



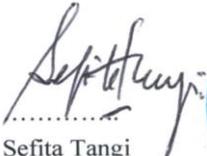
Our Reference: LC1052//17

Your Reference:

Date: 30th March, 2017

To the Honourable Speaker
Legislative Assembly

I have the honour to submit herewith the Annual Report of the Tonga Office of the Auditor General for the financial year ended 30th June, 2016, in accordance with section 24 of the *Public Audit Act 2007 (as amended)*.


Sefita Tangi
AUDITOR GENERAL

The official seal of the Office of the Auditor General of Tonga. It is a circular blue stamp. The outer ring contains the text 'OFFICE OF THE AUDITOR GENERAL' at the top and 'TONGA' at the bottom, separated by two stars. The center of the seal features a crown and a shield, similar to the national emblem of Tonga.

cc: Hon. Prime Minister
Prime Minister's Office

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AUDITOR GENERAL'S FOREWORD AND OVERVIEW

Following my first full year as the Auditor General of Tonga, I am pleased to hereby present the annual report of the Tonga Office of the Auditor General, TOAG, for the financial year 2015-16. I was appointed Auditor General on 1st July, 2015. The transition was smoothly taken, all the staff contributed and responded well to the changes naturally comes with new leadership.

The year has been marked with delivering the audit services of Government public sector bodies and providing independent and objective audit reports and advice for the Legislative Assembly, the Government, and the community. The focus as stated in our vision, is to improve the Government public sector *integrity, accountability, and transparency*. The year also awarded with additional special audits, which we carried out and reported to management, Executive, and to the Lord Speaker of Parliament.

Overview

We delivered the financial and compliance audits and advisory services as output planned for the year 2015 – 16. However in similar to previous years, we fell short on delivering the number of performance audit we planned for the year. This is a major challenge for the TOAG for we have not yet get the skills and competencies on performance audit. We are seeking for every opportunity in our endeavour to build up the skills and knowledge of performance audit methodologies and techniques.

Similar to previous years audit conclusions, I issued a qualified audit opinion on the Government Financial Statements for the year ended 30th June, 2016. The qualification is on the modifications of the basis for the preparations and presentations of the financial statements from the International Public Sector Accounting Standards, IPSAS, Cash Basis, to “modified cash basis”, which is outside the IPSAS. The Honourable Minister for Finance and National Planning explained that this is in order to state the fair values of assets and liabilities of Government in the Statement of Assets and Liabilities as of the balance date. My Office and the Office of the Honourable Minister are working together to complete this exercise. However, during this time the exercise is yet to be completed, the audit opinion would be the same.

One of the positive results for the year, the preparations by the Honourable Minister for Finance and National Planning together with the audit of the Government Financial Statements for the year ended 30th June, 2016 were completed by 28th February, 2017 as the time specified by the law.

We audited and reported on the poor management of one project in Vava'u by the Branch of the Ministry of Infrastructure. In addition, there were also mismanagement of government assets and related party transactions involved. Fortunately from the results of this audit, the practice was stopped and improvements were made to the Vava'u branch of the Ministry.

During the year, we completed the audit review of the operations of the constituency funds during its first three years to 2014. We reported on the funds being operated without an established systems in terms of; basis of disbursements, record keepings, and accountability reports of the respective projects and outcomes achieved.

We are very much appreciate the appropriate response lead by the Offices of the Lord Speaker of Parliament and the Honourable Minister for Finance and National Planning in establishing the appropriate systems and have submitted for the review of the Public Accounts Committee before it gone to Parliament. The constituency fund is now, and in to the future, operated under an approved systems of processes and reporting and very much assist our audit review responsibilities.

The audit results and issues raised from all our audits during the year are summarised in Section 2, “Reports of Each Division”. However, this section will be subject to a separate report in the future.

Staff Training and Professional Development Programme

The capacity building and staff development programme continued throughout the year. Miss Sisilia Fe'iloaki, Principal Auditor, completed the Chartered Accountant, CA, professional qualification after work attachment to the Audit New Zealand in October, 2015. She filled in the gap from the departure of one Deputy Auditor General and one Auditor for further study overseas at the beginning of the financial year. Deputy Auditor General Fatafehi Taumoha'apai left for a Master in Professional Accountancy course at the University of Auckland; and Auditor Filatoa Vailea left for a Master in Auditing at the Shanghai University of International Business and Economics.

The Pacific Association of Supreme Audit Institutions, PASAI, led a series of staff trainings for the TOAG from October to December 2015. The trainings, Core I, II, III, and IV were aimed at different levels of the TOAG staff, added to the capabilities and competences of all staff. I would like to hereby acknowledge the financial assistance of the Department of Foreign Affairs and Trade of the Australian Government, which made these trainings possible. It added value to the TOAG's effort for enhanced quality of audits.

TOAG is still in progress with looking for work attachment opportunity to a more advance Audit Office in the area of performance audit. TOAG also continued with its staff professional development programme, especially trying for both Chartered and Certified Accountant, CA and CPA, professional qualifications. TOAG is still the approved training institution of the New Zealand Institute of Chartered Accountants.

Audit of the TOAG Financial Statements 2015 – 16

The audit of the financial statements of the TOAG for the financial year ended 30th June, 2016 has been completed and is herewith attached as part of this annual report, item 1.5 below. The auditor, Grant Thornton New Zealand Audit Partnership, issued an unqualified opinion, and is similar to the previous financial year, 2015. This is another milestone achieved; the completed of the audited TOAG financial statements and be part of the same year annual report.

Overall, the TOAG underspent its budgeted allocation by \$260,223, about 15%. The unspent amount was mainly from 6 vacancies (all senior officers) plus an allocation for the replacement the Auditor General's vehicle was not completed by the closing of the financial year.

The timely completion of the TOAG annual financial statements, independently audited with unqualified opinion, and part of the Auditor General annual report may indicates that if any initiative to decentralise the financial management and processes from the Treasury, the TOAG is more than ready to implement this.

New audit computer program, Team Mate

Team Mate is an audit computer program that is widely used by audit offices. TOAG purchased and introduced Team Mate to TOAG during May and June 2015. Currently, we are at implementation stage and most of the teams carrying out audits using Team Mate, it covers all stages of an audit from planning, field-work, review, to reporting stages. Overall, it very much help all audit officers, at all levels, with more efficiency and more focus audits. TOAG now joins with developed SAIs in using this expert audit technological package to complement its works.

TOAG is currently mastering its using of Team Mate with the assistance of the provider and the Pacific Association of Supreme Audit Institutions, PASAI.

Challenges

The major challenge is the building up of our staff capacity in order to manage the gap between the actual and the expected level of competencies and proficiencies in all our audits, and we appreciate that this is a long-term challenge. TOAG continuous staff training in all forms; on-job, training sessions by us, PASAI, and INTOSAI, short term attachment to the Office of the Auditor General of Audit New Zealand and Australia, and our professional development programme are all aimed at meeting this challenge at all times.

Our financial resource through the TOAG allocated fund in the Government annual budget is always a challenge to our operation and our independent as a SAI. Fortunately, TOAG was allocated with the additional fund for the purchasing of the computer program Team Mate in 2014-15 Office's Budget and continued to this year's budget, 2016, in meeting the annual maintenance fee to the supplier. Our annual fee to the provider for annual service and maintenance is expected to be considered annually in our budget.

We are fortunate to have complimented by our development partners in areas that are not sufficiently covered by our annual budgeted allocation. We sincerely hope that we will continue to receive those valuable assistances in the future.

The challenge of timely completed of audits is always in existence and the significant part of this challenge is the late submission of (draft) accounts to be audited, public accounts and quarterly statements, public enterprises, and development projects. We have started distributing a program/timetable for when each accounts to be audited to all auditees in the effort to manage this challenge.

Looking ahead

The development of the TOAG is continuously an ongoing agenda. The priority and focus is on capacity building of staff and using of computer assisted audit techniques, which overall will advance the efficiency and quality of carrying out the audits.

We are currently seeking for opportunities for our senior staff to attach to developed and more advanced SAIs in the area of performance audit.

We are in progress with introducing the audit computer program, Team Mate, to all our financial and compliance audit staff and with the assistance of the supplier of Team Mate and the Pacific Association of Supreme Audit Institutions, PASAI. We are looking forward to fully operate with this Team Mate in the very near future.

We are continuing with our professional training program, currently three (3) officers are taking the CA and CPA programs and *six (6)* officers are taking the undergraduate courses part-time with the USP Campus here in Tonga as well as the Tonga Tertiary Institute. The Office is giving them all the assistance and encouragement that we could afford.

Restructure of our operations and internal establishments for more efficiency, effectiveness, and quality is a crucial task in the future. The independence of the Auditor General and the TOAG greatly assist with such significant task. We are working on restructuring the operation from the current (5) divisions headed by 5 Deputy Auditor General and we will submit to be commenced in the year 2017 – 18.

We are working for closer working relationship with the Public Accounts Committee of Parliament and the Audit Oversight Committee of Cabinet, particularly in the scrutinizing process of our audit reports and the appropriate responses and actions from auditees. It will move forward the endeavour for integrity, accountability, and transparency in all our works.

We continue striving for our vision, which started in January 2016 to be “*Integrity, Accountability, and transparency*” and obviously it is starting with us and all our audits, reports and advices and then to all our audit clients which ultimately impact on whole of Government as part of the measures to expand potential and growth.

Sefita Tangi

AUDITOR GENERAL

SECTION ONE: TONGA OFFICE OF THE AUDITOR GENERAL (TOAG)

1: ROLES, OUTPUT AND STRUCTURE

1.1 Role

The TOAG's primary role is to provide independent report, assurance and advice to the Speaker on how government and other public bodies account for and use public money. The role is discharged by carrying out audits and report on whether government activities are carried out and accounted for consistent with applicable legislation, accounting and auditing standards, and achieve or otherwise the intended outcomes.

1.2 Core Functions of the Office

The core output of the Office for the year are classified into six (6) categories. They cover:

- Support and Parliamentary services
- Financial and Compliance Audit
- Performance Audit
- Public Enterprises Audit
- Development Project Audit
- Public Accounts and Performance Review of each MDAs.

Section two will provide a detailed report of each output per division forecasted.

Table 1: Summary of the Total Output by Divisions in 2015 – 16.

Output 1: Support and Parliamentary Services	TARGET	ACTUAL
Auditor General's Reports	6	6
Advisory Services	-	1
Support Services	13	16
Output 2: Financial and Compliance Audit		
Advisory Services	2	5
Management Report	71	73
Certificates	33	9
Output 3: Performance Audit and Inquiries		
Performance Audit Reports	5	0
Special Audit	0	1
Advisory Services	0	0
Output 4: Public Enterprises Audit		
Audit Opinion	5	10
Management Report	17	15
Review and Approvals	12	5
Advisory Services	0	0
Output 5: Development Project audits		
Audit Opinion	5	11
Management Report	20	12
Output 6: Public Accounts and Performance Measurement audits		
Audit Opinion	2	2
Management Report	6	4
Certificates	3	3

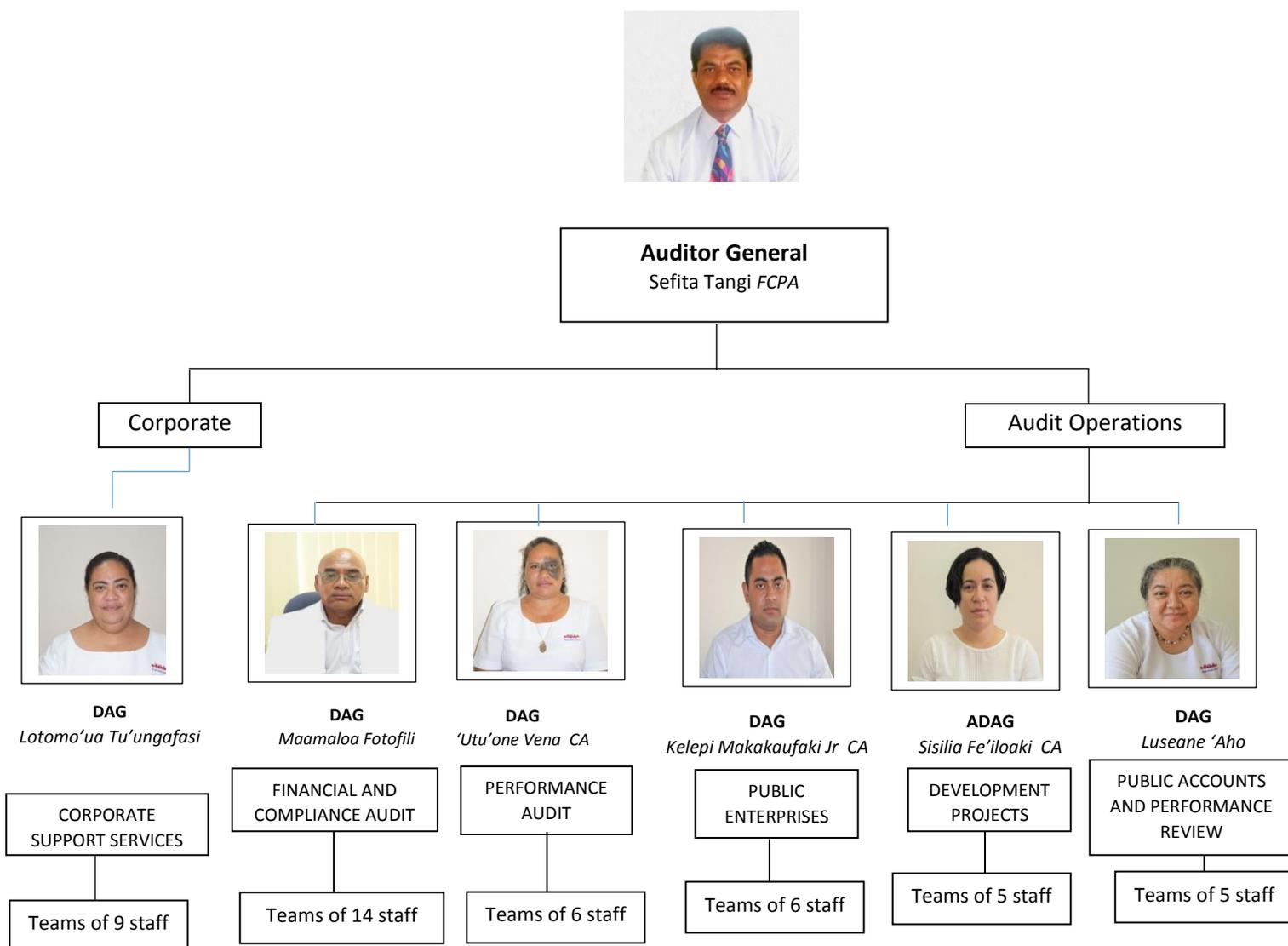
The explanations for the outputs that were not achieved against the target established for 2015 – 16:

