Financial

and

Compliance Audits

2017 - 2018

Nuku'alofa

June, 2019

Our Reference: LC1052/565/19

Your Reference:

Date: 28th June, 2019

Dear Lord Speaker

I have the honour to submit to Your Lordship our special report, "Financial and Compliance Audits 2017-2018", pursuant to section 24 of the *Public Audit Act 2007 (as amended*).

This special report summarizes the audit findings and recommendations of all the financial and compliance audits the TOAG carried out during the year 2017-2018.

Respectfully

……………………………

Sefita Tangi *FCPA (Aust)*

AUDITOR GENERAL

cc: Hon. Prime Minister

Prime Minister's Office

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CHAPTER 1: INTRODUCTION

This report summarizes the results of all the financial and compliance audits that we carried out and reported during the working year, July 2017 to June 2018. This information is usually part of the TOAG's Annual Reports, Section 2 "Reports of Each Division". However, we started in 2016-17, the issuing of the special report, Financial and Compliance Audits 2016-17, and this is our second report, Financial and Compliance Audits 2017-18.

As in our report 2016-17, may I firstly and briefly introduce the nature of financial audit and compliance audit for update of information:

Financial Audit: is our independent and objective examination of the Government's, and Public Enterprises', financial statements as of the end of each financial year. In complying with the *Public Audit Act 2007*, we conduct the audit of the financial statements of Government, (the Public Accounts), and public enterprises which appointed the Auditor General as their external auditor. For those public enterprises which appointed private accounting firms as their external auditor, the Auditor General is to review and approve their audited financial statements.

The objectives of our audit of financial statements are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The applicable reporting framework is either the International Financial Reporting Standards, *IFRSs*, the International Public Sector Accounting Standards, *IPSASs*, or as specifically stated by law.

The expressing of an audit opinion is normally issued on all audits of financial statements and are of two forms; (i) unmodified opinion, and (ii) modified opinion.

(i) ***Unmodified opinion***: is expressed when the Auditor General concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework; and

(ii) ***Modified opinion***: is expressed when the Auditor General:
- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) is unable to obtain sufficient appropriate evidence to conclude that the financial statements as a whole are free from material misstatement.

<u>Type of Modifications of the Auditor's Opinion:</u>

Qualified Opinion

The Auditor General expresses a qualified opinion when:

(a) having obtained sufficient appropriate evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial statements; or

(b) is unable to obtain sufficient appropriate evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

is expressed when the Auditor General, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

is expressed when the Auditor General is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Compliance Audit: is based on the premise that management is responsible for the entity's compliance with the law governing the entity. In complying with the *Public Audit Act 2007;*

> *"the Auditor General shall monitor compliance with the requirements of any Act governing the management and control of public money and public resources", (section 10(4)).*

It also states that;

> *"The Auditor General shall review and confirm the discharge of financial management obligations, including maintenance of accounting records and an adequate accounting system of accounting control, to ensure that Ministries, Government agencies and public enterprises have complied with their financial management obligations under the law".*

"Monitoring compliance" is through compliance audit which we carried out to all Government Ministries, Departments, and Agencies (MDAs). The report of compliance audits is through "audit management letters" to the CEOs or Head of the MDA being audited. All of the audit management letters are summarized and reported in our annual report. But since 2016-17, they are summarized and reported in this Financial and Compliance Audits Report.

Government MDAs do not prepare a separate financial statements at the end of each financial year. However, they are all required to comply with all financial obligations under the law. We carried out compliance audit and report on the "financial management obligations under the law", as stated in the *Public Finance Management Act 2002,* its Regulations, the Treasury Instructions, and policies and directions issued by the Minister of Finance from time-to-time.

We put the audit of all development projects we carried out under Compliance Audit, since the significant part of their audits is the review and confirm the compliance with the terms and conditions under respective signed project documents, the standards and operational manuals of the applicable donor, and compliance with the *Public Finance and Management Act 2002*.

In this situation, compliance audits usually are performed in conjunction with financial statements audit since we have to issue our audit opinion on the projects' financial statements as a result.

Chapter summary and background

Each chapter starts with the summary of the overall results of the audits covered in that Chapter. It follows by a short background of the nature of audits reported in each Chapter then the summary of audit findings and recommendations.

CHAPTER 2: GOVERNMENT FINANCIAL STATEMENTS (PUBLIC ACCOUNTS) 2017-18

2.1 Summary

We issued a qualified audit opinion on the Government Financial Statements (Public Accounts) 2017–18, and it was the same with prior years' audit conclusions. The basis of the qualification is the modification of the cash accounting basis in order to bring forth the fair valuations of Government assets and liabilities as of the balance date, 30th June, 2018.This modification process has been carried out for several years with very minimal indication of moving forward towards full accrual accounting basis.

We raised thirty five, (35), issues and reported to the CEO for Finance from the audit of the Public Accounts 2017-18, including the follow-ups from previous financial years' audits. We also issued with the appropriate recommendations as remedial actions for the Ministry's consideration and appropriate actions. And the responses of the Ministry to the audit issues and recommendations are also herewith included for completion of the report.

2.2 Background

The Government accountability and transparency is supported by the preparation and audit of the Public Accounts.

The Public Accounts is prepared by the Treasury Department of the Ministry of Finance, (MoF) and presented by the Minister for Finance. The Public Accounts and associated financial information and analysis provide information to assist in assessing the financial performance and position of the Tonga Government. The financial results presented in the Public Accounts inclusive of all results of Government Ministries, Departments, and Agencies whose allocation of public funds were approved in the Government budget for the financial year.

2.3 Audit Findings and Recommendations

1. Audit Opinion

The audit of the Government financial statements for the year ended 30th June, 2018 was completed and the Auditor General's audit opinion was issued on 22nd February, 2019. It was a qualified opinion, similar to prior year's audit conclusions and upon similar basis, which is the modification of the approved reporting framework, the International Public Sector Accounting Standards, (*IPSAS*), Cash Basis of Accounting.

The modification of "*IPSAS* Cash Accounting Basis" had been consistently applied as in previous financial years. It allowed for adjustments to the cash basis values of assets and liabilities in order to report the fair values of those assets and liabilities as at the balance date, 30th June, 2018.

Referring to Note 16 to the financial statements, "the amount of ($84,405,527), (($74,614,075) in 2017), is the cumulative amount of the effects of accounting for Investments, Receivables, and Public Debts in the Statement of Assets and Liabilities", the accumulated exchange differences from previous years up to this financial year ended 30th June, 2018.

2.. Financial Reporting Framework

We suggested to formally establish the timetable and timeline for the road to full accrual accounting and reporting?

MoF Response
Plans to start reporting receivables, payable and mechanics of accrual basis will be addressed in the next public accounts reporting and perhaps a timeline of 2 – 3 years from then to adopt full accrual reporting and accounting.

3 . Receipts and Payments result for the financial year

The "Operating Surplus" for this financial year 2017-18 was $15,013,189 compared with the "Operating Surplus" of $29,898,731 of prior year, 2016-17. This is a decrease of $14,885,542, (about 49.7%).

The decrease was from the fall of budget support received in 2017-18, $14,368,625, as compared to the budget support received in the previous year, 2016-17, of $37,844,766.

MoF Response
Matters raised are noted and all adjustments were agreed upon.

4. Operating Receipts.

Misclassification of revenue – Untimely detection of miss-posting of Receipts to Sun System

There were great number of reversal entries and adjustments of operating receipts in the Sun System due to miss posting or posting into incorrect revenue head/code. The total number of reversal and adjustment entries was 4,896 with total amounted to $41 million.

Recommendations (Repeat)
1. That general journal entries for adjustments into the Sun System to be independently checked on a regular basis to reduce risk of errors in posting transactions. ***MoF Response:*** *Duly noted the recommendation and agreed with the audit finding. Going forward, we will; (i) emphasize this area in Sun System training within MoF and related MDAs, and (ii) strengthen and enforce timely checking and reconciliation of all revenue postings.*

5. Development fund receipts

The translations of receipts from Development Partners into TOP, (Pa'anga), resulted in the foreign exchange gains, totalled $428,504.53:

Limited records for:

(i) if these exchange gains and losses were actually realized; and

(ii) what are the source documents used as the support and based upon these foreign exchange transactions posting to the Sun System.

Recommendations
2. That accounting for foreign exchange gains and losses be completely documented, reviewed and authorized by the supervisor ensuring their consistency and fair value with the true nature of the transaction

MoF Response:
Noted and agreed with recommendation for improvements in the coming years, Treasury will ensure that the realizations of actual gains and losses are documented using the T-8 form.

6. Operating Payments

Misclassification of expenses– posted by line Ministries to Sun System

There were lots of reversal entries and adjustments of operating payments in the Sun System. These variations were mainly identified at Treasury, (Vouchers' Checking Section). The total number of reverse and adjustment entries was 21,620 with total amount of $22 million. These are the operating payments that were incorrectly posted and later corrected to the Sun System.

Recommendations
3. That all journal entries for adjustments into the Sun System to be independently checked on a regular basis to reduce risk of errors in posting transactions. ***MoF Response**:* *Audit finding is duly noted however, misclassifications of expenses is not the only reason but including; (i) non-compliance with related policies and Public Finance Management Act and Regulations, (ii) incomplete/missing support documentation, and (iii) inaccurate calculations, to name a few.*

7. Budget Supports

The budget support funds related to previous years, amounted $4,704,144, which received and was also recognized in this financial year, 2017-18. It is about time that this particular item be recorded using the accrual accounting since it is simple and quite straight forward.

The **reasons and explanation** of why the variances between the actual and budget figures are yet to have been fully disclosed in Notes 9 of the financial statements.

However, we are glad that a more specific statement has been added to the notes (to the financial statements). It is vital that such information related to each financial year be completely disclosed in that financial year's financial statements.

MoF Response:
Noted and agreed to improve in providing of justifications for the variances between the actual and budget figures. We believed that Note 9 sufficed for the intended purpose and we will show improvement on this note in the FY2018-19 Public Account going forward.

8. Contingency Fund

Approved budget 2017-18 was $1,500,000

Issues:

- ✓ The distribution of the approved budgeted $1.5m is not appropriately accounted for in the financial statements, (raised in the prior audits).
- ✓ Would it be best to disclose the distribution of the $1.5m separately from the transfers between votes?

MoF Response:
Findings are noted and agreed with the recommended additional disclosure and will disclose the distribution of the approved budget (by Ministry) and all the additional transfers to the contingency fund in the next financial statements 2018-19 going forward. Note 4 includes the original budget, ($1.5m), of the contingency fund, and all funds sequestrated from other programmes into and out from the contingency fund.

9. Net Changes building loans and trust money

Bringing in and adding back the funds which are outside of the balance of receipts and payments but are included in the "Cash at Bank and on Hand" as of the balance day, amounted -$16,219,650.

***MoF Response**:*
Noted the audit findings.

10. Consolidated Statement of Comparison of Budget and Actuals

Issues:

- ✓ To include the Development Fund budget and actuals in this statement;
- ✓ To state the original total budget approved for 2017-18 was $595,804,400 – balanced budget, both revenue and expenditures. This is compared to the original budget totaled $345,119,600 revenue and $344,557,303 expenditure in the above statement. The difference of about $250.7 million is the budgeted "Overseas Donor Funding" both cash and in-kind.

Overall, the total budgeted receipts for the year was below the revised budget by about 15%. And the total expenditure was below the revised budget by about 18%. The income and expenditure of Government were satisfactorily managed in line with the revised budget for the financial year 2017-18.

Recommendations
4. That the budget and actuals for development fund be included in the consolidated statement of comparison of budget and actuals in the next financial year's financial statements. Also noted to disclose the original totals of the Budget as approved by Parliament in addition to the revised budget in this statement. ***MoF Response:*** *Matters is noted to be introduced in the coming Public Accounts.*

11. Statement of Income and Expenditure

The following accounts are to be noted to start accounting into this statement in the next financial year/s as part of the move to accrual accounting rather than continuing with their accounting to the "Effects of Accounting for Assets and Liabilities".

- ✓ Budget support received and receivable;
- ✓ Interest on Investment, compounded/roll-over;
- ✓ Interest on Receivables;
- ✓ Interest on external and domestic loans;
- ✓ All exchange gains and losses;
- ✓ Write-offs and de-registrations;
- ✓ Etc.

