plan</b></p>	<p>The Government of Tuvalu does not have any plan in place for the replacement/ maintenance of key assets of the</p>	<p>The Deferred Maintenance Fund is established to accommodate for these expenses.</p>

Recommendation	Risk	Management response
<p>An assets management plan is developed which details for major assets:</p> <ul style="list-style-type: none"> <li>• planned replacement dates;</li> <li>• planned maintenance and repair schedules, including resources and skills required to perform maintenance;</li> <li>• estimated costs of replacement and repairs, along with timelines for the replacement/repair work so it can be budgeted for;</li> <li>• if asset is planned to be replaced or not;</li> <li>• contingency plan if asset becomes unusable; and</li> <li>• if a spare/ replacement asset needs to be held.</li> </ul>	<p>Government of Tuvalu. The Government of Tuvalu holds many strategically important assets which serve the people of Tuvalu</p> <ul style="list-style-type: none"> <li>• In the event that these assets become unusable, there would be quite a disruption to the performance of the Government of Tuvalu’s activities.</li> <li>• 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.</li> <li>• 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.</li> </ul>	
<p><b>8.2013 Portable and Attractive Assets register to be kept</b></p> <ul style="list-style-type: none"> <li>• A portable and attractive register is maintained and rules surrounding the addition of assets to this register are developed.</li> <li>• Office expenses transactions are reviewed to ensure that all portable and attractive items are entered on the register and are properly managed.</li> <li>• 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.</li> </ul>	<p>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.</p> <p>Without active management, there is an increased risk that portable and attractive items are stolen, pilfered and misused</p>	<p>Treasury to be implement in 2018.</p>

Recommendation	Risk	Management response
<ul style="list-style-type: none"> <li>• There should be frequent counting of Portable and Attractive items to ensure they remain in the possession of the Government of Tuvalu.</li> <li>• A policy of clearly marking Portable and Attractive items as the Government of Tuvalu's property should be developed and introduced.</li> <li>• If a fraud plan is developed, there could be some commentary surrounding management of Portable and Attractive items.</li> </ul>		
<p><b>16.2013 Non-inclusion of donated services in the Financial Statements</b></p> <ul style="list-style-type: none"> <li>• In the future, Government of Tuvalu should record the services being provided by Development Partners and include these costs in the Financial Statements.</li> <li>• 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.</li> </ul>	<p>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.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>Not a priority issue. Treasury will consider this in future years.</p>
<p><b>25.2013 Non-reconciliation of Undelivered Cargo List to the warehousing file</b></p>	<p>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</p>	<p>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</p>

Recommendation	Risk	Management response
<ul style="list-style-type: none"> <li>The UCL continues to be updated until all goods are either cleared by Customs or are seized by Customs and auctioned.</li> </ul>	<p>Undelivered Cargo List (UCL). This represents goods on which Customs duty has not been paid.</p> <p>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.</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	<p>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.</p> <p>The amount known to be paid to Customs once we serve the importer with outstanding reminders.</p> <p>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, unless the outstanding is cleared and payment due settled.</p>
<p><b>3.2012 Tuvalu Development Fund (TDF) Opening and Closing Balances and Budget Estimates</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>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</li> </ul>	<p>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.</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<p>occurs to ensure that expenditure is in line with amounts warranted from the budget.</p>		
<p><b>4.2012 Tuvalu Development Fund Accountability</b></p> <p>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.</p>	<p>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.</p>	<p>No response received from Management.</p>
<p><b>8.2012 Management of .TV Contract</b></p> <p>The agreement is reviewed and all the benefits to Tuvalu are documented and provided by VeriSign.</p>	<p>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.</p> <p>Tuvalu is missing out on benefits of the VeriSign contract</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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</li> </ul>

Recommendation	Risk	Management response
		<p>agreement before the existing one expires in 2021.</p> <ul style="list-style-type: none"> <li>• The Ministry intends to set a Task Force or Negotiation Team to start working on this .TV issue.</li> </ul>
<p><b>11.2012 Special Funds Rules and Governance</b></p> <p>That the Minister establishes regulations for the operations and control of the Special funds or closes the funds.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<p><b>12.2012 Review of Financial Statements Reconciliations and Provision of Supporting Documentation</b></p> <p>We recommend that supporting documentation, calculations and analytical review are attached to the working papers and they are evidenced as reviewed.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• The reconciliations to the balance sheet accounts were completed, but limited supporting documentation was attached.</li> <li>• No analytical review of movements to budget and the prior year was completed.</li> <li>• No evidence of review on most of the documentation presented to the Auditor General.</li> <li>• No documentation of the payroll fortnightly reconciliation and payroll analysis of movements in the pays.</li> </ul> <p>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.</p> <p>Without review, the risk of errors being reported in the accounts is increased.</p>	<p>Treasury is improving on that and address these issues in the future.</p>
<p><b>17.2011 Fisheries to Keep Minutes of Negotiation on File</b></p> <ul style="list-style-type: none"> <li>• Official records and minutes of negotiating to approve fishing licenses discussed via email should be filed for transparency.</li> </ul>	<p>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</p>	<p>No response received from Management.</p>