1. The certificates in Output 2 is the audit of government grants to non-government schools and tertiary institutes. However, this subject to how many recipients received from the Ministry of Education and Training to be audited and only 9 schools received during the year, which we audited them all.
2. All performance audits, Output 3, are follow-ups of completed audits but yet to be reported. The follow-ups were to bring forward the scope of the audit (period covered) so that the findings are more up-to-date.
3. Review and Approvals, Output 4, are the reviews of Public Enterprises audited by another auditor and not by the Auditor General and this subject to the ones that we did receive their records and financial statements.
4. Management reports, Output 5, we planned for normal audit visits (compliance audit). However, the project audit teams in accordance to their total working hours, only able to cover the twelve projects that we carried out the financial statements' audits.

1.3 Organisational Structure

The management structure of the TOAG as at 30th June, 2016 is shown in *Figure 1*. The six main branches of the Corporate and Operations are directed by six Deputies Auditor General. Corporate Management Division is responsible for Administration and Support Services. The Operations Branch is divided into five Divisions; (i) audit of the Government Ministries, Departments and Agencies (MDAs) (ii) performance audit, (iii) audit of public enterprises, (iv) audit of development projects, and (v) Public Account and Performance Review.

Figure 1: Management Structure as at 30th June, 2016



1.3.1 Staff Profile

During 2015-16 financial year, the Office had 45 staff with six (6) vacant posts. Twenty-nine (29) staff were female and sixteen (16) were males. With the exception of the Auditor General, *Table 2* presents the profile of the TOAG's established staff.

Table 2: Profile of Established Staff at 30th June, 2016

Positions	30 th June 2016	30 th June 2015
Deputy Auditor General	6	6
Principal Auditor	4(2 vacant)	4(3 vacant)
Principal Human Resource Officer	1	1
Principal Auditing Officer	2	2
Senior Auditor	5(1 vacant)	5(1 vacant)
Senior Public Accounts Research Officer	2(1 vacant)	2
Senior Computer Programmer System Analyst	1	1
Auditor	13 (2 vacant)	15 (1 vacant)
Auditing Officer	2	2
Personal Assistant	1	1
Assistant Auditing Officer	5	5(1 vacant)
Audit Clerk Class I	1	1
Computer Operator Grade II	1	1
Computer Operator Grade III	4	4
Computer Assistant	1	1
Driver/Messenger	2	2(1 vacant)
Total number of posts	51	53

1.3.2 Staff Promotion

The Office continued to recognize the contributions, efforts and good performance of its staff. Staff promotions during the year are as follows:

Name	Post	Post promoted to	Date
1. Sisilia K. Fe'iloaki	Senior Public Accounts Research Officer	Principal Auditor	25/11/15
2. 'Olive G. Finau	Computer Operator Grade III	Assistant Auditing Officer	24/03/16
3. Kalisi Fifita	Computer Assistant	Computer Operator Grade III	24/03/16

1.3.3 Staff Recruitments

During the year there were two (2) new staff recruitments which consists of:

Name	Post	Date
1. Maile Kavaefiafi	Computer Assistant	24 /03/16
2. Taniela Latu	Driver	24/03/16

1.3.4 Professional Development Program

The Office has made strong commitment to the professional development of staff through a number of key initiatives. Several officers are in progress in pursuing the CPA and CA professional qualification from accounting professional accounting bodies in Australia and New Zealand. There were officers taking part time courses with the University of the South Pacific and the Community Development and Training Centre here in Tonga.

1.3.5 Independent Audit Office that Lead by example

In improving our management processes, the corporate support services unit continued to manage cost as a priority. The key strategies were to:

- Practice good corporate governance
- Create and maintain effective business managerial processes
- Manage Audit Office resources efficiently

Table 3 below shows the labour cost of major products at 30th June 2016. As shown the chargeable products were the highest totalling \$866,682.00 or 51% of the total cost (\$1,699,378) of all activities carried out by the Office in 2015-16.

Table 3: Cost of activities at 30th June 2016

	Products	Cost(\$)	% of total
Indirect Labour:	1. Administration	135,950	8
	2. Corporate Services	135,950	8
	3. Staff Development	101,963	6
	4. Conference	16,994	1
	5. Travels	16,994	1
	6. Staff Leave	390,857	23
	7. Staff Social Welfare	33,988	2
Total Indirect Labour:		832,696	49
Direct Labour:	AG Monitoring & Control (Charge Normal)	866,682	51
Total Labour		1,699,378	100

1.4 Financial Activities Summary

Table 4 summarizes the TOAG operating result for 2015-16 showing estimates compared with actual amounts. The result is based on cash accounting.

Table 4: Summary of financial results

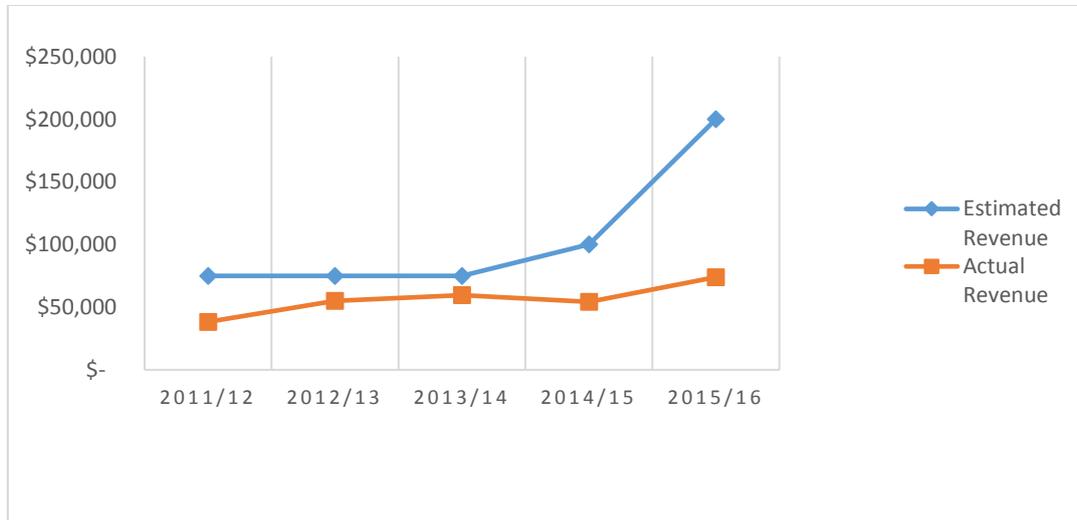
	Estimate 2015-16	Actual 2015-16	Actual 2014-15
Total revenue ¹	\$200,000	\$73,980	\$54,200
Total expenditure	\$1,959,600	\$1,699,377	\$1,882,991
Net cost of services	\$1,759,660	\$1,625,397	\$1,828,791

Revenue

Total audit fees collected in 2015-16 were \$73,980 which was \$126,020 below the estimate of \$200,000. The estimated revenue is certainly overstated since most of the audit of Government entities and development projects are free. The audit of Government Ministries is free of charge as are the audits of foreign aid donor’s projects, the TOAG services are treated as part of the Government’s contributions towards the projects.

TOAG cannot control the number of public enterprises who present their annual accounts to audit or review during the year.

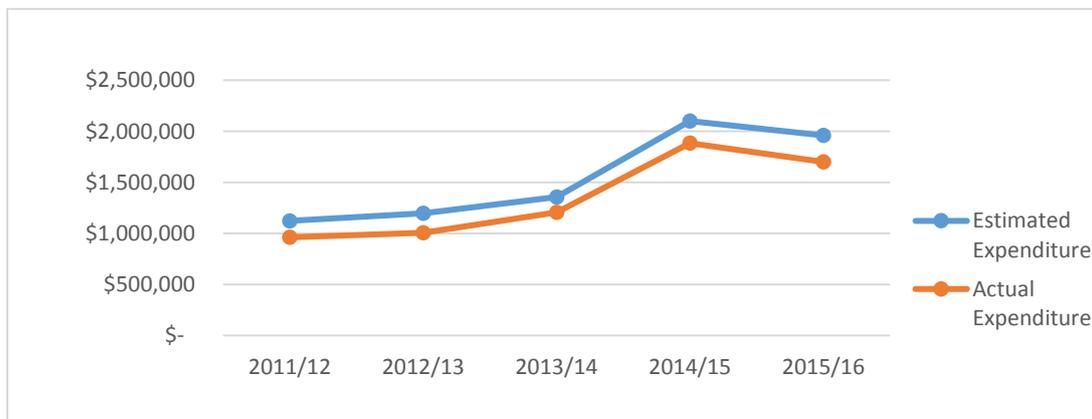
Figure 2: Provide the trend of budget revenue vs actual revenue for the last five (5) years.



Expenditure

The Office actual expenditure was \$1,699,377 which was below the estimate by \$260,223. The office expenditure between 2011/12 – 2015/16 are shown in *Figure 3* below:

Figure 3: Estimated Expenditure vs Actual Expenditure



1 Audits of Ministries, Departments, and Agencies are free of charge



Independent Auditor's Report

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To the Speaker of the Tonga Legislative Assembly

Report on the financial statements

We have audited the financial statements of the Tonga Office of the Auditor General on pages 5 to 10, which comprise the Statement of Cash Receipts and Payments and Statement of Comparison of Budget and Actual Amount for the year ended 30 June 2016, and a summary of significant accounting policies and other explanatory information.

Auditor General's responsibilities

The Auditor General is responsible for the preparation of financial statements in accordance with "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Standards Board and for such internal control as the Auditor General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that present fairly the matters to which they relate 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.

Chartered Accountants
Member of Grant Thornton International Ltd

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in the Tonga Office of the Auditor General.

Opinion

In our opinion, the financial statements on pages 5 to 10 present fairly, in all material respects, the Statement of Cash Receipts and Payments and Comparison of Budget and Actual Amounts for the year ended 30 June 2016 in accordance with “Financial Reporting Under the Cash Basis of Accounting” issued by the International Public Sector Standards Board.

Restriction on use of our report

This report is made solely to the members of the Tonga Legislative Assembly, as a collective body. Our audit work has been undertaken so that we might state to the members, as a collective body those matters which we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Tonga Office of the Auditor General and the members, as a collective body, for our audit work, for this report or for the opinion we have formed.



Grant Thornton New Zealand Audit Partnership
Wellington, New Zealand
10 January 2017



AUDITOR-GENERAL'S REPORT

The Auditor-General presents this report together with the financial statements of Tonga Office of the Auditor General, (TOAG), for the year ended 30 June, 2016 and the auditor's report thereon.

State of Affairs

The Auditor General is the principal auditor of government, responsible for performing financial, compliance, and performance audits of public funds. This includes the audit and reporting of results to the Legislature through the Speaker on the financial conditions of Ministries, Departments, Agencies, Public Enterprises and development projects; and for the review and approval of audited accounts of public enterprises that are audited by private firms.

On the 6th January, 2014 all staff are now under the management of the Auditor General since the amendment of the Public Audit Act 2012.

Corporate Governance

There is no separate bank account for TOAG, Ministry of Finance and National Planning keeps all the bank accounts for all Ministries, Department and Agencies (MDAs). Therefore the government accounting system is centralized in the Ministry of Finance and National Planning. The TOAG during this time used the current system for preparing the financial statements.