MoF Response:
Noted the suggestion and agreed with recommended list of accounts to be considered under accrual treatment, however we will do our best to confirm proper disclosure starting in the next financial statements.

Statement of Changes in Fund Balances:

This statement explains the changes in the Total Fund Balance and is consistent with the Statement of Assets and Liabilities.

Two Accounts we were looking at:

i. Adjustments to Prior Year; and

ii. Effects of Accounting for Assets and Liabilities

These two accounts are looked at separately.

12. Prior Year Adjustment

Issues:

- ✓ Except for correspondence from The CEO Finance to the Governor NRBT for the transfer of the USD 4.2m to the Tonga Cable Ltd's account with the BSP, there was limited information (source documentation) in relation to the transfer and payment of Digicel shares.
- ✓ Transfer to emergency fund was a current year transaction;
- ✓ Foreign exchange gain and losses being verified as current year transactions as well; and
- ✓ Revote to MoI water supply is current year also; and
- ✓ The void cheques record (1) verified to have been a prior year transaction.

We do not have enough evidence for the cut-off, validity, and correct value of this prior year adjustment account.

MoF Response
We note the audit findings and have commented on the issues raised. We agreed to take note and review all transactions accounted for as prior year adjustments during the year. Justifications and full supporting documentations for these transactions will be filed accordingly.

13. Effect of Accounting for Assets and Liabilities

We glad that the appropriate adjustments have been done to this account. The final balance for 2017-18 is as follows:

	2018	*2017*	*2016*
Closing balances, 30th June	**- $84,405,527.00**	**- $74,614,077.00**	**- $65,334,854.00**

The details of the balance as of 30th June, 2018 were as follows:

➢ "Exchange difference on Public Debts	– $86,140,382.00
➢ Exchange difference on Receivables	$1,416,629.00
➢ Exchange difference on Investments	$318,226.00"
TOTAL	**– $84,405,527.00**

Issues:

- ✓ This particular account was created to put all into it the non-cash accounting transactions, accrual accounting transactions, and assets and liabilities adjusting entries in order to account for such accounting information in the Public Accounts.
- ✓ Recognizing the appropriate adjustments, (general journal entries), from the "Effects Account for Assets and Liabilities" into Prior Year Adjustments, (eg. write offs and adjustment to Investments and bad debts), have been made instead of journalizing to Revenue Balance which resulted in the creation and complexities of this account – "Effects of Account for Assets and Liabilities".
- ✓ The Prior Year Adjustments, which goes into the Income and Expenditure Statement, will end up with the Fund Balance – and have the same effects. Also, to start moving away from "Effects of Accounting for Assets and Liabilities" to the Income and Expenditure Statement – on the road to accrual reporting and in accordance with the accounting standards, *IPSAS*.

It is significantly important to process the correct source documentation and recording of all draw-downs from external loans, both cash and in-kind, avoiding the practice of accounting them to the Effects of Accounting for Assets and Liabilities account.

MoF Response:
Noted and appreciated all the work by both the Audit and MoF Teams in stock-taking and verifying this balance over the years. MoF agreed with the adjustments and noted that it is very crucial to have proper filing documentation for each and all transactions involved in this account.

14. Exchange Differences

Note 18; Total Exchange Difference $5,058,603: and explained as *"…the movement of our cash balances due to fluctuating foreign exchange rates throughout the year …"*.

Issue:

i. This Note 18 is not mentioned in the Statement of Income and Expenditure, Statement of Receipts and Payments if realized, or Statement of Assets and Liabilities?

MoF Response
Noted and agreed to improve disclosure of such account in future financial statements going forward.

Statement of Assets and Liabilities

15. Cash at bank and on hand

- ✓ We confirmed the balance of Cash on Hand at 30 June 2018, Statement of Assets and Liabilities and Note 5, and confident that all cash on hand at all agencies of Government have all been included.
- ✓ All the Government bank accounts (Operating, Developments and Trust), which coded as BAC in the Trial balance were confirmed to the Bank Confirmations. We confident from the records that all banks accounts beneficially owned by Government have included in the financial statements.
- ✓ Government Operating Account (BAC0125): In re-doing the bank reconciliation, the long outstanding lodgments not credited, unpresented cheques, direct debits and direct credits are still carried in the bank reconciliation statements.

i. Outstanding Lodgements/Deposits (not yet credited by the bank), $147,130.66, gone back to 2014.
ii. Unpresented cheques $21,829,814.32, gone back to 2012.
iii. Direct Debits (in the bank statements) $1,155,808.87, gone back to 2008.
iv. Direct credits (in the Bank Statements) $1,237,938.26, gone back to 2010.

Implications:

i. Untimely review of lodgments not credited on regular basis – monthly. Risk – likely that some of the pay-ins were not deposited to the Government's bank account at all; pay-ins were not appropriately identified and timely accounted for; etc.
ii. Unpresented cheques total amount is very material – untimely review and adjustment of unpresented cheques on regular basis – 3 monthly, 6 monthly or 12 monthly in the end of each financial year.
iii. Direct debits to the bank are not yet accounted for into their proper expense's category (this includes dishonored cheques). The risk arise here is that; unaccounted withdrawals could lead to a fraud without being detected and timely identified in the reconciliation process. Closely liaise with the bank to provide the appropriate references for these direct debits, and to be accounted for correctly and timely.
iv. Similarly, direct credits were not yet accounted for into their correct revenue sources. The risk; the system for direct bank deposits from line Ministries is incomplete/uncertain, lead to unaccounted revenue. Negotiation with the bank to provide additional references, which would help with correctly recorded and accounted for those direct deposits.
v. Other twelve (12) bank accounts, apart from the main government operating account (BAC0125), we recalculated and summarized the bank reconciliations' outstanding items as follows; they all belonged to the current financial year, 2017-18:

Summary of Reconciliation Items

Lodgement not credited	$578,069.02
Unpresented Cheques	($2,613,176.89)
Direct debits	$44,367,.07
Direct credits	($734,361.18)

MoF Response
We noted all matters being raised and agreed on the following as way forward: *(i) Work more closely with MDAs ensuring all direct debits and credits be promptly accounted for in the system;* *(ii) We have started clearing old unpresented cheques, (UPC), reversing the UPCs over 12 months old, and for cheques over 10 months we will put out announcements for claimants to come forth and collect before the 1 year mark; and* *(iii) Work more closely with Banks on details of direct debits and credits to rule out any risk of fraud.*

16. Receivables

We recalculated the interest charged on receivables and found out that the accounting systems recorded only the actual interest received and excluded the interest supposed to have been received (Interest Received Accrued/Interest Receivable).

Recommendations
5. That management of Receivables be improved; recovery procedures with proper accounting for losses already incurred and doubtful debts in the coming financial years, etc. ***MoF Response:*** *Noted the audit recommendation for necessary action to improve the accounting for receivables in the next financial year's accounts. The Sea Star amount is also noted for adjustment pursuant to Government's final decision on it.*

17. Property, Plan and Equipment

Issues:

- ✓ The details provided from the Sun System agreed with the movements of $21,879,618.09, additional assets for the year.

- ✓ There is no Fixed Asset Register for all Government Assets. Since there is no fixed asset register, we found it hard to verify the existence and value disclosed in the financial statements of $239,683,843.

- ✓ The disposed assets during the year are not reflected on the final balance of Fixed Assets disclosed in the financial statements.

- ✓ There is yet an approved depreciation policy and expense charged against the value of assets up to this financial year thus, the amount disclosed for assets is the accumulated costs over the years.

Recommendations
6. That a plan for the progresses (including the time-lines) towards full and proper accounting of all Government's property, plan, and equipment be prepared and seek the inputs from all MDAs and with the endorsement of the Hon Minister. ***MoF Response:*** *Audit recommendation is noted. Developing an Asset Management Framework is in progress by have had engaged the assistance of PFTAC.*

18. Public Debt

Issues:

- ✓ Loan no. V0810 from IDA, amount USD200, 000; **w**e glad that this loan has been recorded and included in the financial statements.
- ✓ The external confirmations from the ADB, IFAD, and China Development Bank are hereby reminded to be obtained for the current financial year's audit.
- ✓ The total domestic loan as of 30 June 2018, was $57,349,000 and we confirmed that the total interest payable as of that date is $4,391,262.05.
- ✓ The total foreign loan as of 30 June 2018, $434,497,544. The amount of interest payable of TOP 1,668,790.81 for foreign loans was recalculated from only the external confirmations that we received.
- ✓ Public Accounts is yet to disclose the accounting policy adopted for borrowing costs.

MoF Response
Debt Unit notes the Audit observations and will try to improve on them for the next year's account.

19. Investments

Issues:

- ✓ We glad that the interest received have been included in the Statement of Income and Expenditure
- ✓ There was also accrued interest of $226,942.21 from the TDB bank confirmation as of balance date, which had not been included in the financial statements.

MoF Response:
Noted and agreed on treatment, we will ensure to use proper accounting in the coming financial statements 2018-19.

20. Trust Money

- ✓ The Trust Money total actual receipts was $42,970,724 in the Sun System.
- ✓ The Trust Money total actual payments was $25,327,175 in the Sun System as well.

We are glad that the actual receipts and actual payments above have been adjusted in the financial statements, excluding the adjustments and reverses during the year. The total balance of all trust accounts is $17,643,549 hence, the end result of the reverse entries is nil.

MoF Response
Noted.

21. Risk Assessments

The risk management of the Ministry, management and financial risks in particular and especially to the records and preparation of the Government financial statements is in similar position as in previous year – yet to start.

MoF Response
Noted to be considered in the financial statement 2018-19.

22. Evaluation Internal Control

This is particularly related to the evaluation of the internal audit function as the fundamental part of the internal control system. Still no improvement from the position reported in previous years.

MoF Response
Internal Audit Division has been strengthen with more staff and have performed but not limited to the followings; monthly surprised cash counts, voucher processing, audit of Sub-Treasury Vava'u, Overtime, and Payroll (pensioners and disability welfare).

23. Subsequent events

MoF is yet to perform any tasks to identify, records and disclose subsequent event.

The Ministry records and discloses adjusted prior year adjustments on this year account for previous year's transactions and events that had not been accounted for. If there would be any transaction or event identified now or later on this year 2018-19 that is related to 2017-18 account, then it should be recorded and disclosed on 2018-19 Financial statements as prior year adjustment.

This is not consistent with the requirement of *IPSAS 14* Events after the Reporting Dates, which requires disclosure by way of Notes on material transaction or event as of balance day to the date of issuance of the financial statements;

- ✓ Adjust financial statements figure to reflect adjusting events after balance date, and
- ✓ Disclosed non-adjusting events after the reporting date; the nature of the event and estimate of its financial effects.

MoF Response:
Noted and agreed to start disclosing these events starting in the FY2018/19 financial statements.

24. Related Party

The attempt to identify and disclose of the related parties is yet to have been constituted in compliance with *IPSAS 20 Related Party Disclosures*.

Disclosure to include;

- ✓ Identify related parties
- ✓ Transaction with related parties
- ✓ Key management compensation including non-cash benefits

MoF Response:
Noted and agreed to be considered in the future financial statements.

25. Follow-up of Issues raised in previous years audit

The following issues were raised in our previous management letter. We have followed up these issues in this year's audit and their statuses are explained below.