Recommendation	Risk	Management response
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>are no written minutes to confirm the negotiation outcomes.</p> <p>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.</p>	
<p><b>8.2009 Reconciliation Between Customs and ACCPAC</b></p> <p>Develop a reconciliation which is performed monthly, to ensure that all transactions in the Customs database are accounted for in ACCPAC.</p> <p>Initially the monthly movements could be reconciled in order to simplify the reconciliation process.</p>	<p>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.</p> <p>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.</p>	<p>This is an issue Treasury is looking to install ACCPAC in the Custom Dept. This helps the department in reconciling their data with ACCPAC.</p>
<p><b>5.2008 Debt Management Policy</b></p> <p>Develop and implement a debt management policy to assist in the timely recovery of debts owed to Government of Tuvalu.</p> <p>Approve advances based only on full and complete budget details.</p> <p>Ensure appropriate documentation is available for all advances made prior to processing payment.</p>	<p>That all debts which are owed to the Government of Tuvalu are not collected.</p> <p>We acknowledge that the <i>Accounts Receivable</i> and <i>Advances</i> 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.</p>	<p>Line Ministries has failed to report debts owe to the Treasury Department.</p>
<p><b>9.2008 Employee Entitlements</b></p> <p>The Human Resources Management Department maintains a record of leave entitlement liabilities</p>	<p>Liabilities for leave and sick leave may accrue without finance being able to forecast resultant cash flows.</p> <p>Leave may be taken, however, not recorded in the system.</p>	<p>No response received from Management.</p>

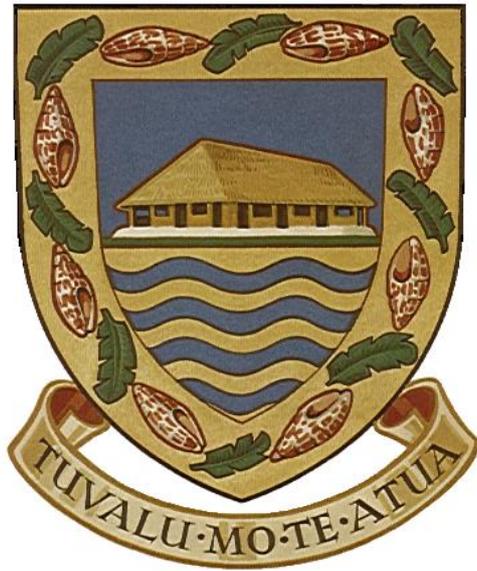
Recommendation	Risk	Management response
<p>and provide this information at least quarterly to Treasury to include in the Financial Statements.</p> <p>Reconcile the leave entitlements of staff to their leave records on an annual basis.</p>	<p>We acknowledge that within ACCPAC, the payroll module is in use in 2017, however, further work is required to ensure that the leave balances entered into the system are accurate and complete.</p>	
<p><b>19.2007 Government Contracts Register</b></p> <p>All Government of Tuvalu contracts are reviewed by the Government of Tuvalu legal division and monitored through a centralised contract register. Centralising and updating Government of Tuvalu contracts will facilitate better decision making, better cash flow forecasting, better management and budgeting and increased transparency.</p> <p>It is understood that the Central Procurement Unit will have a role in the creation of this register going forward.</p>	<p>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.</p>	<p>No response received from Management.</p>

## **Appendix 2: Audit Issues Closed during the 2019 Audit**

- 3.2019 In-consistency in basis of accounting used in the preparation of TWOG Financial Statements
- 6.2019 Uncertainty surrounding existence, completeness and accuracy of expenditures accommodating Property Plant and Equipment in the Financial Statements
- 7.2019 Final Budget Expenditures Figures in Financial Statements and General Ledger not reconciling with the Appropriation Acts
- 8.2019 Virements variances within the Budget System
- 12.2019 Discrepancies found within the TWOG Financial Statements
- 13.2019 Insufficient disclosure for Account Payable movement