All MDAs are required to maintain copies of accounting records when payments are made. A monthly reconciliation of the TOAG manual vote book against the Ministry of Finance and National Planning is required to be carried out. Financial rules and regulations are set by the Ministry of Finance and National Planning for all financial matters of the Government to be followed.


.....
Sefita Tangi FCPA (Aust.)
AUDITOR GENERAL


Dated: 16. 01. 2017



STATEMENT OF RESPONSIBILITIES

The Accounting System of the Government of Tonga for all Ministries, Departments and Agencies (MDAs), including the Tonga Office of the Auditor General, (TOAG), is centralized at the Ministry of Finance and National Planning. Therefore annual financial reporting for government as a whole is the responsibility of the Minister of Finance and National Planning. However due to the requirement of Section 33 of the Public Audit Act, the TOAG prepares annual financial statements based on International Public Sector Accounting Standards, (IPSAS), as if it is a legal entity by itself separate from Government. The TOAG believes this is a good practice, and should be a way forward for all MDAs to prepare their own annual financial statements as part of their annual reports.

We accept the responsibility for the integrity of the financial statements of the TOAG, their contents, their compliance with the Public Audit Act 2007 (as amended) and International Public Sector Accounting Standards (IPSAS) Cash Basis.

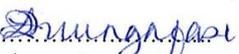
In my opinion the information set out in the financial statements and attached notes to those statements fairly reflect the TOAG's financial results for the year ended 30th June, 2016.

Signed:


.....
Sefita Tangi FCPA (Aust.)
AUDITOR GENERAL


Dated: 15th 01st 2017.

Countersigned:


.....
Lotomo'ua F. Tu'ungafasi
SUPERVISOR OF ACCOUNT

Dated: 10/01/2017.....

TONGA OFFICE OF THE AUDITOR GENERAL

Statement of Cash Receipts and Payments

For the year ended 30th June 2016

	Treasury Account	
	2015 TOP	2016 TOP
<u>RECEIPTS</u>		
Government Appropriations	2,100,000	1,959,600
Audit Fees	54,200	73,980
TOTAL RECEIPTS	<u>2,154,200</u>	<u>2,033,580</u>
<u>PAYMENTS</u>		
Acting Allowance	10,734	5,152
Advertising	1,215	
Assets Additional	204,216	149,413
Books, Periodicals & Publications	3,458	1,874
Broadcasting	695	
CEO - Benefits	10,900	11,500
Consultation	81,266	
Domestic Travel	4,124	35,571
Electricity	5,923	6,066
Fuel	7,667	7,168
Government Contribution	89,187	105,776
Hospitality	1,023	1,460
License	297,183	7,750
Maintenance of Building and Compound	2,176	23,595
Maintenance of Computer System	9,441	72,115
Maintenance of Office Equipment	3,420	3,376
Maintenance of Vehicles	6,627	2,719
New Equipment	430	
Office Supplies	17,415	10,027
Other Allowance	3,568	-
Overseas Travel	10,340	31,482
Overtime	2,502	-
Printing & Stationery	17,098	24,838
Renovations	374	550
Rental	127,800	107,800

(Handwritten initials)



Salaries	923,922	1,021,175
Subscription	4,997	5,879
Technical Assistance & Consultation	14,701	34,394
Telecommunication Charge	818	18,284
Training & Conferences	-	172
Wages	18,208	10,136
Water	1,565	1,107
TOTAL PAYMENTS	<u>1,882,993</u>	<u>1,699,377</u>

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TONGA OFFICE OF THE AUDITOR GENERAL
Statement of Comparison of Budget and Actual Amount
For year ended 30th June 2016

	Notes	Actual Amounts \$	Original Budget \$
Established Staff		1,143,602	1,285,900
Unestablished Staff		10,136	21,000
Travel and Communication		85,336	124,000
Maintenance and Operations		36,857	37,000
Purchase of Goods and Services		269,611	335,700
Purchase of Assets		<u>153,833</u>	<u>156,000</u>
Total Expenditure		<u>\$ 1,699,377</u>	<u>\$ 1,959,600</u>

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TONGA OFFICE OF THE AUDITOR GENERAL

Notes to the Financial Statements For the year ended 30th June, 2016

1. ACCOUNTING POLICIES

(a) **Basis of Preparation**

The financial statements have been prepared in accordance with Cash Basis IPSAS "Financial Reporting under the Cash Basis of Accounting." The accounting policies have been applied consistently throughout the period.

(b) **Reporting Entity**

The financial statements are for a public sector entity: Tonga Office of the Auditor General (the 'TOAG'). The financial statements encompass the reporting entity as specified in the relevant legislation (the Public Audit Act 2007 as amended). This comprises the TOAG which is controlled by the national government of Tonga. The principal activity of the TOAG is to provide audit services to assist the executive supervision of the use of public funds and resources.

The TOAG does not operate its own bank account. The Ministry of Finance and National Planning maintain all bank accounts for all Ministries, Departments and Agencies (MDAs) and a centralized treasury function administers cash expenditures incurred by all departments during the financial year. All payments are made on this account, and are disclosed in the Statement of Cash Receipts and Payments. There are no payments by external third parties.

(c) **Reporting Currency**

The reporting currency is Tongan Pa'anga.

2. BUDGET APROPRIATIONS

Amounts appropriated to TOAG are managed through a central account administered by the Office of the Treasury. These amounts are not controlled by TOAG but are deployed on the Office's behalf by the central account administrator on presentation of appropriate documentation and authorization.

3. AUTHORISATION DATE

The financial statements were authorized on 10th January, 2017 by the Auditor General.

4. ACCOUNT RECEIVABLE.

Tonga Broadcasting Commission audit for 2015 payment is yet to receive of \$10,000.

VP



TONGA OFFICE OF THE AUDITOR GENERAL

**Notes to the Financial Statements
For the year ended 30th June, 2016**

5. PROPERTY PLANT AND EQUIPMENT

The notes include the disclosure of property, plant and equipment stated at cost less accumulated depreciation. Depreciation is disclosed using the following straight line methods on asset classes: Depreciation rates are based upon the expected useful life of assets.

Computers	50%
Furniture and Fitting	10%
Motor Vehicles	25%
Office Equipment	10%

2016

Asset Category	Cost \$	Addition	Disposal	TOTAL	Depreciation	Accumulate Depreciation	Closing Book Value
Computers	293,540	15,140	-	308,680	114,410	209,332	99,348
Furniture and Fittings	64,772	8,560	-	73,332	5,985	38,057	35,275
Motor Vehicle	14,900	119,166	-	134,066	18,197	33,097	100,969
Office Equipment	42,099	6,547	-	48,646	3,376	32,546	16,100
	415,311	149,413	-	564,724	141,969	313,032	251,692

2015

Asset Category	Cost \$	Addition	Disposal	TOTAL	Depreciation	Accumulate Depreciation	Closing Book Value
10thComputers	100,987	192,553	-	293,540	35,123	94,922	198,618
Furniture and Fittings	59,612	5,160	-	64,772	5,503	32,072	32,700
Motor Vehicle	14,900	-	-	14,900	-	14,900	-
Office Equipment	35,596	6,503	-	42,099	2,340	29,174	12,929
	208,595	204,216	-	415,311	42,966	171,064	244,247



TONGA OFFICE OF THE AUDITOR GENERAL

**Notes to the Financial Statements
For the year ended 30th June, 2016**

6. OPERATING LEASE COMMITMENTS

The TOAG currently have an operating lease for their offices with the following lease commitments:

2016	\$
Within 1 year	109,000
Within 2 years	109,000
2-5 years	327,000
5+	109,000
Total	654,000

2015	\$
Within 1 year	109,000
Within 2 years	109,000
2-5 years	327,000
5+	218,000
Total	763,000

7. ORIGINAL AND FINAL BUDGET

The approved budget is developed on the same accounting basis (cash basis), same classification basis, and for the same period (from 1 July 2015 to 30 June 2016) as for the financial statements. The original budget was approved by legislative action.

The actual total expenditure was less than the original budget approved by legislative action.

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SECTION TWO: REPORTS OF EACH DIVISION:

2.1 CORPORATE MANAGEMENT DIVISION

2.1.1 Background Information

The core function of this Division is to provide all the appropriate support services to the audit operation of the TOAG, and is responsible for the Output 1: Support and Parliamentary Services.

This division is headed by Deputy Auditor General, Mrs Lotomo'ua Tu'ungafasi, with eight (8) staff.

2.1.2 Team Output Summary

Shown in *Table 5* below are the outputs achieved against the target established for this Division during 2015-16.

Table 5: Output 1 - Support and Parliamentary Services

Performance measures	Unit of measure	2015-16 Target	2015-16 Actual	2014-15 Actual	2013-2014 Actual
Quantity					
Auditor-General's reports (a)	Number	6	6	9	4
Advisory Services (b)	Number	-	1	1	-
Support Services (c)	Number	13	16	570	14

(a) Reports include Corporate Plan, Annual Plan, Annual Budget, Annual Reports, and Annual Audited Financial Statements. Audit of the TOAG by an external auditor for the financial year ended 30th June, 2016 has been completed and included in this annual report.

(b) Advisory Services were not budgeted for. However, advisory services were provided as per requests from stakeholders, Parliamentary Committees through the Honourable Speaker in particular..

(c) Support services such as information technology, human resources services, working manuals, Office web-sites, staff trainings and developments, and audit certification of pensions & gratuities.

2.1.2.1 Auditor General's report

The audit of TOAG financial statement for financial year 2015/16 has been completed in December 2016. The financial statements together with the external auditor's audit opinion is at item 1.5 above.

2.1.2.2 Support Services

The audit certification of gratuity of deceased pensioner together with providing other support services which includes organised staff development on training and other needs of the office are also carried out by this Division.

2.2 FINANCIAL AND COMPLIANCE AUDIT DIVISION

2.2.1 Background Information

The core function of this unit is to carry out the financial and compliance audit of Ministries, Departments and Agencies (MDAs). Management audit reports are the end products of the audit. It identifies the strengths and weaknesses in the accounting and internal control systems of MDAs and recommends improvements. It also identifies non-compliance with legal mandates.

This division is headed by Deputy Auditor General, Mr Maamaloa Loumaile Fotofili, with fourteen (14) staff.

2.2.2 Team Output Summary

Table 6: Output 2 - Outputs and performance statements of the Division:

Performance measures	Unit of measure	2015-16 Target	2015-16 Actual	2014-15 Actual	2013-14 Actual
Quantity					
Audit Management Reports issued conveying the findings of audits (a)	Number	71	73	32	42
Audit Certificates issued on the financial statements of agencies (b)	Number	33	9	18	43
Audit Specials	Number	2	5	5	2

(a) *Audit Management Reports cover the management reports to MDAs. In addition, it also includes 15 audit reports on the audit review of the Constituency Funds, (14 Constituencies reports and one summary audit report to the Honourable Speaker.*

(b) *Audit Certificates cover 9 certificates on school grants*

2.2.3 Government Ministries, Departments and Agencies (MDAs).

The Division met 82% of its total output. *Table 7* below shows the details of total output.

Table 7: Details of Output 2

MDA	BUDGET	ACTUAL
<i>MDA Management Letter</i>		
- <i>Vava'u</i>	13	14
- <i>Ha'apai</i>	10	11
- <i>'Eua</i>	10	10
- <i>Tongatapu</i>	38	17
<i>Constituency Funds</i>	-	15
<i>Grant Management Letter</i>	33	6
<i>Grant Certificates</i>		9
<i>Special</i>	2	5
<i>Total</i>	106	87

Some of the MDAs' audit in Tongatapu were deferred due to the endeavour of the Division to complete the audit review of the constituencies' fund. The Division completed the review and reported on 14 constituencies and one summary report to the Honourable Speaker of the Legislative Assembly.

2.2.4 Financial Grant to Non-Government Schools

The Financial and Compliance Audit team completed audit of 5 Non-Government school for the financial year 2014/15. Findings from the audit of the 5 schools are shown in *Table 8*.

Table 8: Financial Grant to Non-Government Schools for financial year 2014/2015

Non-Government School	Total Grant Paid Out (\$)	Total Amount Overpaid (\$)	Total Amount Underpaid (\$)
St. Andrew High School	207,600.00	11,800.00	2,000.00
Ocean of Light International School	57,800.00	400.00	
Tailulu College – Tongatapu	336,400.00	200.00	5,600.00
Tailulu College – Vava’u	152,600.00	9,800.00	
Tailulu College – Ha’apai	28,600.00	1,600.00	
TOTAL	783,000.00	23,800.00	7,600.00

2.2.5 TVET Grant to non-government Tertiary Institutes

Audit completed the audit of 4 Institutes for the year 2015. Finding from the audit of 4 Institutes are shown on the *Table 9*.