Prior Year Matters	Status observed in 2017-18 Audit
25.1. Dishonored cheques	
We identified several cheques which has been dishonoured from the bank. Dishonoured Cheques identified were for the financial year as far back as 2006-07 up to the current financial year (2016-17). The impact of dishonoured Cheques is that it results in loss of revenue for the government and further it is difficult to chase up customers. This is evident in several cheques which has been dishonoured in 2007 and has yet to be recovered.	This issue remains outstanding. *Refer Item 15 above*
25.2. Aging Reconciling Items	
We identified from our review of bank reconciliation there are aging reconciling items which are still included in the bank reconciliation forms. For e.g. there are items for Lodgement not yet credited which are dated back to 2013-14. The ministry has yet to identify these outstanding items. Aging Reconciling items not yet identified increased the risk of fraud going undetected if these relates to public funds not yet paid in to the bank.	This issue remains outstanding *Refer Item 15 above*
25.3 Bank reconciliation	
We noted bank reconciliation is not being prepared on a timely manner and reviewed. There were significant delays in providing bank reconciliation for audit review. Timely preparation of bank reconciliation will ensure timely availability of financial information	This issue remains outstanding. *Refer Item 15 above*

Prior Year Matters	Status observed in 2017-18 Audit
to aid in decision making. This will also prevent and detect errors or fraud on a timely manner.	
25.4. Inactive bank accounts	
We noted from our review of bank confirmation, there are inactive bank accounts which has not been closed. These bank accounts has NIL balances and are still open. The impact of inactive bank accounts is that the government could incur unnecessary cost to the government in respect of bank fees if not closed in a timely manner	This issue had been resolved. *Refer 20 above*
25.5. Safe Custody of Cash on hand	
The recent misappropriation of funds at the Vava'u branch shows the vulnerability of cash on hand in the Ministry's safe to the risk of fraud. Cash on Hand is a high risk item and that sound internal control procedures should be in place to ensure such risk is mitigated. The weaknesses in the internal control surrounding cash on hand is highlighted in this recent fraud.	This issue had been resolved.
25.6. Independent record kept by the Ministry	
We noted that for Investment and Transfer Preserved Accounts, there is no independent record maintained by MoF. During the preparation of the financial statements, external confirmation are sought from the Ministry of Public Enterprises, Public Enterprise's audited accounts and Retirement Fund Board for the closing balance which is manually inserted into the Statement of Assets and Liabilities.	This issue is still outstanding.
25.7 Receipts – Misclassification of Revenue (Domestic Fees, Licensing, Entrepreneurial and Property Income).	
We identified receipts which were wrongly classified into incorrect vote head. We recommended that journal entries into the Sun System should be independently checked on a regular basis to reduce risk of errors in posting transactions.	This issue is still outstanding. The 2017-18 audit also identified receipts which were misclassified. *Refer Item 4 above*
25.8 Capital and Other transfer	
Receipts posted to Capital and Other Transfer should be clarified as to what these receipts are for to ensure they are correctly classified.	This issue is still outstanding. *Refer Item 4 above*
25.9 Budget Support – Policy Statement	
The Policy Statement with respect of budget support needs to be disclosed in the financial statements. This to include, the amounts agreed as per the agreement and also the amount owed.	This issue has been resolved. *Refer Item 7 above*
25.10 Payroll System	
We noted from our testing of the Payroll system that there were variances between the Micro-Pay Report and the Payroll Journal Voucher. Further, the costing sheet printed from the Micro Pay were not filed with the salary voucher, and there was lack of segregation of duties as salary officer was handling most of the salary process.	This issue has been partly resolved. The Payroll Section has strengthened its organization structure with the appointment of the Principal Accountant and division of duties amongst appropriate personnel of the section. The variances between the Micro-Pay Report and the Payroll Journal Voucher.
25.11 Operational Grant Agreement	
Audit found that operational grant paid out by ministries on behalf of the government to third parties does not have grant agreements. While, these grants have cabinet decisions attached, it is still required that	This issue is still outstanding.

Prior Year Matters	Status observed in 2017-18 Audit
agreements be made and signed with third parties to comply with section v, clause 35(2) of the Treasury Instruction.	
25.12 TDB Managed Fund (Private Sector Development Support)	
Audit noted that the balance of Managed Funds in the Tonga Development Bank is not disclosed in the Public Account. Further, there were variances identified in the brought forward balance reported in the TDB's quarterly report. Audit recommended that MoF verify accuracy and completeness of the quarterly report from TDB. Any variance identified to be discussed with TDB management.	This issue is still outstanding.
25.13 Development Projects outside Government Accounting System	
It was accepted that the MoF has no control over donor funded projects implemented by NGO and that funds are transferred directly from the donor to NGO. However, disclosure of these development projects is encouraged. Audit recommended that these projects be disclosed by way of notes to the financial statements.	We commend the effort of MoF in the inclusion of development projects outside government system in Note 8 of the financial statements.
25.14 Unpresented Cheques	
Unpresented Cheques were identified which were dated back to 2011 financial year. This is five years outstanding and no action has been taken to either cancel or reverse from the MoF's system. Audit recommended that these long outstanding cheques be investigated and clear.	This issue is still outstanding. *Refer Item 15 above*
25.15 Receivables – Split between Current and Non-Current	
Audit cannot confirm the split between Current and Non-Current Receivables. This is due to lack of justification and supporting schedules which set out the break-down of balances relating to current and non-current. Further the interest receivables are not disclosed in the financial statements. Audit recommended that interest receivable is disclosed and that split between current and non-current is supported by a supporting schedule.	This issue is still outstanding.
25.16 Property, Plant and Equipment	
The audit opinion on public accounts have been qualified for many years now, on the basis, that audit cannot satisfactorily confirm the fair valuation of assets. The presentation of assets and liabilities as part of the public accounts was an initiative of the Minister for Finance, to bring into account the assets and liabilities of the government thus promotes more transparency and accountability in public sector.	This issue is still outstanding. *Refer item 17 above.*
25.17 Treatment of External Assistance	
Issue with respect to the external assistance raised in the previous management letter still stands.	This issue is still outstanding.
25.18 Payment by third parties on behalf of the government	
Payments made by third parties on behalf of the government is not disclosed in the financial statements. This is required to be disclosed in the Statement of Receipt and Payments in accordance with IPSAS Cash Basis. The Statement of Accounting policies note (vi) stated, MoF has not been formally advised of whether payment has been made or has otherwise verified any payments. Regardless, this is still a required disclosure under the IPSAS Cash Basis.	This issue is still outstanding.

Prior Year Matters	Status observed in 2017-18 Audit
25.19 Disclosure of Non Compliance with Significant Terms and Condition	
With respect of Budget support that were to be received during the financial year but were not received. Disclosure should be made on the total budget support received, the amount yet to be received and the reason.	This issue was partially met on 2017-18 Accounts. *Refer on Item 7 above*

2.4 Tonga Trust Fund Financial Statement 2013-14

On 20th June, 2017, an unqualified audit opinion was issued on the Financial Statements of the Tonga Trust Fund for the financial year ended, 31st March, 2014.

The Management Report was submitted to the CEO-MoF on 30th June, 2017. The summary of the audit findings were as follows:

i. Audit did not identify any material matters other than identified misstatements already discussed with the CEO and have now been corrected.

ii. As raised in previous audit, the reduction of Retention Deposit is still due and believed the transactions have been implemented, and audit comment is still repeated here until appropriate actions have been taken. Audit referred to email from Pillsbury Winthrop Saw Pittman Ltd in the United States regarding the reducing of the retention deposit from USD$100,000 to USD$10,000. As discussed and agreed, this issue is expected to be addressed in the near future.

iii. Audit acknowledged good cooperation from management and employees during our audit. To the best of our knowledge we also had complete access to the accounting records and other documents that we needed in order to carry out our audit.

2.5 Review of Quarterly Performance of Receipts and Payments

Unqualified Audit Certificates were issued on the 22nd February, 2019 for the Quarterly Summary Reports of Receipts and Payments of public funds for these periods respectively:

i. July 1st to September30th, 2017;

ii. July 1st to December 31st 2017; and

iii. July 1st to March 31st, 2018.

The major issue raised in our review is the preparation of the above Quarterly Summaries did not meet the statutory timeline as per *Public Finance Management Act 2002.* We received the above summaries together with the Government financial statements 2017-18 on 20th December, 2018. That was between 6 to 12 months late and thus, needs immediate attention and remedial actions.

CHAPTER 3: GOVERNMENT MINISTRIES, DEPARTMENTS, AND AGENCIES (MDAs).

3.1 Summary

We audited 7 Ministries & Departments, 23 grants to Non-Government Schools, 1 cooperative audit (together with other PASAI members) and 2 special audits.

We raised 83 audit issues and provided 93 recommendations. As usual, we included the responses from the MDAs that we received.

3.2 Background

The financial reporting function of Government is centralised in the MoF, which prepared the Public Accounts for each financial year. MDAs do not prepare end of financial year's financial statements.

However, MDAs are to manage, process, and record all their financial activities in compliance with the financial accounting systems of Government as stated by law. And we are to audit the discharge of their financial management obligations in compliance with the requirements of the laws governing the management and control of public money and public resources.

Our compliance audits of MDAs cover the period of operation continuously. That is, we plan and carry out the audit from the end of the period covered by the last audit up to the time of commencing the current audit. The period covered in each audit is also stated here as in our audit management letters.

The audit findings are from our normal audit procedures designed primarily for the purpose of examining and reviewing the accounting system and control procedures of each MDAs. Consequently, our work did not involve the detailed review of all aspects of the systems and cannot be regarded as the comprehensive statements of all weaknesses that exist, or of all the improvements that might be made.

3.3 Audit Findings and Recommendations

3.3.1 Ministry of Health (MoH)
Period Covered: March 2015 – March 2018 (37 months)

1. Health Certification

A checklist is used by the ministry to document the inspection carried out on businesses. During the audit, it was found only the first initial inspection is documented using the checklist. Subsequent inspection are not documented and recorded.

Recommendations
1. The Health Inspection Unit should ensure that the checklist is filled out for every inspection carried out. These checklist should be filed properly in the Office for complete audit trials of inspection and completion of records/references.

a. Documentation of follow-up work on complaint

The Health Inspection Unit is also responsible for addressing complaints from the public. All complaints received by the ministry are entered into a complaints register which are later assigned to a staff member and a supervisor.

When a complaint is settled, it is updated on the register. Audit noted, that followed up complaints lacks documentation of work done. Several outstanding followed up complaints were still marked as to be followed up and there was no update to show whether follow up work has been done or not.

Lack of follow up documentations could result in repetition of public health issues if they are not aggressively followed up and enforced.

Recommendations
2. The Health Inspection Unit should ensure that follow-up work is properly documented and updated on the register. 3. The Health Inspection Supervisor should review the complaint register on a regular basis to ensure follow-up work is cleared on a timely manner.

2. Overtime

a. Internal controls around overtime – Lack of adequate review of claim form

Each staff prepare their timesheets and overtime claim and submit it to their immediate supervisor for review and approval.

During our review, audit noted that there is lack of adequate review of overtime work. There were, for example, significant overtime hours claimed without a clear justifications of the actual and required tasks carried out. There is also lack of reporting back obligations on the overtime work performed.

Recommendations
4. The Ministry's Executive should re-emphasize to immediate supervisor the crucial role they play in monitoring overtime cost and the need for their review to be more rigor. 5. For review of overtime claim, proper justifications should be documented on the Remarks column for significant overtime hours. ***MoH response*** *The Ministry agreed that there is lack of supervisory roles performed by Head of Section and their supervisors to timely monitor overtime work. This role should also be incorporated into their job description.*

b. Overtime costing calculation

During our review of overtime cost, we noted some overtime were incorrectly calculated. This was in relation to overtime claims where double time rates was used instead of time and a half. We noted the variances were due to differences in interpretation of rates used between MoF and MoH management.

Recommendations
6. The Administration Division should consult with both MoF and its staff to work out the best way forward for changing its applied rates to time and a half on midnight Sunday shift.

MoH response
The Ministry agreed and noted that this was an on-going issue practice with overtime claim. It was firstly raised by MoF and were corrected accordingly. However, the practice of using double time rate for midnight shift on Sunday has been used by the Ministry for a long time. Therefore, the Ministry should be given sufficient time to properly consult the staff on this change so there is no problems or arguments arising from this change.

c. Overtime work approved after completion

Audit found there were instances where overtime work were not approved before it was carried out. Except for emergencies work requiring immediate attention, there needs to be established work plan which has been approved by the CEO as required by Treasury Instruction section 40 and PSC Policy section 7.2.

Recommendations	
7.	Each Head of Division should again be carefully consulted on the need to approve overtime work before it is carried out. ***MoH response*** *The Ministry is trying our best to comply with overtime relevant policies and procedures. Each division is continuously consulted to seek approval before overtime, all work except emergencies.*

3. Medical Practitioner

a. Unregistered Health Practitioner

Audit assessed the system and processes that the Ministry has in place to ensure that all medical, dental, pharmacist and health practitioners are registered in the Ministry's register. We obtained data of individuals who hold license to provide health services to the public from the Ministry of Commerce, Trade and Labour (MCTL).