### **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
- Customs Receivables
- Transshipment and Fishing license receivables
- Tax receivables
- Over expenditure of budget heads;
- 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 2020**

**GOVERNMENT OF TUVALU INDEPENDENT AUDITOR'S REPORT for the year ending 31 December 2020**

To: Honourable Members of the Tuvalu Parliament

**Report on the Audit of the Financial Statements**

**Qualified Opinion**

I have audited the financial statements of TWOG, which comprise the Statement of Income and Expenditure; the Statement of Assets and Liabilities as at 31 December 2020; Statement of Changes in Equity; Statement of Revenue and Expenditure and by Heads; Comparative Statement of Actual and Estimated Recurrent Revenue by 'Subhead'; Comparative Statement of Actual and Estimated Recurrent Expenditure by 'Subhead'; for the year then ended and the summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Ministry as at December 31, 2020, 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).

**Basis for Qualified Opinion**

**Cash balance as per the Financial Statement unable to be reconciled to Bank Statements.**

The Cash balance of the General Account as per the Bank Statements (taking into account unrepresented cheques and deposits) was unable to be reconciled to the Cash balance in the Financial Statements. The Cash balance as per the financial statements is overstated by \$530,410. There are mis-posting errors or incomplete receipts balances or incorrect accounting for expenditure.

I have not been able to satisfy myself surrounding the completeness and existence of the Cash balance in the Financial Statements due to the inability to obtain sufficient and appropriate audit evidence to support the Cash balance.

**Non-inclusion of Account Receivables and Revenues in the Financial Statements**

The Account Receivable balance is understated in the Financial Statements. This is due to outstanding Taxation, Customs, Marine and Wharfage and Public Works revenues not being recognised as Receivables in the Financial Statements. The Account Receivable balance recorded on the books of the above-mentioned departments was not reflected in the Government of Tuvalu's Financial Management Information System.

I was unable to satisfy myself surrounding the completeness of the Account Receivable balance and corresponding Revenue balances in the Financial Statements. The lack of evidence to support the completeness of the Account Receivable balance and the completeness of the corresponding Revenue transactions in the Financial Statements constitutes a limitation of scope of the audit which is significant.

**The Tuvalu Development Fund Cash balance as per the Financial Statement unable to be reconciled to Bank Statements and the movement in the Tuvalu Development Fund for the year not reconciled to the movement in the Tuvalu Development Fund bank account**

The Cash balance of the Tuvalu Development Fund (TDF) Account as per the Bank Statements, (taking into account unpresented cheques and outstanding deposits) was unable to be Reconciled to the Cash balance in the Financial Statements. The Cash balance as per the financial statements is understated by **\$55,219**.

The TDF opening balances (for projects) for the year 2020 does not agree with TDF closing balance for 2019. A variance of **\$32,723** was found of which the 2020 opening balance amount is greater. Accounting for this variance will increase TDF unreconciled cash amount to **\$36,389**. This is an issue that affects the level of assurance placed on TDF balances in the Financial Statements.

I have not been able to obtain sufficient appropriate audit evidence to support the unreconciled movement in the TDF for the year to the movement in the TDF bank account. This constitutes a limitation of scope which is significant.

**Limitation of scope surrounding Cabinet minutes and decisions**

Copies of cabinet minutes for the year 2020 was requested during the audit to enable us review if decisions made which could have an effect on the financial position of the Government of Tuvalu, were actually reflected in the financial statements. Not all of the cabinet minutes and decision were not provided to audit.

The inability for Audit to review all Cabinet minutes and Decisions constitutes a limitation of scope which is significant. It is uncertain which areas if any of the Financial Statements were affected.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Ministry in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Government of Tuvalu, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**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.

**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.

My audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. I assessed the results of those procedures in forming my opinion. The procedures selected depend on my judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error.

In making those risk assessments, I considered internal control relevant to the entity's preparation and fair presentation of the Financial Statements 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 entity's internal control.

My audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

I planned and performed the audit to obtain all information and explanations I considered necessary in order to obtain reasonable assurance that the Financial Statements are free from material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the Financial Statements.

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 does comply with all applicable independence requirements stipulated in the Constitution of Tuvalu and our Audit Act.

Sincerely,



Imase Kaunatu (Mrs)  
**Auditor General of Tuvalu**  
**Funafuti**