Table 9: Financial Grant to TVET Institute for financial year 2015/2016

Institute	Grant Paid (\$)	Overpaid (\$)	Underpaid (\$)
St. Joseph Institute	213,600.00		3000.00
‘Ahopanilolo Institute	224,400.00		34,200.00
Montfort Institute	97,800.00		4,800.00
‘Atenisi Institute	31,800.00	5,400.00	7,200.00
TOTAL	567,600.00	5,400.00	49,200.00

It is important to be note that referring to the Financial Grants to secondary schools and TVET grants, the number of audits is subject to the number of secondary schools and institutes that submitted from the Ministry of Education for auditing. TOAG planned for all the schools grants for the year but the above were the only ones submitted by the Ministry.

2.2.6 Major Issues Highlighted

Major issues arose during the normal audit of the MDAs are highlighted in this Section. These are as follows:

2.2.6.1 CONSTITUENCIES

Table 10: Summary of Constituencies Disbursement per Financial Year

FINANCIAL YEAR	CONSTITUENCY FUND
2011/2012	1,400,000.00
2012/2013	1,647,058.00
2013/2014	1,647,058.00
TOTAL	4,694,116.00

2.2.6.2 Outstanding revenue arrears

The total arrears found in our management reports sent to auditees during financial year 2015 to 2016 totalled to \$733,332.66. However due to the time constraint and short staff Financial Compliance Audit Team didn't follow-up the outstanding revenue arrears reported during 2014/2015. Details are provided in *Table 11* below.

Table 11: Total outstanding revenue arrears reported during 2015/2016

MINISTRIES	Audit Period	Revenue Source	Amount (2015/2016)	Amount (2014/2015)	Amount (2013/2014)
MLSNRE	October 2012 - January 2015	Government Lease Overdue		\$1,347,737.11	
MCTL - Tourism Division	July 2012 - June 2013	Renting of Tonga National Centre			\$135,000.00
Revenue - Large Business	April 2012 - April 2014	Revenue Arrears			\$28,746,265.16
Revenue - Small Business	April 2012 - June 2014	Revenue Arrears			\$3,947,633.13
MOI - Building & Engineering Division	February 2013 - January 2015	Revenue Arrears			\$811,879.48
MOI - Marine & Ports Division	November 2013 - January 2015	Revenue Arrears			\$387,590.02
MOET - Head Office	July 2012 - July 2014	School Fees			\$63,229.50
MOI - Civil Aviation	November 2013 - January 2015	Revenue Arrears	448,877.00		
MAFFF - Quarantine Division	January 2013 - March 2005	Revenue Arrears	206,049.16		
Ministry of Police - 'Eua	August 2012 - August 2015	Revenue Arrears	23.00		
Ministry of Police - Vava'u	October 2013 - September 2015	Revenue Arrears	14,483.00		
Ministry of Labour - 'Eua	August 2012 - August 2015	Revenue Arrears	689.00		
MOI - Ha'apai	October 2013 - September 2015	Revenue Arrears	45,045.00		
MOET - Vava'u	October 2013 - September 2015	Revenue Arrears	18,166.50		
MAFFF - Quarantine Division & Forestry Vava'u	July 2012 - September 2015	Revenue Arrears			
TOTAL OUTSTANDING ARREARS:			\$ 733,332.66	\$ 1,347,737.11	\$ 34,091,597.29

2.2.7 Summary of Common Audit Issues - MDAs

List below are the summary of common audit issues arose in the audit conducted during the financial year 2015-16.

2.2.7.1 COMPLIANCE AUDIT ISSUES

- **Fixed Asset Register format was not comply with Treasury Instructions**
 - Ministry of Justice – Head Office & Supreme Court
 - Ministry of Agriculture, Fisheries, Forest and Food – Head Office
 - Ministry of Revenue and Customs – Vava'u
 - Ministry of Education and Training – Ha'apai
 - Ministry of Infrastructure – 'Eua
 - Prison Department – Vava'u and Ha'apai

- Inland Revenue – Vava’u
- Tourism – Vava’u
- **Fixed Asset Registered was not updated**
 - Ministry of Justice – Head Office & Supreme Court
 - Prison Department – ‘Eua
 - Ministry of Health – Vava’u
 - Ministry of Police – Vava’u
 - Ministry of Health – Ha’apai
 - Ministry of Infrastructure – Vava’u
 - Ministry of Justice – Vava’u
 - Ministry of Agriculture, Fisheries, Forest and Food – Ha’apai
 - Tonga Fire & Emergency Services – ‘Eua
 - Governor’s Office – Vava’u
 - Sub-Treasury – Vava’u
 - Prison Department – Head Office
 - Ministry of Tourism
 - Ministry of Internal Affairs
- **No Fixed Asset Registered**
 - MEIDECC Vava’u
 - Ministry of Health – ‘Eua
 - Ministry of Tourism – Vava’u
 - Ministry of Infrastructure – Vava’u
- **Log books not completely recorded and kept as complied with Treasury Instructions**
 - Prison Department – ‘Eua
 - Ministry of Fisheries – ‘Eua
 - Ministry of Police – Vava’u
 - Governor’s Office – Ha’apai
 - Ministry of Labour & Commerce – Ha’apai
 - Ministry of Infrastructure – Ha’apai
 - Ministry of Education and Training – Ha’apai
 - Ministry of Agriculture, Fisheries, Forest and Food – ‘Eua and Ha’apai
 - Tonga Fire & Emergency Services – ‘Eua
 - Ministry of Health – ‘Eua
 - Ministry of Police – Ha’apai
 - Ministry of Infrastructure – Vava’u
 - Prison Department
 - Ministry of Labour and Commerce – Head Office
 - Ministry of Internal Affairs
- **Reconciliation of vote book with Sub Treasury was not carried out**
 - Prison Department – ‘Eua
 - Ministry of Labour and Commerce – Ha’apai
 - Ministry of Infrastructure – Ha’apai
 - Tonga Fire & Emergency Services – ‘Eua
 - Ministry of Infrastructure – ‘Eua
 - Ministry of Internal Affairs
- **Not Updated Vote Book**
 - Ministry of Justice – Head Office & Supreme Court
- **Commitment section in the vote book is not properly recorded**
 - Ministry of Infrastructure – Vava’u
- **No Vote Book**
 - MEIDECC – Vava’u

- **No Log Book**
 - MEIDECC – Vava’u
 - Ministry of Justice – Vava’u

2.2.7.2 INTERNAL CONTROL ISSUES

- **Late Banking**
 - Prison Department – ‘Eua
 - Ministry of Revenue & Customs – ‘Eua
 - Ministry of Health – Ha’apai
 - Ministry of Infrastructure – Ha’apai
 - Ministry of Agriculture, Fisheries, Forest and Food – ‘Eua
 - Ministry of Internal Affairs
 - Ministry of Labour and Commerce
- **Independent Checking of cash book and banking**
 - Ministry of Labour – Ha’apai
 - Ministry of Internal Affairs
 - Ministry of Tourism
 - Government Representative – ‘Eua
 - Prison Department – Vava’u
- **Not updated the Revenue Registered**
 - Ministry of Justice – Head Office & Supreme Court
 - Ministry of Infrastructure – Transport Division
 - Ministry of Infrastructure – Land Division
 - Ministry of Health – Ha’apai
 - Prison Department – Vava’u
 - Prison Department – Head Office
 - Ministry of Infrastructure – Vava’u
- **No Revenue registered**
 - Ministry of Internal Affairs
 - Ministry of Tourism
- **No action to recover outstanding arrears**
 - Ministry of Infrastructure – Civil Aviation
 - Ministry of Agriculture, Fisheries, Forestry and Food – Quarantine Division
 - Ministry of Police – ‘Eua
 - Ministry of Police – Vava’u
 - Ministry of Labour and Commerce – ‘Eua
 - Ministry of Labour and Commerce – Ha’apai
 - Ministry of Infrastructure – Ha’apai
 - Governor’s Office – Vava’u
 - Ministry of Agriculture, Fisheries, Forestry and Food – Vava’u
 - Ministry of Infrastructure – Vava’u
- **Missing and No Support Documents**
 - Ministry of Infrastructure – Transport Division
 - Governor’s Office – Vava’u
 - Tourism - Vava’u
 - Ministry of Health – Ha’apai
 - Ministry of Education and Training – Vava’u
 - Ministry of Tourism
- **Allow credit sales**
 - Ministry of Infrastructure – Civil Aviation

- **Un-deposited Bond money**
 - Ministry of Justice – Head Office and Supreme Court
- **Separated Bank account**
 - Ministry of Justice – Head Office and Supreme Court
- **No proper internal Control**
 - Ministry of Justice – Head Office and Supreme Court
 - Tourism – Vava’u
 - Ministry of Infrastructure – Vava’u
- **No proper reconciliation of certificates for birth, death and marriages**
 - Ministry of Justice – Head Office and Supreme Court
- **Not maintain the attendance book**
 - Ministry of Agriculture, Fisheries, Forestry and Food – Quarantine Division
 - Ministry of Internal Affairs
- **Not proper procurement the disbursement**
 - Ministry of Infrastructure – Land and Transport Division
- **Unaccounted Deposit**
 - Monthly Return – Ha’apai
 - Sub-Treasury / TDB – Ha’apai
- **Not properly and completely prepared the processing payments for government expenditure**
 - Sub-Treasury / TDB – Ha’apai
- **Allegedly fraudulent conversion of public money**
 - Ministry of Agriculture, Fisheries, Forestry and Food
- **Short Banking**
 - Government Representative – ‘Eua
- **Paid of personal expenses from public money**
 - Government Representative – ‘Eua
- **No segregation of duty**
 - Ministry of Infrastructure – Vava’u
- **No registered for number plates**
 - Ministry of Infrastructure – Vava’u
- **Accident of Government vehicles**
 - Ministry of Infrastructure – Vava’u
- **Disposed Fixed Asset**
 - Ministry of Infrastructure – Vava’u
- **No procedure for revenue collection**
 - Ministry of Infrastructure – Vava’u
- **No contract for hire of government asset**
 - Ministry of Infrastructure – Vava’u
- **Pawn of Government Asset**
 - Ministry of Infrastructure – Vava’u
- **No job cards**
 - Ministry of Infrastructure – Vava’u
- **No work plan for major projects**
 - Ministry of Infrastructure – Vava’u

- **Late receipts of revenue collected**
 - Prison Department – Head Office
- **Overpaid Perdiem**
 - Ministry of Internal Affairs
- **No internal control for telecommunication charges**
 - Ministry of Internal Affairs
- **Not updated of Salaries & wages register**
 - Ministry of Tourism
- **Not comply with contract agreement**
 - Ministry of Tourism
- **No Revenue Arrears Record**
 - Ministry of Tourism
- **No physical checking of asset**
 - Ministry of Tourism
- **No specific policy exist**
 - Constituency Fund
- **No sufficient and appropriate supporting documents kept**
 - Constituency Fund

2.2.7.3 Follow up Issues

The Auditor General has no executive power to force MDAs to implement audit recommendations. Considering and acting on audit findings and recommendations are matters for management discretion of individual MDAs. However, audit will follow-up these issues and reports to Parliament whether or not corrective actions were implemented by MDAs.

2.3 PERFORMANCE AUDIT DIVISION

2.3.1 BACKGROUND

The core function of this Division is to carry out Performance Audit according to *Section 10A of the Public Audit Act 2012 (As Amended)*. In addition, any inquiries and advisory that may arise as a result of audit undertaking, request from the public, government ministries, department, agencies, public enterprises, Public Account Committee, and interested parties.

This Division is headed by Deputy Auditor General, Miss 'Utu'one Vena, with four (4) staffs.

2.3.2 TEAM OUTPUT SUMMARY

Table 12: Output Summary: Performance Audit and Special Investigation and Inquiry;

Performance measures	Unit of measure	2015-16 target	2015-16 actual	2014-15 actual	2013-14 actual
Quantity					
Performance Audit Reports (a)	Number	5	-	-	-
Special Audit (b)	Number	-	1	-	-
Advisory Services (c)	Number	-	-	-	-

(a) Auditor General's reports cover only the performance audit reports.

(b) Auditor General's reports cover Special Audit that may warrant or arise during the year.

2.3.3 PERFORMANCE AUDIT

Performance audits are special in-depth assessment of whether Ministries, Departments and Agencies (MDAs) are achieving value for money in terms of economy, efficiency and effectiveness.

Similarly to past years since its establishment, the Division has been unable to complete any of the target Performance Audit Reports set out. The inexperience and very little knowledge on how to do Performance Audit among the staffs of the Division was obvious, hence the ability to carry out the Performance Audit topics set out in the Office Work Plan.

Participating in Performance Audit Training is part of the Office initiative to train and expose the staff to Performance Audit. Some of the Division's staff has participated on-the-job training, PASAI Tier's trainings, and taking part in the PASAI Regional Co-operative Performance Audit. However, we are looking and hoping for an opportunity for one or more staff attached to a more advanced SAI and actually involved in carrying out performance audit.

Since 2009, the Audit Office participate in the Pacific Association for Supreme Audit Institution (PASAI) four (4) Regional Cooperative Performance Audit on Environmental Issues. These four (4) reports were completed and finalized in June 2015. However in July 2015, a follow-up audit on these were carried out in order to update the audit findings in the report by the team.

The Division is trying to finalize its first Performance Audit Report, Access to Safe Drinking Water in the current year.