A reconciliation was performed between the MCTL's record and the Ministry's register. We found six (6) individuals who holds health business license but are not registered in the MoH's register.

Recommendations	
8.	Audit to take up the Ministry's response with MCTL. ***MoH response*** *The responsibilities of the Medical and Pharmacy Board is to register all health practitioner practice in the country. The Ministry provide certification and registration approval of health practitioner who apply for registration after they are assessed. It is not the responsibility of the ministry to chase up health practitioners who are not registered to register.* *The Ministry also provide certification information to the MCTL for licensing purpose should they request, and the MCTL is responsible for ensuring all practitioners who are licensed have been certified by MoH. Further there is also complexities with herbalist who are not required under law to be certified by the ministry*

4. Revenue

a. Internal controls around ward revenues

We reviewed the register and found several patients do not have a corresponding receipt number to confirm payment upon discharge. The explanation obtained from the Revenue collection team, patients who are discharged after hours and the weekend are not receipted as no revenue officer is working, and is therefore not updated. Further there are patients who cannot afford the ward fees so they are discharged for free.

While it is acknowledged patient who cannot afford to pay are discharged for free, there needs to be properly documented in the register or similar documents. The lack of documentation of free of charge patients leaves revenues vulnerable to the risk of misappropriation. This could happen for instance if patients paid the fees to the revenue officer, and this is not receipted but noted as an unpaid discharge.

Recommendations
9. The Ministry should explore the best way to ensure revenues collected from ward fees are properly accounted for. Patients discharged for free should be considered or approved by a senior official of the division such as the Head of Division or the CEO. These patients should be documented clearly in the patient register or similar documentations. ***MoH response*** *The Ministry agreed this is an on-going issue with revenue from ward fees and discharging patients. When patients are discharged after hours and in the week ends, there is no revenue officer at the hospital to receipt the revenue collected. Further there are also patients who cannot afford to pay so they are freely discharged. The ministry is exploring ways to strengthen controls around revenue collection.*

b. Arrears of revenue

The Ministry arrears of revenue register has not been updated since 2015 as required by section 77(3) of the Treasury Instruction.

Recommendations
10. The Revenue Supervisor should ensure that the register is updated on a regular basis.

5. Procurement

a. Lack of adequate procurement planning

The Ministry Annual Procurement Plan is prepared on an annual basis and submit to the MoF Central Procurement Unit (CPU). There is lack of communication and consultation between each division and the procurement unit of the Ministry, communicating each division's procurement needs. The Ministry has a procurement plan which is prepared and submitted to the CPU, but the goods and services to be procured is not specified in the plan.

Recommendations
11. Head of Divisions should ensure that their planned procurements for the financial year is clearly identified during the planning and budgeting process. These needs should be communicated to the Ministry's procurement units to include in the Procurement Plan.

MoH response
During the last two (2) years there were not enough time to prepare Corporate Plan. The Ministry used the Corporate Plan as the Annual Plan and also the same as the Annual Procurement Plan. However, during the current financial year, the ministry is working towards ensuring AMP, CP and PP are already in place.

b. Monitoring the stock level (drugs)

The Ministry used a software system, the M-SUPPLY, for processing and storing of drugs information. Movement of drugs between each location are traced through the M-SUPPLY system. However, there is yet to be a coordinated access to the M-SUPPLY by a senior supervisor to monitor the stock level at each location from one computer.

Recommendations
12. The Ministry should consider assigning a responsible officer with the responsibility to monitor stock level and carry out reconciliation of stock level in each location.

c. Stocking arrangements

There were variances identified between the balance on hand on the bin card and the system, it was subsequently confirmed that these were in relation to system breakdown after the cyclone before the system was updated along with the stock level.

We noted the drugs are not arranged in a structured manner. Drugs were arranged all over the place at the central pharmacy and certain stocks of the same category were in different location. This was due to the limited storage space at the pharmacy to store the drugs.

Recommendations
13. The Ministry Executive should prioritize in it budget constructing adequate storage facilities for proper and safe storage of the Ministry's drugs and medical supplies. ***MoH response*** *Agreed and noted that there are plans to construct Pharmacy warehouse within the next financial year by donor funded projects.*

d. Shared responsibilities with MoF – Procurement above threshold

Audit noted, that there were instances where the sourcing of suppliers for procurement of drugs above the threshold was carried out by the Ministry. This had resulted in the MoF repeating the same process, again duplicating work already done by the Ministry. We agreed with the Ministry that the technicality for procuring of drugs and medical supplies are with the Ministry, and that specialized skills and knowledge are required. However, there is still need for close consultation with the CPU of the MoF for compliance purpose.

Recommendations
14. The Ministry should continue to closely consult with the CPU on the best approach forward for procuring of drugs and medical supplies, the best option for meeting compliance. ***MoH response*** *This was an on-going issue with the Ministry in collaboration with CPU MoF which is very time consuming and have been resulted in previous shortage of drugs and medical supplies.*

3.3.2 Ministry of Lands, Survey and Natural Resources
Period Covered: August 2016 – December 2017 (17 months)

1. Revenue Collection

a. Arrears of revenue

The total revenue arrears that has not been paid to the Ministry totalled to TOP$3,165,298 for 2017/18. This is huge increase from the previous financial year which was TOP$1,347,731. This is a major weakness in the Ministry's recovery procedures in respect of its revenue arrears.

Recommendations
1. The Head of Accounts should ensure that the Ministry set-up effective recovery procedures as instructed by the Treasury Instructions to ensure timely recovery of revenue arrears.

2. Asset Management

a. Fixed Asset Register

The Fixed Asset Register (FAR) is not updated, which could leave the Ministry vulnerable to the risk of misappropriation and abuse of its assets. Section 79(4) (a) of the Treasury Instruction required each MDAs to update its FAR to ensure all its assets are accounted for at all times.

Recommendations
2. The responsible officer for asset management should ensure that the FAR is updated on a regular basis and that it be reviewed by Supervisor of Account.

b. Private Use of the Ministry's Asset

The physical counting of assets found one laptop has been taken away by one of the Ministry staff during study leave without pay. There was no proper documentation of any authorization granted to the officer before he went on study leave without pay.

Section 81 of the Treasury Instructions required assets must be used for official purpose only, unless otherwise approved in writing by the accountable officer.

Recommendations
3. That proper approval is granted and documented in writing for any assets used for otherwise than official purpose.

3. Disbursement

a. Review and update of the Vote Book on a Regular Basis

From our review of the Vote Book, we noted it is not updated on a regular basis. Some programs and sub-programs were not totalled up to their sub-total to keep track of its balance compared with its budget, and there was no documentation to show that the vote book is reviewed on a regular basis.

Recommendations
4. The Head of Accounts should ensure that Vote Book is reviewed and updated on a regular basis.

4. Status of Prior Year Audit Issues

Prior Year Matters Raised	Status Observed during this audit visit
4.1 Torn Pages from Cash Book	
Two pages of the current cash book were torn off. However, we have confirmed to other paid in documents such as T-form and the deposit slips that all cash collected during the period of the torn off pages were completed deposited to the Bank.	We did not identify this issue occurred during this audit visit.
4.2 Rates Used Different from Approved Rates	
It was confirmed that the rates used by the MLNR to charge on Seabed Mineral Exploration (SME) Applications and Licenses were not the same with the approved rates provided on the CD No. 1020 dated 21 November 2013. The variances of amounts between the using of the CD No.1020 rates and the rates used by the MLNR. Thus, the amount to be recovered by the MLNR due to the differences were total of fees $47,934.78 and CT in total of $7,190.22	There were no transaction with respect of Seabed Mineral Exploration during the audit period.
4.3 Uncollected Withholding Tax	
The withholding tax of three (3%) percent on the land lease were not collected. The Tonga Airport Limited (TAL) paid its land leases during the audited period where the withholding taxes were not collected.	This amount has been paid.
4.4 Register for Revenue not updated properly	
It was confirmed that Register for sale of sands and the hiring of loaders and excavator was not completely recorded. According to the Register obtained from Mr ‘Apai Moala, (Senior Geological Assistant) at the Natural Resources Division (NRD), it did not agree to the records kept at the Head Office, such as the quantity recorded on the delivery docket and the amount receipted.	This issue still remain unresolved. We appreciate timely action on this issue.
4.5 Attendance Register not properly maintained	
Attendance Register where working overtime recorded as from 15 June to 2 July 2015 was not located.	We did not found the issue repeated during the audit period.
4.6 Rates for Hiring Heavy Machine not yet approved	
The rate and fees used by the Ministry to charge for the hiring of Loader and Excavator are yet to be endorsed and approved by the Secretary for Finance and the GPC. The rate used is $18/hour for loaders and the excavator is $346 pe ton. As explained by Mr Kula that they sought an advice from the Ministry of Infrastructure and that is how they came up with the above mentioned fee.	We have sighted Cabinet Decision approving the rates used for hiring.
4.7 Lack of Adequate Review of Overtime Claim	
From review of overtime documents, it was noted there were differences between the attendance record and the time sheet. This indicate that independent review by the supervisor was not properly carried out.	This issue still remain unresolved. We appreciate timely action on this issue.
.8 Arrears of Revenue (This issue has been again raised in 3.3.2 above	

3.3.3 Prime Minister's Office (PMO)
Period Covered: January 2016 – July 2017 (19 months)

1. Follow ups

The issues raised in the previous audit were followed up and found that no action made on the following two (2) issues so the recommendations are repeated.

- Estimated revenue on hire of Government Assets, was not achieved.

Recommendations
1. Management of PMO is to take effective action to ensure revenue estimated is achieved. ***PMO response*** *Management of PMO is to take effective action to ensure revenue estimated is achieved.*

- Recruitment on contract of Mr Kalafi Moala, Ms Mele Lupe ‘Ilaiu and Mr Viliami Taufa were not complied with the *Public Service Act 2002*, to have gone through the process and approval of the Public Service Commission in particular.

Recommendations
2. We recommended that the PMO's executives that responsible for this non-compliance, signing these contracts, be also responsible for the public fund that paid out on those contracts. ***PMO response*** *PMO engaged the services of Mr Viliami Taufa, Ms Lupe Ílaiu and Mr Kalafi Mola to provide professional advice and assistance to the Hon. Prime Minister and his Office. It is important to point out at the outset that the Hon. Prime Minister is entitled to engage any such person to provide him with advice. This is stated in section 79 of the Cabinet Manual of His Majesty's Cabinet which provides, "A Minister is authorized under his inherent jurisdiction to engage consultants to provide further professional advice, in addition to that given by his officials."* *It is important to note the common practice of Government whereby if any Technical Assistance or Consultant is engaged, their recruitment must go through the Procurement process if their salary exceeds the salary structure of the Public Service and no longer through the Commission. This is widely practiced in the public service and it is the PMO understanding that if the recruitment required the approval of the Commission then this matter would have been raised by the Commission at any time since Mr Moala's engagement in either one of the Hon. Prime Minister's frequent meetings with the Commissioners and CEO of PSC.* ***Further Audit Clarification*** *Audit acknowledged the entitlements given under the Cabinet Manual as explained above, however the recruitment process and procedures to comply with as given by law, (Public Service Act 2002 in these cases) are to comply with at all times.*

2. Rates for hiring Fa'onelua Convention Centre was not regularized

The rates used for hire of Fa'onelua Convention Centre was established by the Acting Chief Secretary of the time when the Centre was officiated. The rates have not been regularized. It is implied that the authority to charge revenue rests with the Treasurer.

Recommendations
3. To comply with Clause 24 of the Treasury Instructions, that this matter be referred to MoF with consideration of more effective measures to ensure compliance of MDAs with relevant regulations at all times. ***PMO response*** *PMO agrees with the recommendation and noted the areas of concern. PMO assumed that the rate applied had been through the process. The issue have escaped many audits conducted in the past until now.*

3. Overseas Travel

a. Overspend on overseas travel votes

Audit identified that the Overseas Travel Votes for Sub-program six (6): Performance Monitoring and Evaluation and Support Services (07-106 211 1202 0000) was overspend by $11,888.34.

Clause 41(2) of the Treasury Instruction 2010 stated that "Accountable Officers shall ensure that there are sufficient funds in the MDA's related travel vote to fund and before approving that travel".