2.4 PUBLIC ENTERPRISES AUDIT DIVISION

2.4.1 Background Information

This Division is headed by Deputy Auditor General, Mr Kelepi T. Makakaufaki Jr, CA, and five (5) staff carrying out the financial audits and audit review of Public Enterprises as per our mandate re the *Public Audit Act 2007 (as amended)*.

2.4.2 Team Output Summary

Table 13: Output Summary of Public Enterprises audit and review.

Performance measures	Unit of measure	2015-16 target	2015-16 actual	2014-15 actual	2013-14 actual
Quantity					
Audit Opinions	Number	5	10	4	14
Audit management reports	Number	17	15	7	4
Reviews, approvals and certificates	Number	12	5	3	7
Advisory services	Number			1	-

(a) *Audit management reports are management reports on public enterprises audit and review*

(b) *Audit Opinions are audit opinions on public enterprises audited and other organizations that appointed the Auditor General as external auditor.*

(c) *Review and approvals Certificates cover only the audit certificate on review and approval of the audited accounts of public enterprises.*

2.4.3 Public Enterprises Audit

2.4.3.1 Tungi Colonade Company Limited

1. The company reopened their own bank account in the MBF bank during the last quarter of the financial year. Previously, the FWC head office pay for the company's expenses, and the company is yet to perform a bank reconciliation as it has just opened the bank account. This had resulted in the closing cash and cash equivalents not agreeing to the bank account at year end, which was subsequently corrected.
2. Total prior year adjustment amounted to TOP\$605k. We were unable to confirm this amount as supporting documentation of these previous year adjustment were unavailable during the audit.
3. We noted the company have not made its loan repayments in accordance with the payment schedule in the agreement. As of June 30th 2014, a total amount of interest of TOP\$728k have not been repaid
4. We noted there were discussion and adjustment to the amount owing to the Head Office. Variance was noted between TCCL and head office's balance. The figure was subsequently adjusted to the head office however the variance was not confirmed

2.4.3.2 Tonga Water Board

1. We noted the doubtful debt has been approved by the board to be realized at 10% of total trade receivables. We reviewed the rationale behind the realization of doubtful debts at 10% and noted this was not based on collection history or trends but the professional judgment of the board. Our review of the Trade Receivables Aging Report indicate the outstanding balance for debtors over 90 days is 53% of the total balance. We also noted the board is yet to adopt a policy for the recognition of doubtful debt.
2. As previously mentioned, we noted from our review of Receivables Aging Reports, 53% of total trade receivables are outstanding over 90 days.
3. We found from our review of journal entries and General Ledgers, the Prior Year Adjustment ledger is being overly used. Entries to the PY ledger included several items that is related to the current financial year. There also entries we have discussed with the Accountant and Finance Manager which it was unclear why it was posted to the PY ledger. These entries were
 - o Reversal of purchase orders

- Payment of dividends
 - Payment of tax expense
 - Correction to Water Sales
 - Reconciliation of Trade Receivables
 - Expenditure payment (including telecommunication, bank charges and payroll clearing)
4. We reviewed the board's remuneration and expenditure as part of our testing of key management staffs and related parties transactions. We identified the following issue.
 - There were advance payments of board allowances to some of the board members. For instance. The allowance for the chairman was paid in August 2014 for the months up to November 2014. We have reviewed the policy manual of the board and we noted there is no provisions for advance payment of board allowance. No other regulations allowed advance payments.
 - Board members retirement is being withdrawn throughout the year
 5. We reviewed diesel usage and records. We noted diesel is stored in the diesel truck at Mata-ki-'Eua, which is used to fill each Pumping machine on a daily basis. We found discrepancies in the monthly total and the daily total. The report provide a monthly total for diesel usage and then a detailed daily total per pump machine according to the pump number. For the month of April 2015 and July 2014 we noted the monthly is different from the daily total. We discussed this with the Stock Controller and noted it was an input error
 6. We found there is acting allowances for every divisions in the entity. The Acting allowance can be claimed if the Head of Division
 - In on leave (sick, annual or special)
 - Is away on official duty
 - Is absent from work on any other reasons apart from leave and travelling
 We noted the policy around acting allowance has not been properly documented in the manual
 7. We noted a few expenditure line items were over their budget during the financial year, which was financed from other votes. This involves the Overtime, which was over the budget during the last few months of the financial year. These were financed from the Salary and Wages.
 8. We reviewed the company's inventory and controls surrounding the inventory accounting system. We noted, the Attache system is unable to calculate a closing inventory balance. Stock count is done at the end of every month to get the closing inventory balance. There is no control in place to ensure whether the resultant stock count is the complete stock that should be on hand.
 9. Fixed Asset Register is not reviewed regularly by a senior finance officer. From testing performed by our auditors, it was noted there were asset items that already have a negative balances indicating that the asset has been fully depreciated during its useful life.
 10. The entity have not done any impairment testing of its aging PPE items, although there are items that are very susceptible to impairment such as Distribution Lines, Water Meters and Pump Units
 11. Certain items has been capitalized as PPE although its value is significantly small which should have been realized as an expenditure

2.4.3.3 Tonga Chamber of Commerce

1. Bank reconciliation needs improvement. Reconciliation should be a matching of bank statement balance and the cash balance from the QuickBooks system on a spreadsheet with the outstanding deposits and un-presented cheques clearly identified as the reconciling items. There were reconciling items which were not identified. These were general journal entries entered to the reconciliation to match the two balances
2. We found transactions that has not been paid into any of the Chamber's bank accounts. These are attached in annex 1 to this letter. We have not been able to obtain any explanation from the chamber's accountant as the responsible person who was previously responsible has left the Chamber. These funds were receipted as far back as May 2013. As at December 2014, it has not been paid in to the bank

3. During our review of reconciliation, we noted there were some deposits that was extremely late, which were as late as seven (7) months from when it was initially receipted and entered into the QuickBooks Accounting system. No explanation was obtained as to the reason behind the lateness in the pay-in.
4. We noted correction to the prior year figures accounts after the audit was finalized was not properly posted to the QuickBooks Accounting system after the account was finalized. As a result the opening balances of several assets and liabilities were materially misstated. This has been identified and corrected during the audit
5. We noted for some item of property, plant and equipment were incorrectly calculated, causing their carrying amount to be misstated as well as the depreciation amount as at year end. We also noted that the FAR is not reconciled to the General Ledger on a regular basis, and it was identified that the FAR did not agree to the General Ledger

2.4.3.4 Waste Authority Limited

1. We appreciate the Bank reconciliation of WAL is performed daily by the Accounts Supervisor. However we noted there is no review of the bank reconciliation by an
2. We noted timesheets for some of the pay-run were not reviewed and authorized by the a senior officer such as the Accounts Supervisor or the Finance Manager before the payroll sheet is approved for payment
3. We noted staffs did not have a work contracts as per our payroll testing. We confirmed these staffs are yet to have a valid contracts
4. We noted the FAR is not being reviewed and reconciled with the General Ledger on a regular basis. Calculation of depreciation were identified to be incorrect and subsequently adjusted during the audit
5. We noted the entity is yet to realize a provision for the cost of closure and post closure of the first cell in the Landfill. Although no work has started, cost will be incurred for the closure of the first cell and provision should be realized in accordance with IAS 37.

2.4.3.5 Friendly Island Shipping Agency

1. Other receivables of TOP\$122k has not been recovered. This relates to the agreement between the Ministry of Infrastructure and the company to construct fence around operation area at Vava'u wharf in exchanging for offsetting against port charges. This amount is still receivable from the prior year up to now.
2. We noted there has been no change in the provision for doubtful debt although the total trade receivables has decreased from the prior year balance of TOP\$239k. Our review of the aging debtor's report also noted the balance of debtor's over 90 days is around TOP\$34k. There is no policy for the realization of provision for doubtful debt. This needs to be disclosed in the Statement of accounting policy.
3. Some staffs are yet to have a signed contract with the company. We are aware this is an on-going process and the company is still in the process of ensuring that each staff have a valid contract signed and agreed with the company.
4. Timesheets and attendance records were not filed together with the Payroll Sheet. We are aware that the proper maintenance of time sheet were in force during the last quarter of the financial year.
5. We noted the bank reconciliation is done on a regular basis. It is revised but it is yet to be initialed as evidence of the review.
6. We noted that an item in Fixed Asset Register was recorded as development Cost. This relates to initial cost incurred in bringing the vessel MV Niuvakai to the port and getting ready for operation. In accordance with International Accounting Standards, cost of an asset include cost of bringing the assets to the location and condition ready for use. This has been adjusted in the final account and added back to the MV Niuvaka total value

2.4.3.6 Tonga Forest Products Limited

1. The company used different invoice booklets simultaneously without completing one invoice booklets and then start using a new one when the previous one has been completely used up.

2. The costing of inventory cannot be determined reliably because the cost of the whole production process cannot be identified.
3. The review of daily cash summaries was not done properly. As a result it failed to detect misappropriation of funds by company personnel. Company funds were not completely deposited to the bank on a regular basis.
4. The inventory accounting system was unable to track the movement of stocks during the financial year.
5. Company vouchers for disbursement were not approved by the authorizing officer and did not have any supporting documentations attached to them.
6. Contracts for most of the staffs were not filed and cannot be located in the company premises. Some of the remuneration of company personnel cannot be reviewed because the contracts was not available.
7. Fixed Asset Register were not reviewed and updated on a regular basis. Several assets in the register cannot be located including asset which was taken by former employee who have not return them.
8. Drawdown requests for the Tonga Development Bank (TDB) loan was not filed properly. Drawdowns were confirmed from the record kept in the TDB office.
9. The company was not complying with the covenant of the loan. Transfer of land deeds for the forest at 'Eua have not yet been signed. Repayment of loan principal and interest were currently in default.

2.4.3.7 Tonga Communication Corporation

1. The review of the Tonga Communication Corporation (TCC) for the year ended 30 June 2014 and 2015 was approved on the 1st of September, 2016. The external auditor was Ernst and Young. We were satisfied that the audit was conducted in accordance with International Audit Standards.

2.4.3.8 Tonga Airport Limited

The review of the Tonga Airport Limited (TAL) for the year ended 30 June 2015 was completed and approved on the 10th June 2016. The external auditor was PricewaterhouseCoopers (PwC). The following issues were raised from the review.

1. The following documentations were not in the audit file reviewed
 - Ethical/independent declaration form
 - Assessment of risk for fraud
 - Assessment of the going concern assumption
 - Disclosure of fair value
 - Subsequent Events review

Overall, we conclude the audit conducted by PwC complied with International standards on auditing.

2.4.3.9 Tonga Post Limited

The review of the Tonga Post Limited for the year ended 30th June 2015 was completed on 9th June 2016. We provided recommendation based on our review to improve compliance with International standards on auditing. The external auditor was Hasiloni Fungavai. Overall, we concluded the audit of the Tonga Post Limited failed to comply with International Standards on auditing. The following issue was raised from the review.

1. Gain an understanding of the entity and its environment were not done.
2. Assessing the risk of material misstatement in the financial statements
3. Pre-Engagement activities were not conducted including
 - Acceptance/Continuance of the client
 - Code of ethics declaration
 - Assessment of competency of audit team

4. We followed up issues raised from the prior year review and noted, there has been no action taken to implement in the audit process. These prior year issues were;
 - Establishing materiality level
 - Ethical declaration
 - Audit documentation

2.4.3.10 Tonga Assets Management and Associate Limited (TAMAL)

The review of the TAMAL audit for the year ended 30th June 2015 was completed during the financial year. The external auditor was Hasiloni Fungavai. The following issue was raised from the review. These were non-compliance with International Standards on Auditing. Overall, we concluded the audit failed to comply with International Standards on Auditing.

- No documentation of the entry and exit meeting between the auditor and the client
- Ethical Declaration
- Understanding the Entity and it's Environment
- Risk Assessment
- Going Concern Assessment
- Materiality

2.4.3.11 Tonga Export Quality Management Limited (TEQM)

The review of the TEQM audit for the year ended 30th June 2015 was completed during the financial year. The external auditor was Hasiloni Fungavai. The following issue was raised from the review. These were non-compliance with International Standards on Auditing. Overall, we concluded the audit failed to comply with International Standards on Auditing.

- Understanding the Entity and it's Environment
- Going Concern Assessment
- Ethical Declaration
- Risk Assessment
- Materiality

2.5 DEVELOPMENT PROJECTS AUDIT DIVISION

2.5.1 Background Information

This division was newly established in July 2015. The core function of this Division is to carry out compliance audit on all projects that Ministries, Department and Agencies (MDAs) are executing on behalf of the Government.

This Division is headed by Deputy Auditor General, Mrs Fatafehi Taumoha'apai, who left on further studies overseas in July 2015. Mrs Lotomo'ua Tu'ungafasi took over and leads this Division during the year and supervises four (4) staffs.

2.5.2 Team Output Summary

Table 14: Output Summary of the Development Projects Audit Division

Performance measures	Unit of measure	2015-16 target	2015-16 actual	2014-15 actual
Quantity				
Audit Opinions	Number	5	11	12
Audit management reports	Number	20	12	11

2.5.3 Development Projects

Development projects are projects and activities that are funded through loan and grant that Government Ministries, Departments and Agencies are executing. The majority of the projects audit by this Division are funded by World Bank and/or Asian Development Bank.

2.5.3.1 Tonga Aviation Investment Project (TAIP)

The audit of Tonga Aviation Investment Project of Tonga for the financial year ended 30th June, 2015 was completed and resulted in an unqualified audit opinion issued on 30th November, 2015.

The management letter was issued on the 30th November, 2015 which audit raised that the Minutes provided to Audit were not signed.

2.5.3.2 Foa Causeway project.

The audit of this project for four (4) financial Year ended 30th June 2011, 2012, 2013, 2014 was completed and resulted in an Unqualified Opinion issued on 9th March 2016 whereas the management report issued on the 31st March, 2016.

The management letter reported some control issues such as Poor record Keeping, No handling Over documents and Assets register was not properly maintained. We recommended to ensure that filing system should be in place, and the Executing Agency should properly records all documents and handing over procedures are properly documented and approved.

2.5.3.3 Transport Sector Consolidation Project.

The audit of Transport Sector Consolidation Project for the year ended 30th June, 2015 was completed and resulted in unqualified opinion issued on 11th April 2016 whereas the management report issued on 23rd May 2016.

The management letter reported issues on most of the contractors did not comply with the Terms and Conditions of the contract agreement. The most common Non compliances was Incomplete Documentations before payments was made, like the work plan was not updated, Insurance submitted were not covered the defect liability period, No inspection reports provided before payments. Audit put some recommendations for the project manager and project accountants should ensure that all contractors must complied with Terms and Conditions at all times.

2.5.3.4 Tonga – Fiji Connectivity Cable Projects

The audit of the Fiji Connectivity Cable Project for financial year ended 30th June, 2015 was completed and resulted in unqualified opinion issued on 23rd December 2015.

The management letter was issued on 4th February, 2016.

The Management letter reported that Reconciliation of the Project's Vote book with Treasury Vote Book was not carried out properly and the Recommendations is the Project Manager should ensure that monthly Reconcile of Vote Book will carried out on timely basis.

2.5.3.5 Cyclone Ian Recovery Project.

The audit of this project for the financial year ended 30th June, 2015 has been completed and resulted in an unqualified opinion which was issued on 30th December, 2015.

The Management letter issued on 31st March, 2016 with no issue.

2.5.3.6 Social Protection of the vulnerable in the Pacific

The audit of this project for the financial year ended 30th June, 2015 has been completed and resulted in an Unqualified Opinion issued on the 11th April, 2016.

The management letter issued on 18th May 2016 with some issues raised that some payments made with no supporting documents. Another issue was some expenditure incurred after the project proposed completion date and also there is an overpayment of salaries of the Project Manager. We recommend to let all payments made with complete sufficient appropriate supporting documents and all payment made should be made within the timeframe of the projects. Last recommendation is to liaise with ADB on this overpayment and let the Project manager recovered this overpayment and the Ministry of Finance and Malakai Kaufusi negotiate for the recovery procedures and durations.

2.5.3.7 Climate Resilience Sector Project

The audit of this project for the financial year ended 30th June, 2015 was completed and an unqualified opinion was issued on the 23rd December, 2015 and the Management letter issued on 11th February 2016.

There was no issue on this project.

2.5.3.8 Nuku'alofa Urban Development Sector Project

The audit for this project's financial statements ended 30th June, 2015 has been completed and resulted with a Unqualified Opinion. The opinion issued on 23th December 2015 and the Management Letter issued on 29th January, 2016.

The Management Letter reported issues on Minutes – The PMU should have a Quarterly Meetings therefore the Minutes should be Four, but the Minutes available was Three, this is due to only three meetings held during the year, The other issue on Settling of outstanding bill – this was a bill for more than 10 months not yet settle. The other issue was not installed the two GPS to the TWB's Vehicles. TWB requests for this but they were not installed them.

The Audit gave some recommendations as the Project Manager immediately follow up with TWB to install the remaining GPS. The Outstanding bill should be paid on time and also the Project Management Unit should ensure that the PSC carried out their meeting on timely basis.

2.5.3.9 Tonga Energy Road Map Implementation Unit (TERM IU)

The audit for this project's financial statement ended 30th June 2014 has been completed with an Unqualified Opinion issued on 29th September, 2015. The management letter was issued on 24th September 2015.

Issue raised in the management letter dated 24th September 2015 were:

- a. Non- compliance with the Project Agreements – Audited financial statements are required to be submitted to the donor by the 31st of December 2015. Financial statement for year ended 30th June 2014 was submitted to Auditor General's office for auditing in April 2015.

- b. Non-Compliance with the Operational Manual – We reported the following non-compliance with the Operation Manual such as (1) Annual Procurement Plan to be completed by 31st May each year but the it was updated later in July 2014; (2) Procurement Quarterly Status Monitoring Update to be completed after each quarter, but there were no monitoring update in place; (3) Project Progress Report (both for TERM and TPL) to be completed within 45days after the end of each semester, but this has not been completed. It was recommended that the project management unit should discuss the human resource issue with the World Bank, and find a way forward to ensure timely submission of the deliverables in the table below.
- c. Project Delivery – The project performance is measured against seven (7) indicators set out in the project documents which was also reviewed as part of the audit. There were indicators not yet completed which were:(1) Petroleum Risk Management Framework (PRMF) was not yet drafted; (2) Network Reliability Index, audit was unable to confirm the status of this work; (3) Generation System Progress Report , audit was unable to confirm the status of this work and (4) Power System , audit again was unable to confirm the status of this work.
- d. Reconciliation of Consultant’s Claim with the Contract – Payments made to consultant was reviewed and noted that there is no reconciliation of the invoice to the contract, particularly in its milestone or reporting obligation to ensure that the consultant uphold his end of the contract before payment is made.
- e. Supporting documents for consultant’s payment is not submitted to the PMU for processing of payment. TPL approves payment, and then submit to the PMU for processing of payment without the supporting documents.
- f. Payment confirmation not filed with invoices. Payment confirmation is received from the bank after every payment is made, detailing the recipient and its account detail. Importance of this confirmation, is that PMU ensures the payment was made to the right creditor.

The audit for this project’s financial statement ended 30th June 2015 has been completed with an Unqualified Opinion issued on 13th April, 2016.

The Management letter issued on 19th May 2016 with some prior issues raised but no actions. The first issue was a overpayment of USD\$25,200 to the Advisor – ‘Akau’ola , also the Non-compliance with the Operational Manual this is a no having an annual procurement plan together with procurement quarterly status monitoring update for each Quarter.

The current issue was a Non-compliance with the project agreement, this was about to submit to the bank within six months an audited financial statements but the draft financial statement submitted to our Office after the due date. Another issue was the unsatisfactory implementation progress resulted from financial management issue such as insufficient capacity of TERM IU in relation to procurement, maintain of project accounting records that cause delays in implementation of the projects and audit of the project’s financial statements. Another issue was the Project Unit has no copy of Withdrawal Applications the missed out of these we cannot confirm the amount replenished.

The recommendations was to the PMU to ensure that the draft Financial Statement should submit to the Audit Office by 30th September each year. That all withdrawal applications forms are to be properly filed at all time.

2.5.3.10 Tonga Cyclone Ian Reconstruction and Climate Resilience

The audit for this project’s financial statement ended 30th June, 2015 has been completed with a Qualified Opinion issued on 8th March, 2016.

The management letter issued on 13th April, 2016 with issues raised on Overpayments. We recommend to let the Contract manager should work closely with Building Inspector to ensure that claims made completed supporting documents and to avoid repetition of similar overpayments in the future.

2.5.4 Other Project

2.5.4.1 Medical treatment scheme.

The audit of this project has been completed and the Management letter issued on 3rd July,2015 with issues raised such as Expenditure Exceeded its Budget, Overseas referral committee : Equity Criteria, Overseas Referrals : clinical Criteria.

2.6 PUBLIC ACCOUNTS AUDIT AND PERFORMANCE REVIEW

2.6.1 Background Information

This Division was established in July 2014, with Mrs Luseane ‘Aho, as Deputy Auditor General, became the Head of the Division. This Division was established to be responsible for the audit of the Public Accounts and review the performance of Government Ministries, Departments and Agencies towards the Sustainable Development Goals, (SDGs). These responsibilities are part of the mandate of the Auditor General under the *Public Audit Act 2007 (as amended in 2012)*.

The Deputy Auditor General was assisted by four (4) staff, in carrying out the activities of the Division.

Under *Part 2 Section 4, of the Public Audit Act*, The Auditor General shall be the principal auditor for Government, and shall be responsible for carrying out the duties and responsibilities conferred on him under this or any other Act and who shall be responsible for the Audit Office.

2.6.2 Team Output Summary

Table 15: Output 6 - Public Accounts and Performance Measurement

Performance measures	Unit of measure	2015-16 target	2015-16 Actual	2014-15 target	2013-14 actual
Quantity					
Audit Opinions (a)	Number	2	2	-	-
Audit management reports issued conveying the findings of audits (b)	Number	6	2	-	-
Certificates (c)	Number	3	3	-	-
Advisory services	Number	-	2	-	-
Review MDAs Performance	Percentage	10	-	-	-

(a) *Audit Opinions are issued on the Public Accounts and Tonga Trust Funds;*

(b) *Audit management reports are reports issued on Public Accounts audited.*

(c) *Audit Certificates are certifications on review of the Quarterly Statements of the Summary of Receipts and Payments.*

2.6.3 Public Accounts

2.6.3.1 Government Financial Statements 2015/16

1. Summary of Audit findings and results

The summary of audit findings and results, as reported to clients during the year is as follows:

1. TTF 2011/12

An unqualified audit opinion was issued on the Financial Statements of the Tonga Trust Funds, TTF, for the financial year ended, 31 March 2012.

The audit issues raised were as follows:

- i. Misstatements were identified and adjusted accordingly.
- ii. No source documents not available for audit such as settlement proceeds.
- iii. No General Ledger was prepared as part of the complete financial records of the TTF, which would assist with preparation of the financial statements and complete the audit trial and accounting of all transactions.
- iv. There is no clear External Reporting Framework used to prepare the financial statements.
- v. Appreciate the timely submission of the draft financial statement to the Office of the Auditor General but it was poorly prepared.
- vi. Subsequent events to balance date : Retention Deposits

Reference is made to email on 19 Nov 2014, from Mr Erickson of Pillsbury Winthrop Shaw Pittman Ltd, Law Firm in the United States, advising reduction in retention deposit from UAD100,000 to USD\$10,000 and that an advice from Trustees as to which bank account and details to transfer the USD\$90,000 to. It is appreciated that the Auditor General be advised of appropriate action that have been taken so far and have addressed the advice from the Law Firm and to properly account for this reduction in Retention Deposit.

In summary, Audit made five (5) recommendations, in relation to the issues raised above, on this audit.

2. Public Accounts 2012/13 and 2013/14

i. The audit management report for two financial years ended 30 June 2013 and 2014 was issued on 11th of August 2015.

ii. SUMMARY OF FINDINGS (2012/13)

a. Many errors found in the First Draft figures indicating poor documentation and incomplete recording and filing in the following areas:

- Development Funds Receipts and Payments
- Cash and Bank Balances
- Non-current Receivable
- Investments

b. OTHER MATTERS

We would also like to bring the following matters raised by the audit but kept on recurring:

i. The draft financial statements are timely submitted but in poor presentation and figures in the statements did not agree with the System.

ii. Discrepancies/ Unreconciled figures found in the financial statements

It is recommended that subsidiary records be reconciled with the Sun system, especially Development Funds and the Public Debts.

iii. Non-compliance with International Public Sector Accounting Standards, IPSAS, with regards to the Statement of Receipts and Payments

iv. Cash at Bank and in Hand in the financial statements consist of balance of all bank accounts without detailing them in the notes.

v. Going Concern

The cash position should be the top priority in managing and coordinating it's operation given other factors also impact on the cash position of the Government such as high public debt level, very narrow income base economy, and reliance on budget support to fund the recurrent budget. The future cash position of the Government got to be carefully monitored and a holistic approach to rationalize spending and maximize revenue collection in the Government as a whole is deemed urgent.

vi. Payments by External Third Parties

Reference to Note 1(vi) (Notes to the Accounts), describes Payments by External Third Parties that Treasury is still unable to incorporate these payments in the preparation of the Public Accounts. IPSAS requires that the Statement of Receipts and Payments is to disclose all receipts and payments including those paid by third parties.

vii. Development Projects that are implemented outside the Government financial management system are not incorporate into the Public Account.

viii. Different in Format of the Public Accounts to the format of Annual Budget.

3. Public Accounts 2014/15

A summary of the highlights and audit findings including key issues from audit of the Public Accounts for the financial year ended 30 June 2015, is provided below.

i. Audit Opinion

A qualified audit opinion was issued on the Public Accounts for the year ended 30th June, 2015 and was dated 29th February, 2016.