Recommendations
4. That the Accountable Officers shall ensure that there are sufficient funds in the related travel vote to fund and before approving the travel. 5. That expenses be charged to appropriate votes at all times. ***PMO response*** *PMO agrees with the audit recommendation given and would put measures in place to avoid this issue from happening again.*

b. Changes in Travel Plan

Audit identified that in many occasions, the overseas travel itineraries of the PMO's, changed without approval of CEO – MoF. Clause 41(9) of the Treasury Instruction 2010 provides that "Employee who travel on official duty, that are full funded by the Government or the Government paid for air fares and en route travel expenses shall not change their initial travel itinerary without the approval of the Secretary (CEO –MoF), in accordance with the Treasury Instructions.

Recommendations
6. All changes of travel itineraries are to be approved by the CEO-MoF before the changes are made and paid for.

PMO response
PMO is aware of the Treasury Instruction in relation to changes of travel plans. However, PMO noted the recommendation and will commit to comply.

4. Corporate Cards

a. Non-compliance expenses paid from the Hon. Prime Minister's corporate bank card.

The Hon. Prime Minister's corporate bank card (holder of government corporate bank card) with ANZ Bank; the expenses incurred included the following expense for the Va'epopua Park.

An Internal Memo from His Honour's Personal Assistant to Assistant Secretary (Finance Section, Mr Sione Fifita), dated 29 Nov 2016, conveyed the His Honor's direction dated 24 Nov 2016, in New Zealand, a return air ticket was issued in favour of Mr Lausi'i Puleiku, to travel AKL/TBU/AKL and was paid from the Hon. Prime Minister's corporate bank credit card. The amount was NZD$1,090.00, equivalent to TOP$1,783.65.

Clause 42(2) of Treasury Instructions, provides strict restrictions to expenses incurred while travel overseas on official business unless authorized by Minister for Finance.

Savingram 15 December, 2016 to MoF reported the expenses incurred in November which included the expenses for airfare in favour of Mr Lausi'i Puleiku, under the direction of PM. Therefore, payment of expenses for Mr Lausi'i Puleiku is inconsistent with Treasury Instructions and is considered non-compliance.

Recommendations
7. To refund $1,783.65 paid as airfare for Mr Puleiku from the Hon Prime Minister's Corporate Bank Card. ***PMO response*** *The issue with Mr Puleiku's air ticket has been reimbursed back to the Corporate Card from the National Park Funds.*

5. Purchases of Goods and Services

i. Water and Power Bills – Popua Park $2,041.76

Audit found that monthly bills for water and power for Va'epopua Park were paid from PMO votes for Purchase of goods and services, total amount is $2,041.76. However, the Va'epopua Park is neither a Program, nor a Sub-program or a line item or a Development Project of the PMO under the Appropriation Act 2016 and 2017.

Recommendations
8. That $2,041.76 paid for water and power expenses of the Popua Park be refunded back to the PMO's vote.

PMO response
The PMO strongly disagrees with the Audit's opinion that this expenses is not in the Appropriation Act. This transactions is in the Appropriation Act. Kindly refer to the Appropriation Act and page 2 of the Document called "Program Budget of the Government of Tonga". Section 1 to section 5 of the Act does not make reference to specific expenses but rather the Act clearly only states the specified amount of public money to defray charge against the government for such period. The General Fund in the Ministry of Finance allows for these expenses subject to the Cabinet approval.

6. Fixed Assets

i. Purchases of two (2) new vehicles

Audit confirmed that all assets existed were registered in the asset register.

However, the PMO did not provide in the budget for purchases of two (2) new vehicles. A new vote was created for the purchase of these new vehicles. As stated by the *Public Finance Management Act 2002* Section 9 (1and 2) that:

1. No public money shall be expended unless the expenditure has been authorised by an Appropriation Act limited in accordance with subsection (2) or is statutory expenditure.

2. The authority to expend money or incur expenses or liabilities under an Appropriation Act lapses at the end of the financial year to which that Act relates.

The two (2) new vehicles purchase during the 2016-17 but was not in the budget 2016-17 were a car (xtrail) purchased on 11^{th} of June 2017 from Kasanita Motors with the amount of $45,000.00 charged to vote 07101111 0000 2005 and a car (xtrail) purchase on the 12^{th} of June 2017 from FHC Holdings Ltd with the amount of $18,500.00 charged to vote 07101111 0000 2005.

Recommendations
9. That alteration of the Appropriate Act and approved budget of the PMO be appropriately consulted for legality of the procedures, before commit additional funds not in the original approved budget or the Appropriation Act. ***PMO response*** *Reference is made to Cabinet Decision number 340 dated 12th April 2017 relating to Proposed Transfers under Section 12(2) and 12(3) of the Public Finance Management Act 2002. The Cabinet approved the transfer of T$40,000 to PMO budget for the purpose of purchasing a vehicle to assist with the Ministry's operations. The aforementioned Cabinet Decision CD legalized the transaction for purchasing two PMO vehicles and there was no alteration to the Appropriation Act.*

7. Log Books

Audit identified that of the fifteen (15) vehicles under the PMO, only eleven (11) log books were available for audit inspection. Vote books of four (4) vehicles were not available and is summarized in the table below. It was explained that these log books cannot be found. A senior officer was required under clause 90(6) of the Treasury Instructions 2010 to review the vehicle log book on a regular basis and sign as evidence.

Audit review of the regularity and validity of vehicle related expenses were limited due to missing four (4) log books under the management of PMO.

Recommendations
10. That CEO-PMO is to take appropriate effective measures to enforce compliance with regular review of the log books. ***PMO response*** *The PMO wishes to confirm that the Log Books for four (4) of PMO vehicles, for specific periods highlighted in your office report, were lost and cannot be located. Some internal issues occurred and caused the misplacement of these log books. PMO is taking full responsibility for the lost log books and would assure the Audit Office that it will not happen again.*

3.3.4 Ministry of Justice: Refundable Cash Bond Money Period Covered: 2013 - February 2018 (5 years)

1. Audit Cash Count

An audit cash count was carried out on 5th February 2018 confirmed $18,350 as cash on hand, held as remaining balance of refundable cash bond money. It was understood that this amount represent outstanding refunds which should have been refunded but for some reason the depositors never returned and claimed the refundable bond money. This initiative started in 2013 to date. The Registrar General's Office further consulted the Solicitor General's opinion on the legality of the refundable bond money and the forfeiture of such to Government as Government revenue.

2. Deposit of refundable Cash Bond Money

The Ministry, in consultation with Ministry of Finance, finalised the arrangements for deposit of the refundable cash bond money. Audit confirms that T$20,750.00 as balance of Refundable Cash Bond money held with the Ministry of Justice, was deposited into "Deposit Distrain Account", with the MoF on 18th April, 2018. This amount represents the cash held as refundable cash bond money which were not refunded at the time of the deposit.

3. Update of Application Register

The confirmation of the completeness and fair valuation of the amount deposited was not possible at the time. However, audit created a register of application to record relevant details of the applications received, fees paid and refunds made. The register of application will help to confirm the completeness of amount deposited with the MoF. The Ministry is still updating this register and audit will review in due course.

Recommendations
1. That Refundable cash bond money be receipted as normal Government revenue and included in daily banking of the Ministry of Justice.

3.3.5 Ministry of Education and Training (MoET):

3.3.5.1 Update of the audit of Government Grant to Non-Government School Period Covered: 2014 to 2016 (36 months)

Audit had done stock take of grants paid and had identified some Government grants paid for 2013 and 2014, to most of Free Wesleyan Church Schools and Catholic Schools were still outstanding – yet to be submitted for audit.. It was deemed appropriate that these outstanding audit be prioritized and to be completed before audit the Government grants paid in recent years of 2015 and 2016.

Recommendations
1. That the Ministry is to submit long outstanding school grants (2014 and 2015) for audit before submit the grants in recent years (2016 and 2017). 2. To note well that the Ministry of Education and not the Audit Office is responsible for decisions on payment of grants to Non-Government Schools.

3.3.5.2 Ministry of Education and Training (MoET): Grants to Non-Government High Schools

Reference is kindly made to CD 1074, item 3 of the said CD is related to the 100% funding of the grant from the Government and it mentioned the *"$400 per student rate with effect from 1st July 2017*".

Recommendations
3. That the effect of Cabinet Decision No.1074 is to be applied in consistent with the intention of the said Cabinet Decision 4. That the Ministry is to take into account the audit recommendations on overpayments and underpayments of grants, in payment of next grant to respective High Schools concerned. 5. That all non-government high schools to comply with the policy for the grant in a timely manner.

i.	St Andrews High School:	2016-$116,800
ii.	Ocean of Lights International School:	2016-$48,000
iii.	Takuilau College:	2014-$142,800; 2015-$164,000; 2016-$153,200
iv.	'Apifo'ou College:	2014-$491,200; 2015-$533,600; 2016-$434,000
v.	St Peter Channel College:	2014-$126,400; 2015-$141,600; 2016-$137,600
vi.	St Joseph Community College, Ha'apai:	2014-$35,600; 2015-$31,600; 2016-$40,800
vii.	Mizpah High School:	2014-$24,400; 2015-24,800; 2016-$32,400
viii.	Hilliard Memorial School:	2014-$27,200; 2015-$24,800; 2016-$26,000
ix.	Beulah Adventist College:	2014-$123,200; 2015-$147,600; 2016-$140,800

3.3.6 Cooperative Audit

3.3.6.1 Ministry of Infrastructure (MoI) Compliance Audit on its Procurement Practices

We conducted a cooperative audit with other audit offices across the Pacific which was coordinated by the Pacific Association of Supreme Audit Institution (PASAI). The subject was "compliance audit on procurement practices" in the public sector. We chose the Ministry of Infrastructure, MoI, for this Ministry processed significant amounts of procurements and the period covered was the financial year 2014-15. The findings from the audit was as follows.

<u>1. Divisional Annual Procurement Plan</u>

Public Procurement Regulations 2010

- Section 17 (1) states, *"Procuring entities shall prepare a procurement plan for each fiscal year, containing a detailed breakdown of the goods, works and services required and an estimate of the value of each package of goods, works and services required"*

Each major division of the MoI was required to prepare their own (APP) for financial year 2014/15 using a template provided by the Procurement Division (PD) of the MoF. Subsequently, the Procurement Unit (PU) of the MoI consolidated the divisional APPs to form the overall APP of the ministry.

The Annual Procurement Plan, (APP), of each division was required to be prepared based on each division's Annual Management Plan (AMP) but divisions did not complete the preparation of their AMPs in a timely manner to facilitate the preparation of the APP.

As a consequence of not preparing an APP for the division, there was no budget for the division's procurements so funds were provided from the budget of other divisions. Diverting funds from other divisions may hinder other divisions from achieving their target outputs when they are not able to undertake their planned procurements.

Recommendations
1. That director of each division should ensure that its Annual Management Plan (AMP) is prepared on a timely manner to facilitate the preparation of the ministry's overall AMP. 2. The director of the Civil Engineering Services Division should ensure that it's Annual Procurement Plan (APP) is prepared on a timely manner to facilitate the preparation of the ministry's overall APP. ***MoI response*** *1. The ministry supports the above recommendations given that only three (3) divisions – Policy & Planning Division (PPD), Corporate Services Division (CSD), & Civil Aviation Division (CAD) completed their Annual Management Plans (AMPs) for the 2014/15 financial year despite numerous reminders from PPD that each division must submit their AMP.*

2. *The Procurement Unit, under the PPD, is working closely now with each division, especially our technical divisions (Civil Engineering Services Division (CESD), Land Transport Division (LTD), Marine & Ports Division (MPD), Civil Aviation Division (CAD), and Building Control Services Division (BCD)) to ensure that they prepare and submit their AMPs, which contains their APPs inside, for the current fiscal year.*

2. Procurement undertaken not included in the Annual Procurement Plan

Procurements with a sum total value of $1,005,984 were made by the ministry during the 2014-15 financial year but these procurements were not included in the ministry's annual procurement plan (APP).

Audit identified that there was no formal process in place for the proper preparation and revision of the Annual Procurement Plans (APP) of each division which consequently make up the overall ministry's APP.

Not having a formal process in place for the preparation and revision of the APP results in not appropriately identifying procurement needs of the ministry. The APP is therefore not relied upon as a complete and appropriate document for identification of the ministry's procurement needs and subsequent integration with the budget process.