The qualified audit opinion was based on the modification to the cash accounting basis in order to ring forth the fair valuation of the appropriate items in the Statement of Assets and Liabilities; receivables, payables, investments, public debts, property, plant and equipment. This is a departure from the cash accounting basis of the International Public Sector Accounting Standard, *IPSAS*, which is the basis of the preparation of the Public Accounts.

This modification process has been carried out for the several years now and we hope that it will be quicken to achieve the complete accrual accounting basis, which would then be resulted in dropping the audit qualification on such basis.

ii. Audit and Financial Reporting Issues

- ❖ Apart from the modification to the cash accounting basis mentioned above, there were also nondisclosure in accordance with *IPSAS* and identified as material to be raised :
 - ✓ There is an explicit and unreserved statement of compliance with the *IPSAS* in the Notes, 1(ii) however, the accounts is not complying with all the applicable requirements of *IPSAS*.
 - ✓ To “disclose the amount of exchange differences included as reconciling items between opening and closing cash balances” for the financial year.
 - ✓ The “comparison of budget and actual amounts must present separately for each level of legislative oversight.”
 - ✓ To disclose separately on the face of the statement of cash receipts and payments, total external assistance received in cash during the period.
 - ✓ To disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non-compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously also be disclosed.

iii. Internal Control System:

- ✓ Internal Audit Function: We assessed that there is a need for the internal audit function to be lifted to the level expected. We found no internal audit programme for the financial year thus, limited the direction and operation of the team.
- ✓ The primary accounting records of the Sun-System for the receipts and payments, apart from salaries and wages are considered sufficiently appropriate. However, the secondary records from other systems – salaries and wages, public debt, and for most of the assets and liabilities items are in need to be completely reconciled and to be fully maintained as the primary records and the source for the Public Accounts.
- ✓ There is a need to include and account in the Public Accounts all the development projects that are being funded by development partners and implemented by both government and non-government agencies, outside the Government financial management system.

iv. Presentation and Format of the Public Accounts:

The format of the Annual Budget and the Public Accounts are not consistent. Best practice supports that the format of the Annual Budget should reflect the format of the external report to be presented to the Legislative Assembly.

Here are the responses from the Ministry of Finance and National Plan (MoFNP) on the audit recommendations regarding the items provided:

Compliance with IPSAS Cash

That Statement of Receipts and Payments to comply with the mandatory requirement of IPSAS.

MoFNP Response 01:

The Ministerial statement of the audited public account asserts the adopted basis of financial reporting as a stepping stone towards the mandatory requirements. This is also stated in the beginning of the letter and the same applies to the progress of work to provide specific disclosure.

Debt Management

It is important to note that compliance with IPSAS enhances presentation of the Statement of Receipts and Payments thus promotes transparency and accountability of the public sector and cannot be regarded as disqualifying, in anyway, of the current format of presenting the statements.

MoFNP Response 02:

We do not agree with this recommendation as IPSAS require additional disclosure only if the basis of the preparation of the financial report is not as a going concern.

Cash and Bank Balances

As recommended last year, Note 5 included a summary of what comprised the Cash and Bank Balance. However, Note 5 is still considered unclear and can be confusing to readers. Ideally, Note 5 serves the purpose to provide additional information to clearly explain what Cash and Bank Balance are. In Note 5, it highlights Operating Cash Balance which is the sum of Recurrent Bank Accounts and Cash Float on Balance Date.

There are two options for disclosure of Cash and Bank Balance and Note 5. The first option is that, the Cash and Bank Balance item in the Statement of Assets and Liabilities be changed to Operating Cash Balance and Bank Balance and that will be consistent with Note 5, or Change Note 5 to provide details consistent with subheadings of Cash and Bank Balances.

MoFNP Response 03:

We consider our format sufficient and clear at the same time could work with TOAG to address where readers are unclear.

Janful International Hotel

In promoting more transparency and accountability of the public accounts, audit suggest that a note to the accounts should be included to explain the position of this loan to Janful International Dateline Hotel.

MoFNP Response 04:

The basis for valuations are supported by adequate documentations

Charges to Individual

It was noted that these outstanding debts existed for more than 5 years. As such, these charges are no longer qualified as current assets and are not likely to be recovered. Audit therefore recommends that these charges be written-off.

MoFNP Response 05:

The Government is working to satisfy the statutory condition to write off the outstanding building loans before seeking the appropriate approval by the CEO and / or the Minister of Finance and Cabinet as appropriate.

Investments

The amount of Government shares in public enterprises is material that the impact of not keeping sufficient appropriate documents to validate the ownership, existence and legality of these shares needs immediate attention.

MoFNP Response 06:

The Ministry have adequate records and supporting documents available to verify ownership, existence and valuation of investments in other companies and public enterprises. In the case of those Public Enterprises which did not provide copies of their share certificates, reference is made to their audited Financial Statements for verifications.

Property, Plant and Equipments

MoFNP Response 07:

We agree as this is on-going in particular to improve the compliance by Line Ministries, Departments and Agencies and will a focus area of improvement.

Effect for Accounting for Assets and Liabilities

Audit recommend for future public accounts that the effect for accounting for assets and liabilities be disclosed separately under those adjustments raised from accounting for assets, liabilities and those raised as from accounting for foreign exchanges.

MoFNP Response 08:

We agreed and in the future will ensure to address.

Development Funds

It is recommended that where possible, the sun system should be reconciled regularly with development bank accounts and where applicable, necessary adjustments should be incorporated into the accounting system to improve reliability of the accounting system.

MoFNP Response 09:

We agree to address in the future subject to upgrading and update the modernization of the sun system.

Trust Money

It was noted that accounts under this trust money are still active and therefore remained current.

MoFNP Response 10:

Noted

Notes and General Accounting Policies

Given the differences in valuation of assets and liabilities, Audit suggest that specific accounting policy for basis of valuation of assets and liabilities be disclosed.

MoFNP Response 11:

The Public Account disclose assets at estimated value and that there are instances where depreciation had not been adjusted because of unknown asset values. Treasury Instruction Part VI; Section 5 (85) provides for adjusted asset valuation.

Contingency Funds

It is acknowledged that fiscal risks has been monitored but budget support is still a significant funding source for the annual budget. Ideally, the financial results as reported in the public accounts should reflect effort to achieve macroeconomic sustainability, instead of enjoying the budget support as normal and permanent funding source, and yet still aspire to achieve macroeconomic sustainability. The activities got to go hand in hand with plans and projections.

MoFNP Response 12:

Mitigating fiscal risks and macro stability are both core responsibilities of the Ministry that are subject to daily and monthly scrutiny and regular advice to Cabinet including quarterly and annual reviews.

Private Sector Growth Initiatives

Audit recommend that an audit of the Managed Funds with Tonga Development bank be approved to be carried out before 30 June 2016.

MoFNP Response 13:

Agree with recommendation and TOAG can audit these funds as required noting the funds are also subject to TDB's internal and external audit.

Internal Audit function

Internal Audit Division is recommended to take proactive roles in strengthening the internal control system.

MoFNP Response 14:

Agree with recommendations as they falls within the work plan of the IAD which reports to the IAD Committee including the Auditor General as a member.

Subsidiary systems and the sun system

It is important that Treasury staff understands that the responsibility for preparation of the Public Accounts is the Minister for Finance and National Planning and not the Minister for Public Enterprises. Therefore, Treasury should keep proper records for Government shareholdings in Public Enterprises.

MoFNP Response 15:

Noted and this has been addressed under the IFMIS a priority area under the PFM Roadmap. The Ministry is currently in the process (with the assistance of donors) of upgrading our IFMIS systems to automate the reconciliation between the sun system, Meridian, Debt CS-DRMS. Should also note the Ministry of Public Enterprises is not an external party.

Development Projects that are implemented outside the Government financial management system.

In order to improve the completeness and accountability of the Public Accounts, we recommends that the general accounting policy defines the scope of the Public Accounts, in terms of what specifically it covers and not.

MoFNP Response 16:

We can agree to this recommendation to address in the future

Format of the Public Accounts not consistent with the format of the Annual Budget.

It is recommended that the budget and the public accounts be reconciled with each other's so they could be used for more effective and meaningful analysis of the operation of the Government.

MoFNP Response 17:

We can agree to consider include in future budget preparation.

Finally, we appreciate feedback on our response and wish to acknowledge fully our gratitude for the continuous support and assistance by yourself and your team.

4. Review of Debt Bulletin June 2015

His Majesty's Cabinet in its decision no. 611 of 12 June 2015, directed the Audit Office to review and confirm the Debt Bulletin for March 2015 Quarter, before upload into the website. This is the first time for Cabinet to require this audit review and confirmation of the Quarterly Debt Bulletin.

A summary of audit findings and issues raised is as follows:

Referencing of Debt Status Report (DSR) to the Debt Bulletin and vice versa

The Debt Bulletin includes the Debt Status Report (DSR) and they complement each other's. Although the DSR make references to pages in the bulletin and vice versa, these are not easy to follow. There are many tables and charts on one page of the Bulletin and it takes time to try and identify which table or chart the DSR refers to. This means the DSR and Debt Bulletin is a little difficult to read and relate to, thus making these reports not user friendly.

i. Minor Mistakes in the DSR and Debt Bulletin

Ideally, the DSR and the Debt Bulletin present same information in different formats. The DSR present debt information in narrative form while the Bulletin present same information using tables and charts. Therefore it is important that information presented in one is consistent with the other.

These inconsistencies in information presented may affect the effectiveness of the report and the bulletin. Audit therefore suggest that the DSR and the Bulletin be carefully reviewed to avoid any inconsistencies in information presented.

Responses 04:

It was clarified that information in the DSR are correct for the purpose of the report. However, when referenced to the Debt Bulletin, the Bulletin is not quite the same with DSR. For instance, Item 2 shows the DSR provides ratios for the position as at end of March 2015, (July 2014 – March 2015) while the Debt Bulletin provides ratios for the current March 2015 quarter only.

As such, these ratios are rightly for different period of time while referenced were made to each other, thus caused a bit of confusion and misinterpretation of the ratios. Again, in Item 3 in the table above, the DSR reports on the estimated figures while the Debt bulletin referenced to, provides the actual amounts received. Though referenced to each other, they do not mean the same.

The clarification confirmed the issue raised and accepted audit suggestion for consideration.

ii. IMF Target %

The DSR provides IMF Target % which are very important to understand and know their significance to debt status of Tonga. However, apart from the Sovereign Debt Sustainability table that provides these statistics, there is no explanation as to what these IMF target % supposed to mean and how significant are they to Tonga's debt sustainability status. Therefore, these IMF target % although very important but seemed to be less important in the DSR since the report does not position them accordingly.

Therefore, suggest that the DSR explain the IMF target % and highlight their significance to debt status of Tonga for each quarter otherwise there is no point in including them in DSR as part of Sovereign Debt Sustainability.

Client Responses 03: Favourably considered the audit suggestion.

iii. Inconsistency in Base period used

There has been inconsistency in base period in the analysis of the debt status. For instance, bullet points 2 and 3 of DSR talks about the appreciation and depreciation of Tongan Pa'anga against borrowing currencies. It was noted that bullet point 2 relates to increase of \$7m, in public debt in March 2015 as compared to December 2014 because of the depreciation in Tongan Pa'anga. However, Bullet point 3 refers to appreciation and depreciation of Tongan Pa'anga in March 2015 as compared to March 2014. The period of time these information referred to are different so the information presented here can be confusing to the users and may not be in a position to effectively analyse the report.

As such, audit suggest that the baseline data and period is to be consistent so that the analysis of debt status would be more meaningful.

Responses 05: The information presented are consistent with the purpose of DSR, which compares the debt status with prior period (December 2014) and (March 2014). However accepted to consider the issue raised and its implication from the perspective of potential users of the DSR and the Bulletin.

iv. No interpretation of what debt statistics means

It was noted that DSR and Debt Bulletin provides no interpretation of what the debt statistics mean. This makes these reports less objective. The interpretation of the debt status against the IMF target % would be very interesting as it may provide useful information that may assist with making efficient and effective decisions. The statistics provided are not meaningful when presented without giving what they mean and imply, in terms of, the macro economic status of the country, thus position these reports into better perspective for the readers to use them for their decision making process.

It is therefore suggested that interpretation of the debt statistics be also included as part of the DSR and Debt Bulletin, so that the readers will be able to understand the reports and they become useful tools for making decisions.

Responses 06: Favourably considered the audit suggestion.

v. Schedule of Public Debt

It was noted that the DSR and Debt Bulletin does not include a schedule of Public Debt. A schedule of the Public Debt per quarter as part of Debt Status Report and Debt Bulletin will help the reader to understand the debt statistics and support the purpose of these documents.

Responses 07: Favourably considered the audit suggestion.

5. Review of Quarterly Performance of Receipts and Payments

A summary of the report is as follows:

1. Operating Receipts:

Operating Receipts in the first six months (6), July – December 2014, exceeded by \$3,164,360 over the Operating Receipts of the second six months (6), January – June 2015.

The result of comparing the standard group of revenues between the first and second half, varies but the “Taxes of Goods and Services” indicated the most excess of cash received in the first half than the second half of the financial year 2014/15 by \$3,058,193.

2. Operating Payments:

The payments in the second half (January – June 2015) exceeded the payments in the first half (July – December 2014) by \$9,366,990.

Although the payments in the second half were less in these standard groups of payments:

- i. Established Staff, \$4,941,356 (*the office is still trying with the Ministry of Finance and National Planning to attain the correct information about the reason behind this vast declining in January – June 2015*).
- ii. Travel and Communication, \$1,223,712; and
- iii. Debt Management, \$6,356,262, in the second half of the year.

Given these, there were more Operating Payments in the second half due to more payments in these:

- iv. Purchase of Goods and Services, \$5,314,852; and
- v. Operational Grants and transfers, \$14,215,980 (*Ministry of Finance and National Planning is working on identifying the vast increase in (iv) and (v) above*)

The results of financial operations of the first half of the financial year, July – December 2014, and the second half, January – June 2015, were reported as:

- i. July – December 2014: Payments exceeded Receipts (*deficit*) by \$2,860,627;
- ii. January – June 2015: Payments exceeded Receipts (*deficit*) by \$15,391,975.

The overall result of the financial operations of the government for the financial year 2014/15 was that Operating Payments exceeded the Operating Receipts (*deficit*) by \$18,252,602.

This deficit, \$18,252,604 was recovered with the Budget Support, \$19,255,453 and remained \$1,002,849 as Operating Surplus for the financial year 2014/15.

Net Receipts from Grants, \$2,800,649, added to the Operating Surplus with Budget Support, \$1,002,849, resulted in the Total Excess Income over Expenditure for the financial year 2014/15, \$,3,803,500.

3. Comparison of January – June 2015 with January – June 2014:

The exercise continued on to comparing January – June 2015 to January – June 2014, that was the same duration in the previous financial year, 2013/14.

This comparison was limited to Operating Receipts and Payments as these:

- i. Operating Receipts from January – June 2015 exceeded that from January – June 2014 with \$17,688,836.
- ii. Also, Operating Payments from January – June 2015 exceeded that from January – June 2014 with \$10,790,878

4. Comparison of receipts and payments for the budget

This is the comparison of the approved budgeted Receipts and Payments for the financial year 2014/15.

Operating Receipts

The actual Operating Receipts for all standard groups of revenue exceeded their targeted amount except for “fees and licensing”.

Overall, the actual Operating Receipts for standard groups of revenue exceeded their target by \$24,799,732 for 2014/15. Operating Receipts for “fees and licensing” did not attain its target by \$2,442,846.

Operating Payments

Operating Payments exceeded their budgeted amounts are given below:

- i. Operating Payments for Unestablished Staff exceeded its budget by \$2,169,630.
- ii. Operating Payments for Travel & Communication exceeded its budget by \$2,105,654.
- iii. Operating Payments for Operational grants and transfers exceeded its budget by \$1,385,822.

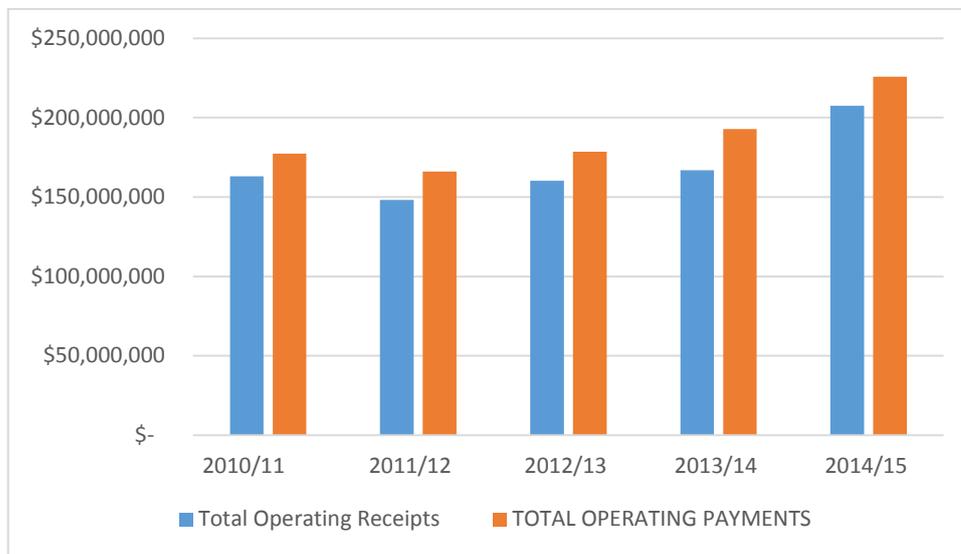
The overall result of financial operations of Operating funds.

The overall result of the government’s financial operations for 2014/15, Operating Payments exceeded the Operating Receipts by \$18,252,604. This deficit was cleared with the Budget Grant of \$19,255,453, and remained \$1,002,849 as Operating Surplus with Budget Support.

5. Past five (5) consecutive financial years, 2010/11 – 2014/15

The comparison of Operating Receipts and Payments for the five consecutive financial years are given in Graph 1.

Graph 1: Operating Receipts and Payments for the financial years 2010/11 – 2014/15



As I have mentioned before, the figures for the financial year 2014/15 were comprised of information generated from the Quarterly Statements of the Ministry of Finance and National Planning which its final audit would be conducted when auditing the Government Public Accounts 2014/15. The figures from the previous financial years were taken from the audited Government Public Accounts.

Many thanks to the Minister and staff of the Ministry of Finance and National Planning for the assistance given in this exercise.

APPENDIX 1

Organizations and Activities under Audit as at 30th June, 2016

Tongatapu

Government of Tonga

1. Palace Office
 - Tonga Tradition Committee
2. Legislative Assembly
3. Commissioner of Public Relations
4. Ministry of Foreign Affairs & Trades:
 - Head Office
 - Immigration Division
5. His Majesty's Arm Forces
6. Prime Minister's Office:
 - Head Office
7. Ministry of Finance and National Planning:
 - Finance (Treasury) Operation
 - Public Accounts
 - Quarterly Summary of Receipts & Payments
 - National Debt/Public Debts
 - Treasury Operation
 - Office of National Planning (Budget)
8. Ministry of Revenue Services
 - Large Business Services
 - Small Business Services
 - Corporate, Legal Technical Services
 - Legal Technical Services
 - Customs & Trade Services
 - Compliance Services
9. Ministry of Public Enterprises
10. Ministry of Justice
 - Head Office
 - Supreme Court
 - Magistrate Court
 - Justice Bailiff Division
11. Crown Law Department
12. Ministry of Police, Prison & Fire Services
 - Head Office
 - Bailiff Division
 - Prisons Department
 - Fire Services
13. Ministry of Health
 - Head Office
 - Public Health
 - Pharmacy Medical Store
14. Ministry of Education & Training
 - Head Office
 - Grant to Non-Government School

- TVET
 - Tonga High School
 - Tonga Institute of Education
 - Tonga College
 - Tonga Institute of Science & Technology
 - Community Development and Training Centre (CDTC, TIHE)
 - Curriculum Development Units (CDU)
15. Ministry of Internal Affairs
- Head Office
 - Youth & Sports
 - Women Affairs
 - Local Government
 - Employment
16. Ministry of Commerce, Tourism & Labour
- Head Office
 - Co-operative Society
 - Tourism
17. Ministry of Agriculture, Food, Forestry & Fisheries
- Head Office
 - Research (Experimental Farm) Division
 - Veterinary Division
 - Quarantine Division
 - Forestry
 - Fisheries (Head Office)
 - Tu'imatamoana Market
18. Ministry of Infrastructure
- Head Office
 - Building Service
 - Civil & Road Division
 - Mechanical & Pool Division
 - Transport
 - Civil Aviation
 - Marine and Ports
19. Ministry of Lands & Natural Resources
- Head Office
20. Public Service Commission
21. Office of Statistics
22. Ministry of Environment, Energy, Climate Change, Disaster Management, Meteorology, Information & Communication
- Head Office
 - Environment
 - National Emergency Management Office (NEMO)
 - Energy
 - Climate Change
 - Disaster Management
 - Meteorology
 - Information & Communication
 - Tonga Daily News Limited

Public Enterprises:

1. Tonga Communication Commission
2. Tonga Forest Product Limited
3. Port Authority
4. Tonga Airport Limited
5. Tonga Development Bank

6. Tonga Power Limited
7. Tonga Investment Limited
8. Tonga Market Limited
9. Tonga Water Board
10. Tonga Print
11. Tonga Broadcasting Commission
12. Waste Authority Limited
13. Tonga Post Limited
14. Tonga Asset Managers & Associates Limited
15. Tonga Cable Limited
16. Tonga Export Quality Management Limited
17. Friendly Islands Shipping Agency Limited

Agencies:

1. Tonga Trust Fund
2. Legislative Assembly – Retirement Fund
3. Shipping Corporation of Polynesian Limited
4. Electricity Commission
5. Tonga National Qualification Accreditation Board

‘Eua

Government

1. Ministry of Agriculture, Food, Forestry & Fisheries:
 - Extension
2. Ministry of Infrastructure
 - Transport
 - Road Division
 - Mechanical Division
3. Ministry of Education & Training
4. Ministry of Tourism, Labour & Commerce
5. Ministry of Health
6. Government Representative:
 - Justice
 - Lands, Environment, Climate Change & Natural Resources
7. Ministry of Police:
 - Prisons
8. Ministry of Finance & National Planning (Sub-Treasury)
9. Ministry of Revenue
 - Customs & Trades

Public Enterprises:

1. Tonga Water Board
2. Tonga Forest Product Limited
3. Tonga Power Limited
4. Tonga Communication Commission
5. Tonga Development Bank

Ha’apai

Government

1. Ministry of Agriculture, Food, Forestry & Fisheries:
 - Pangai
 - Fisheries
2. Ministry of Infrastructure:
 - Head Office
 - Transport
 - Marine & Ports
3. Ministry of Education & Training
4. Governor’s Office: Ha’apai

- Ministry of Lands, Environment, Climate Change & Natural Resources
- 5. Ministry of Health
- 6. Ministry of Justice:
- 7. Ministry of Tourism, Labour & Commerce
- 8. Ministry Police:
 - Prisons
- 9. Sub-Treasury
- 10. Ministry of Revenue
 - Customs & Trades
- 11. His Majesty's Arm Forces

Public Enterprises

1. Tonga Water Board
2. Tonga Post
3. Tonga Communication Commission
4. Tonga Power Limited
5. Tonga Development Bank
6. Tonga Airport Limited

Vava'u

Government

1. Ministry of Agriculture, Food, Forestry & Fisheries:
 - Farm
 - 'Utukalongalu Market
 - Quarantine
 - Fisheries
2. Ministry of Infrastructure
 - Head Office
 - Transport
 - Marine & Ports
3. Ministry of Education & Training
4. Governor's Office
 - Youth & Sports
5. Ministry of Lands, Environment, Climate Change & Natural Resources
6. Ministry Health
7. Ministry of Revenue Services:
 - Customs & Trade
8. Ministry of Justice
9. Ministry of Tourism, Labour & Commerce
 - Head Office
 - Tourism
10. Ministry of Police:
 - Bailiff
 - Fire
 - Prison
11. Ministry of Finance & National Planning (Sub-Treasury)
12. Ministry of Foreign Affairs & Trades (Immigration)
13. His Majesty's Arm Forces

Public Enterprises

1. Tonga Water Board
2. Tonga Broadcasting Commission
3. Tonga Communication Commission
4. Tonga Post Limited
5. Tonga Power Limited
6. Tonga Development Bank
7. Tonga Airport Limited

Niuafo'ou

Government

1. Ministry of Agriculture, Food, Forestry & Fisheries
2. Ministry of Infrastructure
3. Ministry of Education & Training
4. Government Representative:
 - Ministry of Justice
 - Ministry of Lands, Environment, Climate Change & Natural Resources
5. Ministry of Health
6. Ministry of Police

Public Enterprises

1. Tonga Development Bank
2. Tonga Communication Corporation
3. Tonga Airport Limited

Niuafo'ou

Government

1. Ministry of Agriculture, Food, Forests & Fisheries
2. Ministry of Infrastructure
3. Ministry of Education & Training
4. Government Representative:
 - Ministry of Justice
 - Ministry of Lands, Environment, Climate Changes & Natural Resources
5. Ministry of Health
6. Ministry of Police

Public Enterprises

1. Tonga Development Bank
 - Ministry of Finance & National Planning (Sub-Treasury)

Development Projects

1. 68 Projects

Overseas Missions

1. Tonga High Commission, London, UK
2. Permanent Mission to the United Nations, New York, USA
3. Embassy to China, Beijing, People's Republic of China
4. Tonga Consulate General, San Francisco, USA
5. Tonga Consular Agency, Honolulu, Hawaii
6. Tonga Consular Agency - 'Atalanga Operation, Auckland, New Zealand
7. Tonga High Commission, Canberra, Australia
8. Tonga High Commission, Tokyo, Japan