Recommendations

3. The director of each division should ensure that its divisional APP is prepared timely and revised if needed.
4. The Chief Executive Officer should ensure that planning and formulation of the ministry's overall APP is considered together with the ministry's budget.
5. The director of each division should ensure that its procurement activities align with the division APP

MoI response

Recommendations above is supported, however, the ministry is in progress with appropriate actions to ensure that the divisional APP is prepared appropriately and revised when needed. For the current fiscal year, the Procurement Unit has enforced the following:

- *Every procurement request received will be channelled through the Policy & Planning Division (Procurement and Planning Unit are core functions of this division) to ensure that:*
  - *Each procurement request has linkage to the ministry's Corporate Plan and divisional AMP;*
  - *Every procurement request must be addressed in the division's APP. If it is not there, then the APP must be revised accordingly to include the proposed acquisition prior to initiating procurement process; and*
  - *Must have confirmation from CSD that there is sufficient funding on that division's appropriate vote for the proposed procurement.*

The road works stated above was not included in LTD's APP, however, it was carried out according to Road Maintenance Fund 2014-15 Work Plan.

Procurement of supplying navigational lights (item no. 12 in Table 1 above) was based on unforeseen circumstances, however, it is a must for the ministry to supply the light as replacement for ones that are not operational for safety of navigation in Tongan waters.

3. Conflict of Interest, (CoI)

Two procurement contracts were approved by the former Minister for Infrastructure, which were not included in the Annual Procurement Plan, and no consultation were done with the Ministry of Finance. This two contracts were both above the TOP$7,500 threshold and should therefore be submitted to the MoF for sourcing. These two contracts were both awarded to a construction company owned by the son of the former Minister.

The Ministry does not have an interest or gift register in place. An interest and gift register should ensure that all gifts and/or interest identified during the procurement process is recorded and then appropriate action is taken to mitigate interest risk. Interest is not declared nor recorded and there is no other mechanism in place to mitigate conflict of interest should they arise.

Recommendations
6. The Director of the Corporate Service Division should ensure that the division formulate a Register for both gift and interest that are identified and declared along with the appropriate action taken to address interest identified. ***MoI response*** *The Ministry agreed with the above recommendation and appropriate actions will be taken to ensure this recommendation will be fully implemented from now on. At the same time, the ministry can only record or register what the ministry knows with regards to conflict of interest/gift register.* *It would assist the Ministry if the Tonga Office of the Auditor General can identify or provide a list of mechanisms to mitigate conflict of interests for future reference and guidance.*

4. Procurement with value above TOP$7,500 were not submit to the MoF for sourcing

Renovation works for three (3) government quarters – were not submitted to the MoF for sourcing as required by procurement policies. The values of these procurements were $126,917, $165,000, and $103,538 respectively. The former Minister for the MoI directly awarded these major contracts to contractors without following the procurement regulations. There was no competition to ensure value for money can be achieved.

Due to the noncompliance with the procurement policy and lack of open bidding process the ministry has compromised the opportunity to secure the most competitive price and act in the best interest of the ministry (public).

Recommendations
7. The Director of the Procurement Unit together with the Chief Executive Officer should ensure that procurements above the TOP$7,500 thresholds are submitted to the MoF for sourcing. ***MoI response*** *The recommendation above is supported. As a lesson learnt from past non-compliance experiences, the Ministry's main focus now is to avoid non-compliant procurement activities. In order to achieve this goal, an Internal Procurement Policy was circulated at the beginning of the current financial year (January 2016) to all divisions including our offices in the outer islands stating "that the Procurement Unit will not process any non-compliant activities unless*

there is a formal contract. Thus holding whoever directed the activity to be done liable for his or her action personally, and not the ministry". This policy was effective on 1st July 2016 and still valid as of today.

5. Work commenced before the contract was signed

1. Procurement Regulations 2010
   - Section 49 states, *"Contracts shall be signed by the Head of procuring entity or a person delegated by him, and shall come into effect as stated in the Contract Agreement"*

2. Treasury Instructions 2010
   - Section 23 (1) states, *''all contracts shall be submitted to the Government Procurement Committee for review and endorsement before signing by all relevant parties''*
   - Section 23 (2) states, *"any voucher presented by an MDA for payment with regards to, and accompanied by, a signed contract but such contract had not yet been submitted for the consideration and approval of the GPC, such voucher will not be paid unless it is submitted to GPC for approval.*

Works for three (3) significant contracts began before the signing of their respective contracts. As mentioned in section above, these procurements were not submitted to be sourced by the MoF as required by procurement policies and works was carried out before signing of any contract.

According to interview with procurement official, there was no urgency to sign any contract because work had commenced and the Government had already committed to these expenditures.

The effects of not having a binding contract agreement is very significant, for instance, if any disagreements arise or if there is any delays, poor performance or non-performance, it would be very difficult to hold the contractor accountable and compel him to rectify poor delivery.

Recommendations
8. The Director of both the Procurement Unit and the Finance Division should ensure that contracts are signed before any works procured are carried out.

6. Procurement Records were not properly maintained

Procurement Regulations 2010

- Section 55 (1) states *"the procuring entity shall maintain an individual record for each procurement requirement, which shall be marked with the relevant procurement reference number*
- Section 55 (2) states *"the record shall contain the originals and copies, where appropriate, of all information, documents and communications related to that procurement proceeding;*

The procurement records were not properly maintained by the ministry. Payments vouchers, progress payment certificates, signed contracts, and other procurement documents were not completely filed and maintained for each procurement.

For the renovation works of government quarters, only unsigned contracts were filed. Technical specifications of goods with value above the threshold that was submitted to the MoF for sourcing were not filed.

Recommendations
9. The Director of both the Procurement Unit and the Finance Division should ensure that contracts are signed before any works procured are carried out. ***MoI Response*** *The Ministry noted the recommendation. Ministry also explains the current system for procurement.*

7. Review of Invoices not carried out properly

Treasury Instructions 2010

- Section 26(3) states *"All payment vouchers shall be certified correct by a certifying officer before being processed for approval by relevant authority"*
- Section 26 (8) states "*A procuring entity shall have in place a system to ensure that invoices are not paid twice and that fraudulent claims are mitigated"*
- Section 27 (2) states "*An officer independent from the officer placing the order/signing the contract must be assigned to check any goods, works or services procured and delivered to ensure goods, works or services are delivered in accordance with relevant purchase orders and contract agreement"*

8. No Progress Payment filed in each Procurement

For renovation of government quarters, invoices are submitted by the contractor to the MoI and it is verified by one of the ministry's inspectors. The verification included visiting and site inspection of the work done by the contractor. After verification, the surveyor prepares a progress payment certificate indicating that the invoice is genuine and that payment should be processed.

Progress payment certificates were not filed with the payment vouchers as evidence that this document was referenced for processing of payment.

The impact of a progress payment certificate not being prepared or filed properly could result in fraudulent claims by contractors go undetected.

Recommendations
10. Director of each respective division and the Finance division should ensure the appropriate filing of all procurement documents including progress payments certificates relating to projects undertaken by the ministry. ***MoI's Response*** *The Ministry noted the recommendation.*

9. No delivery dockets or other supporting documentations signed as evidence for goods received

Audit found that the MoI does not maintain any supporting documentations as proof that goods procured were received by the Ministry. There is no delivery dockets or other supporting documentations that could prove that

- goods procured were actually received

- goods received was in accordance with the procurement requirement
- goods were dispatched to the respective division.

According to explanation received, they have recently established delivery confirmation forms that is signed by respective officers of each division receiving the goods procured but this system had not been in place during the audit period.

The impact of no supporting documents in place to provide evidence that goods were received and it is the right good requested can increase the risk of misappropriation of goods.

Recommendations
11. We commended the process implemented by the ministry in ensuring that goods received are properly registered and recorded and are signed to ensure that it has been transferred to the division who place the order in the financial year 2015/16. We encourage the ministry to continue with this practice.

10. Post Procurement review has not been conducted

Procurement Regulations 2010

- Section 59, *"Each procuring entity shall undertake post procurement review of its procurement operations using independent consultants. Scope of the independent review shall cover compliance with these Regulations in addition to assessment of value for money considerations. The independent review shall be completed within nine months following the end of the fiscal year."*

The ministry has not conducted any post procurement review of its procurement operations for this financial year.

The impact of not yet conducting a post procurement review is that the ministry may not be aware they are not complying with the procurement regulations. A review will reveal whether the ministry complies with Procurement Regulations 2010, Treasury Instructions 2010, and other procurement policies. Any non-compliance will then be brought to management's attention for consideration and corrective action.

Recommendations
12. The Director of the Procurement Unit should ensure that the post procurement review of the ministry's procurement operations are conducted within 9 months following the end of each financial year. This will assist the ministry going forward in improving its procurement practice in line with the procurement regulations. ***MoI Response*** *The ministry agreed with the recommendation in which post procurement review will be conducted accordingly and for the Procurement Unit to consider for proper action in due course.*

3.3.7 Special Audits

3.3.7.1 Ministry of Finance (MoF)-Government Managed Funds (GMF)/ Government Development Loans (GDL)

Period Covered: July 2015 – June 2017 (2 financial years)

This special audit was requested by the MoF. Also, this audit was carried together with the review of this Fund in the Government annual financial statements.

1. Both parties (the MoF and the Tonga Development Bank) did not comply with Article 3.4 of the Implementation Agreement (IA)

Both the Ministry and the Tonga Development Bank (TDB) failed to comply with Article 3.4 of the Implementation Agreement (IA), regarding the conditions for any variation to the Agreement.

Recommendations
1. That the GDL program be withdrawn temporarily for six (6) months so that both parties discuss and understand their respective obligations under the IA. 2. That the program is to recommence after six (6) months when both parties have clearly understood their respective obligations under the IA.

2. Non-compliance of the Bank with Article 8 and Annex 6.6 – Reporting Requirements

Article 8.1a requires that the quarterly report shall contain a summary of progress of implementation with regards to the summary of loan on-lent and disbursed in previous quarter.

Annex 6.6 provides additional reporting requirement to Article 8 and that the Bank will ensure the following:

i. Maintain separate accounts and records for the managed fund
ii. Prepare and submit quarterly report on the status of the Managed Fund to Government including the following information in the report:
   a. Balance of the high level accounts in Annex 6.5.
   b. Any other information, documents, reports and any related materials that the Government may reasonably request.

Prepare annual financial statement for the managed funds in accordance with accounting principles acceptable to the Government.

Recommendations
3. That the Bank is to prepare a set of financial statements for the last three (3) years of operating the Managed Funds (Government Development Loan). 4. That the Bank be given a month to update the quarterly reports with all information specified to be reported under the IA for the first three (3) years of the GMF. 5. That the MoF confirm and validate the updated quarterly reports submitted by the Bank. 6. That the GMF be recommenced after validating the quarterly reports and confirmed compliance with the reporting requirement under the IA. 7. That the financial statements be audited before the Government Development Loan (GMF) is to be continued

3. Documentation of Loan Application

Audit acknowledge the magnitude of paper work involves in actual implementation of the IA, and therefore considered important that all loan applications are well supported with documents required by the IA.

Recommendations
8. That the Bank ensure compliance with documentation requirement of loan application under each economic sector in accordance with the IA.
9. That the Bank is to discuss issues raised with implementation of the Government Development Loans and include those comments in the quarterly reports for consideration of the review exercise of the program.

4. Formula for calculating the annual service fee of the Bank is not the formula provided in the Annex 7 of the IA

Annex 7.1 of the IA provides that the annual service charge of 3.5% against total amount of loan funds drawdown each year. Annex 7.3 allows the annual service fee to be charged on monthly basis, based on the accrued daily balance of all disbursed loan amounts on-lent to customers.

Recommendations
10. That the MoF seek legal opinion on the interpretation of the formula for calculating annual service fee of the Bank and to adopt the legal advice in consultation with the Bank.
11. That the annual service fees paid to the bank should be refunded for failure of the Bank to comply with significant portion of its legal obligations under the IA.
12. That the annual service fee is to be claimed using the formula agreed on after the legal advice in (10) above.

5. Sustainability of the Government Development Loans

Audit found that most factors to take into account in considering the sustainability of the Development Loan were not in place or complied with by the Bank. The following areas were highlighted in considering the sustainability of the Government Development Loan.

i. Annex 6.6 provides that at all times, the Bank will ensure that the value of all loan outstanding that have one or more instalments of principal past due for more than 30 days does not at any time exceed 20% of the Managed Fund Portfolio. The Bank was unable to provide a list of the outstanding loans referred to in here, is a failure to comply with the IA but important for assessing the sustainability of the Development Loan.
ii. No Financial Statements prepared for the first three (3) years of the Development Loan is a serious breach of duties to the Government under the IA and important factor for considering the sustainability of the Development Loan.
iii. The Bank has failed to maintain and therefore failed to report on the high level accounts which is considered also a serious breach of the duties of the Bank under the IA, but again important factors to consider in considering the sustainability of the Development Loan.
iv. There was no review of the program by the parties as provided for in Annex 6.2(b). The Parties will review the progress of the Development Loan every six (6) months after commencement and the review will consider among other things the followings:
   (a) Whether the general and specific objectives of the Development loan in Annex 3 and Annex 4 have been realized;

(b) Whether the agreement has been properly implemented; and
(c) Whether the benefits from the loan schemes have been maximised.

Recommendations
13. That due to breaching of IA, the Government Development Loan is not sustainable and that the MoF is to seriously consider effective management and monitoring system for the Government Development Loan.

3.3.7.2 Ministry of Internal Affairs (MIA)
Airline Ticket for Mr ‘Etuate S. Lavulavu

A summary of audit issues is as follows:

a. That the alleged appointment by the Minister, Mrs ‘Akosita Lavulavu of her husband, Mr ‘Etuate Lavulavu as her Personal Assistant on Friday, 9th February 2018 is invalid and void.
b. That purchase of airline ticket for Mr ‘Etuate Lavulavu with public fund of T$7,192.00 amount to misappropriation of public funds.
c. The Acting CEO, Mr ‘Onetoto ‘Anisi had unlawfully authorized the purchase of the airline ticket in the name of Mr Lavulavu with the Ministry’s credit with Jetsave Taufonua Travel is a collusion with the MIA at the time Mrs ‘Akosita Lavulavu and such unlawful act amount to misappropriation of public money, T$7,192.00.
d. For the A/CEO – MIA to authorize the purchase of the airline ticket for someone who is not an employee of MIA or not a civil servant is unlawful and indicate failure on the A/CEO to comply with the relevant PSC Instructions 2010.
e. The existence of collusion practice in management of government ministries poses a significant threat to good governance and such practice is a serious breach of trust in officers involved.
f. Given the A/CEO of the Ministry approved the application of the public money to an unlawful purpose, he has failed to uphold the level of integrity and diligence expected of CEO to effectively manage the affairs of the government ministries against fraud, corruption and mismanagement.
g. The purchase of the airline ticket for Mr Lavulavu is a related party transaction since Mr Lavulavu is the Minister’s husband.
h. Mere existence of related party transaction is sufficient to affect management to override internal controls. Under such circumstance, the management of the entity is vulnerable for fraud, corruption and mismanagement.
i. Despite the fact that officers of both the MIA and the MoF were aware of the travel credit, there was no effective action took, to either return the credit from the travel agent or take appropriate procedures under the circumstance.

Recommendations
1. That Mr ‘Onetoto ‘Anisi, Acting CEO-MIA and Mrs ‘Akosita Lavulavu, MP, are to immediately reimburse the amount of the airline ticket of T$7,192.00. 2. That A/CEO, Mr ‘Onetoto ‘Anisi is to be severely disciplined for knowingly colluded with the Minister for Internal Affairs and unlawfully authorized the purchase of airline ticket with public money. 3. That Deputy CEO-Corporate Division, Mrs Kalesita Taumoepeau be reprimanded for failure to carry out effective supervisory duties on time to secure proper accountability of credit with Jetsave Taufonua Travel. 4. That the MoF is to issue an instruction, emphasizing to all MDAs that leaving of credit balances of public fund with suppliers (clients) is strictly unacceptable.

CHAPTER 4: DEVELOPMENT PROJECTS

4.1 Summary

We audited ten (10) projects and one (1) non-profit organisation financial statements. We also carried out two other audit engagement, one that relates to one of the projects audited and the second one was a request from the Legislative Assembly.

We issued 11 unmodified audit opinions for the financial statements of the ten (10) projects and the non-profit organisation that we audited for their financial statements for the year ended 30th June, 2017.

We raised forty-seven (47) (36 in 2016) issues in our management audit reports and eighty-one (81) (40 in 2016) recommendations for the appropriate remedial actions for management to consider.

4.2 Background

All the development projects that submitted their financial statements to be audited for the financial year ended 30th June, 2017 had all been audited as mentioned above.

The appointment of the Auditor General as the external auditor for a development project is from either the donor organisation and/or the Implementing Agency which mostly the Government Ministry that implemented the project.

The service of the TOAG is always considered as part of the contribution of Government to the project hence, our audits are free of charge and no audit fees revenue. This applies to all the projects that we audited with the exception of about one project.

4.3 Audit Findings and Recommendations

4.3.1 Tonga Aviation Investment Project (TAIP) Financial year ended 30th June, 2017

The audit of TAIP of Tonga for the financial year ended 30th June, 2017 was completed and we issued an unqualified audit opinion.

The issues raised in our management letter were:

1. Prior year issue 2015-16

Outstanding issue
1. The meeting minutes of the PSC provided were not signed by the Chairman as to confirm that the information provided were true and correct as of the dates of the meeting. Meeting minutes must be signed by Chairperson, to confirm the minutes were approved as official. ***Current Position:*** *Resolved.*

Outstanding issue
2. Payroll: project staff are required to submit their timesheets for each pay run and to be signed by the Project Account to confirm accuracy of the timesheets. The risk of paying staff for times that they did not work increased That Project Accountant ensure that timesheets are approved and signed by him/her as confirmation their correct and accurate. ***Current Position**:* *Resolved*

2. Classifying of Receivables and Payables as part of Cash and Cash Equivalent

In reviewing of Cash Balance as at year ended 30th June 2017, receivables and payables were included in the calculation of this balance. Cash as defined in IPSAS Cash Standard means "comprises cash on hand, demand deposits and cash equivalents". Cash equivalent is defined as "are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value."

Payables and Receivables are not part of this definition. Therefore they should not be included them in the calculation of Cash and Cash Balance.

Recommendations
1. That Payables and Receivables be excluded from calculation of Cash Balance.

4.3.2 Transport Sector Consolidation Project (TSCP) Financial year ended 30th June, 2017

The audit of TSCP for the financial year ended 30th June, 2017 was completed and we issued an unqualified audit opinion.

The issues raised in our management report were as follows:

1. Prior year issue 2015-16

Outstanding issue
1. Program Steering Committee (PSC) Meeting minutes not signed. The meeting minutes of the PSC provided were not signed by the Chairman as to confirm that the information provided as approved records of the meeting. The minutes record the important decisions of the committee and the accuracy is crucial. ***Current Position**:* *No action.*

Outstanding issue
2. Incorrect declaring of conflict of interest. • In reviewing the due process of the recruitment of the Project Manager, it was noted that two (2) members of the Evaluation Panel incorrectly declared their conflict of interest It is important these declarations are correctly and truly completed. If there is a potential/perceived/actual conflict of interest, it is to be declared and handled appropriately. • Two (2) members of the four (4) members of the Evaluation Panel were immediate family. There is a tendency for significant influence in the outcome of the associated procurement decision ***Current Position:*** *Resolved* 3. Timesheet not properly approved When reviewing payroll, project staff are required to submit their timesheet for each pay run. Timesheets are also required to be signed by the Project Accountant to confirm accuracy of the timesheets. Timesheets for the period were not signed by the project account. ***Current Position:*** *Resolved.*

2. <u>Bank Reconciliation not independently reviewed</u>

In reviewing Cash and Cash Balance, Bank Reconciliation was part of this review. It was noted that the bank reconciliation was carried on a monthly basis, but there was no evidence that these were independently reviewed. It was not signed prepared and dated by the preparer.

Recommendations
1. The project accountant to ensure that monthly bank reconciliation is signed prepared and dated by her and that it gets reviewed by either the Project Manager or the Contract Manager.

<u>3. Project Steering Committee (PSC) not meeting on a regular basis</u>

In reviewing minutes of the Project Steering Committee, it was noted that only one meeting held during the financial period. The committee should at least meet once every quarter.

The purpose of the Project Steering Committee is to provide strategic direction and oversee the project management. This is one of the most important monitoring mechanism the Government of Tonga has in place of aid project management

Recommendations
2. Members of the Steering Committee to consider this issue seriously. 3. Audit is aware that members of this committee are high level officials and may not always be available to attend meetings. Committee should consider conducting the meeting in other means if not all can always be physically present such as teleconference and such. 4. Members of PSC to consider delegating of this role should they not always be available to attend the meetings.

4.3.3 Tonga-Fiji Connectivity Cable Projects (TFCP) Financial year ended 30th June, 2017

The audit of TFCP for the financial year ended 30th June, 2017 was completed and we issued an unqualified audit opinion.

There was no issue raised in the management report. The nine (9) adjustments to the financial statements as per audit findings were all been made.

4.3.4 Climate Resilience Sector Project (CRSP) Financial year ended 30th June, 2017

The audit of CRSP for the financial year ended 30th June, 2017 was completed and we issued an unqualified audit opinion.

The issues raised in our management report were as follows:

1. Prior year issue 2015-16

Outstanding issue
1. Vehicle Project currently used by the implementing agency [Ministry of Environment, Information, Disaster, Energy & Climate Change (MEIDECC)]. We noted that one of the vehicles bought by the project is used by the Ministry, MEIDECC. And the Project Management Unit, (PMU), and the existing consultants have to share one vehicle between them. The vehicle should still be in the possession of the project PMU until the end of the project team. ***Current Position:*** *No action.* 2. Consumption Tax (CT). In reviewing expenses, it was noted that the project has paid CT but from the information provided, the project is exempted from CT. The project's CT returns are to be prepared and lodge to appropriately identify any CT credits applicable. ***Current Position:*** *Resolved*

2. Conflict of interest not identified and dealt with appropriately

In reviewing the minute of the meeting of Project Steering Committee (PSC), it was picked up that the Chairperson of the committee requested that primary school of his own village be selected to replace two of the twelve schools to renovate. Two schools were covered by another project so it needed replacement. The other primary school selected were from the PSC secretary's village of residence.

Discussed with some of the project personnel whom said that these two primary schools were identified due to their location and condition during heavy rains. However, no reports or equivalent documents were provided to auditors to corroborate the information provided by the project personnel. Auditors were after the surveyor's report that rank these two schools above the others.

Recommendations
1. That all members of the Project Steering Committee declare any interest they have in relation to the project. 2. The declaration of interest be documented in a Conflict Interest Register together with all remedial actions taken. 3. That the Conflict of Interest Register becomes part of the standard item in the committee's agenda for every meeting.

3. Related Party Transaction not identified and dealt with appropriately

In reviewing expenses, purchases of some of the project computer equipment were supplied by ITS Pacific Limited. This company is owned by Mr. Vakasiuola, who is the Procurement Specialist for the CRSP - Consulting PMU.

This transaction was not identified as a related party transaction, and the project did not deal with it as such. Therefore it was not confirmed whether the transaction took place was at an arm's lengths transaction, therefore price paid is around the market price and unreasonable mark up has not been charged.

As this is considered a significant related party transaction, since the owner of the supplier company is also the Procurement Specialists for PMU, the PMU should have considered an alternative supplier to supply these computer equipment. The total amount of this transaction was TOP19,891.00. The amount may be immaterial in terms of the total transaction but the nature of the transaction is material.

Recommendations
4. That any related party transaction within the project should be documented and deal with it appropriately. 5. For significant related party transactions, PSC should be notified for final approval.

4. Project vehicle operate without a valid license plate and valid registration

In sighting the existence of the project's vehicles, one of the vehicle has a government license plate, P1435 which initially had a customized license plate, CRSP 1. The Quarterly registration has been expired since 2015. The explanation provided, was that the quarterly registration was not able to be renewed due to the vehicle having a government license plate but it was registered under the project, CRSP.

During the financial period under audit, this vehicle was not legally registered to operate on Tongan road.

It was also discovered that government license plate that was attached to this vehicle belong to one of the ministry's vehicle that was not operating. According to the explanation provided, a very senior official gave the direction to have the license place attached to this vehicle without completing the ownership transfer to the Ministry before having a government license number put on this vehicle.

The Ministry is again reminded that the project vehicle(s) is for the use of the project and unless the project is completed then the asset can be transferred to the agreed Ministry.

The above situation is a consequence of not leaving the project assets within the control of the project. As result, the project vehicle has been operating on Tonga road without a valid registration. Not only that, but the vehicle was using a government license plate that has not been lawfully registered for this vehicle.

Recommendations
6. That MEIDECC's CEO take this matter seriously and remind his staff that repetition of such practice will result in a severe consequences and the process should be reminded again to his staff to comply with. 7. That all drivers of the Ministry should be reminded that unless the ownership transfer papers are completed they are not to put any license plate on any vehicle without the proper transfer/register documents. 8. That project vehicles should remain with the project for the duration of the project and therefore they should be fully responsible for the maintenance of the vehicles. This can prevent project vehicles from operating without a valid vehicle registration on Tonga road. 9. That the project management should ensure that all project vehicles maintain valid vehicle registration at all times.

5. Project vehicle operate without a valid license plate and valid registration

In sighting project assets, audit was provided with incomplete register. During the sight visit to Project Implementation Unit (PIU) at the MLSNR, we identified assets that were not included in the fixed asset register.

This includes:

- laptops (4 in good condition and 1 was damaged)
- Photocopy machine
- External hard drive
- Computer server
- water dispenser
- laminator and binder.

The project is required to maintain a complete fixed asset at all times.

Recommendations
10. That the Project Management should ensure that the project maintain a complete fixed asset register at all times.

6. Damage Fixed Assets not reported and not accounted for

During physical stock taking of the project, one laptop has been identified to be broken. It was gathered that the PMU was not aware of this. The PMU IT person later inspected the laptop and concluded that the hard disk has been replaced with a different model.

It is important for the assets of the project to be taken good care of. Therefore to maintain in good condition to enable staff to complete what is required of them for the project.

Recommendations
11. That any damaged fixed asset should be reported by the PIUs to the PMU in order for them to fix it. In the situation where it cannot be fixed, then the PMU/accountant can update the fixed asset register accordingly. 12. That the project should maintain incident forms for damaged/broken assets therefore recording the asset damaged, responsible staff, detail of the incident, assessment of whether it can be fixed or not, and if it can be fixed who is responsible for fixing of this asset. The form should be reviewed and approved by one of the project senior management. 13. That the Project Management should ensure that a physical stock take of the projects assets is done annually to check on the condition of each assets and to update the fixed asset register accordingly.

7. Project Implementation Unit Fisheries laptops use by those not entitled to

During physical stocktake of PIU Fisheries assets, four laptops has been purchased for the PIU. Three of these were identified to be currently used by the three individual consultants of the PIU Fisheries and one laptop and a hard drive was at the possession of Fisheries project focal contact point.

According to the consultation's contract agreement, they are to provide their own laptop/computer when necessary to complete work for the project, unless in special cases where EA agrees to have budget item for equipment within the agreement. In such case, equipment will remain the property of the project.

However, none of them has any budget provision for laptop/equipment, therefore the expectation is that they use their own laptop during their contract with the project.

The staff of Fisheries who is currently using one of the laptop and hard drive purchased for the PIU does not have any arrangement for such with the project.

Recommendations
14. That CEO MEIDECC should communicate to the individual consultants that they are not entitled to be provided with laptops for their use. 15. That the costs of the laptop should be recovered from each consultant, since they have been using the laptops and the value has depreciated in value. 16. That each consultant should be informed in writing that the costs of the laptop will be recovered from them. 17. That arrangement should be in form of instalment payment, and therefore be deducted from their pay, so when their contract agreement is completed, all costs has been recovered.

Recommendations
18. That CEO MEIDECC should inform the EA of this matter in writing. 19. That CEO MEIDECC should inform CEO Fisheries is currently using one of the projects equipment that the Ministry is not entitled to. 20. That the costs of this laptop and hard drive be recovered from the Ministry of Fisheries. CEO MEIDECC to make all necessary communications. Siola'a Malimali - $3,302 (laptop) + $514.80 (external hard drive).

8. Goods paid for but not yet received

During the physical stock take of goods ordered for the PIU – Fisheries, there were three (3) items claimed by the PIU that has not been delivered by the supplier as these were not at the Fisheries stock storage during our inspection. However, the supplier dispute the claim.

It was noted that there was no delivery docket accompanied the goods at time of delivery, that would verify time of delivery and the receiver of the goods as the project PMU and accountant were not aware that these goods has not been delivered. However, the payment has been made to the supplier in full.

Recommendations
21. That the PMU Procurement Specialists follow up on this issue. 22. No contract for goods should be authorized for payment unless all goods that has been ordered has been delivered. 23. That the Procurement Specialists should ensure that all goods received are checked against the order and the delivery docket and that the Procurement Specialists sign the delivery docket as an evidence that the goods delivered has been delivered before the goods are made available to the designated PIU or project personnel.

9. Good received not in accordance to specification ordered

During stock staking of goods ordered for PIU – Fisheries, it was identified there was an item that did not meet the specification of the goods ordered. 25 polypropylene plaited rope has been incorrectly ordered. PMU was not aware that this good was not the correct goods ordered.

Recommendations
24. That the Procurement Specialists follow up this issue. 25. That the project account not to process any payment of goods unless goods receipts process has been completed. Therefore delivery docket is signed by supplier and procurement specialists.

10. Assets not available to be sighted as these were on loan to the Ministry of Fisheries

During physical stock take of PIU Fisheries stock, some items were not at the storage. Explanation provided that these items have been borrowed by the Ministry and they have not been returned. Some items have been moved to Vava'u. However, the movement of these assets cannot be confirmed because there is no written records of these movements.

Recommendations
26. It is recommended that PIU Fisheries establish a stock system for the project stocks. Therefore put in place stock card for each item and have the movement of each stock recorded with information such as date, signature of person issuing and issuer. This enable the PIU to keep track of the movement of the stock and assets.

11. Project Accountants processing ineligible expenses

In reviewing expenses and payments, audit noted some reimbursement made into the imprest account. In looking further into this it was noted that these were expenses not eligible for payments from the project fund but the purchase was processed by the project accountant.

Not only that ineligible expenses had been paid from the projects fund but the project accountant has been doing some work that he was not supposed to do.

These were the ineligible expense:

MEIDECC

6/8/2016 - Accessories for Vehicle: USD3,300.19
Reimbursed to CRSP imprest account on 16/3/2017

SMEC

a. 27/4/16 - Furniture for PMU at MEIDECC: USD6,575.75
b. 9/9/16 - Computers from PMU Office: USD4,792.94
c. 23/9/16 - Insurance policy for PMU Vehicles: USD2,700.47
d. 17/10/16 - Window blinds for PMU: USD1,754.70

Expenses "b", "c" and "d" were deducted from SMEC claim in March 2017 for the month of January 2017. Expenses "a" yet to confirm whether this has been reimbursed.

Recommendations
27. That the Project Accountant to refrain from processing ineligible expense in the future. 28. That any future repetition of such practice should be subject to serious discipline.

12. Project vehicle operate without a valid license plate and valid registration

In reviewing payments, some of the expenses were not available at the time of inspection. This include office equipment purchased and maintenance expenses but had not supporting document and claims for travel where only the boarding passes were provided and no itinerary and other documents to support these travel were for the purpose of project.

Recommendations
29. That the Project Accountant should ensure that all supporting documents are properly filed. That any future repetition of such practice should be subject to serious discipline. 30. In relation to travel, please also file itinerary and documents to provide sufficient information that the travel has been project related. Itinerary is also essential for calculation of the travel allowance if it is part of the entitlement. 31. CRSP management to put in a place a permission to travel procedure. This requires every travel to be approved by the CEO of MEIDECC before the travel takes place. This ensure that all travel is properly authorized and the travel is project related.

Recommendations
32. That the project is to be reminded that the number of travel entitles is the maximum number of trips and not the many trips that can be done within the maximum dollar value of travel entitlement as per agreement. 33. That reimbursement of travel should be based on the exact amount paid and not the whole amount allocated per travel in the agreement unless the amount paid was greater than that budgeted for.

13. Payroll payments have no Timesheet and not signed by approver

In reviewing payroll, from the sample tested 15% had no timesheet for the payments paid. 29% of the sample timesheet tested were not approved. Majority of the payments without timesheets were around June. Since the all project payments are processed through MoF there is an early cut off for all payments to be processed in June. In that case, payroll for June are processed earlier in June in order to meet MoF cut off period.

Recommendations
34. Project Accountant to ensure that all timesheet is provided and approved for all payroll before processing any payroll. 35. That advance payment of salaries/wages not to be practiced. 36. That approver of payment should ensure that all supporting documents are provided and that timesheets has been approved before authorizing any payroll payments.

14. Panel – no conflict of interest declaration form signed

It reviewing procurements processes, it was noted that conflict of interest declaration form was not signed. The conflict of declaration form, identifies if there is a conflict of interest and it is dealt with appropriately.

Recommendations
37. For all procurement related activities, Procurement Specialist should ensure that all panel members, sign conflict of interest declaration form. He/she must also ensure that these are reviewed and signed review.

15. Project Vehicle register under SMEC

In reviewing the fixed assets, it was noted that two vehicles purchased for the operation of PIU – MoI is registered under the consulting firm, SMEC. The vehicles has been purchased with the project fund. Hence the ownership of the vehicles should be with CRSP until the project is terminated.

Recommendations
38. That the PIU-MoI team leader should initiate the process of transferring the vehicles ownership back to CRSP. This should be completed by April.

16. PIU – Fisheries: Electric Generator been transferred by Ministry of Fisheries – Niuatoputapu's Division

During physical stock taking of the stocks at PIU – Fisheries, it was identified that one of the generator purchased has been transferred by the Ministry of Fisheries to their division in the outer island of Niua. Activities with Fisheries are to do with Small Management Area (SMA). It is known that there is no SMA in the island of Niua.

Recommendations
39. That CEO MEIDECC to arrange with CEO Fisheries to reimburse the cost of this electric Generator which was $4,992. 40. That the CEO Fisheries to settle this cost two months from the date of agreement with CEO MEIDECC on this reimbursement.

17. Scholarship Recipients also sign as Guarantor

In reviewing process followed forwarding scholarship recipients, part of the process requires the recipient to sign a Bonding Form that also requires signature of two guarantors. Twenty of the scholarship recipient, three of them sign as Guarantor for each other.

These scholarship holders were teachers at Tonga Side School, Nuku'alofa.

Recommendations
41. That the scholarship officer should follow-up this matter and get the recipients to get different Guarantors to sign their form.

18. Guarantor not signed in the bonding forms

In reviewing the ponding form for scholarship recipient, it was noted that two recipients have no Guarantor signed in their forms. The process requires that the Bonding form be completed and have two guarantors signing this form.

Recommendations
42. That the scholarship officer, to follow-up with these recipients on their Guarantor and ensure that they get two guarantors that meets the criteria stipulated in the manual to complete the form.

19. No proper guidance for the scholarship recipient in how to be successful in the program whilst working full time.

In reviewing scholarship activities that it is funded by CRSP, it was noted that no proper guideline put in place regarding the recipients who are working full time as the course also require studying full time.

According to MEIDECC CEO, there has been some communication with the superiors of those involve in the course. They have been informed but no proper arrangement has been made with Public Service Commission (PSC) as well how ministries and departments should deal with their staff who are studying full time and also working full time whether this is achieving.

This raise the concern about the program being successful as it is understood that CRSP and USP has made a formal arrangement to make exclusive offer of this undergraduate programme to recipient of the scholarship for a fix period of three years.

It has been discussed with CEO whether this is in line with government public service commission policy. Audit has also learned that there is a failing rate observed in the first semester.

Recommendations
43. Majority of the recipients are government public servant and therefore require to adhere to Public Service Commission policies and procedures. So if they are required to attend classes during working hours, how is this dealt with to ensure that PSC policies are being complied with. 44. CEO MEIDECC to liaise with PSC on how to address this issue.

4.3.5 Nuku'alofa Urban Development Sector Project (NUDSP) Financial year ended 30th June, 2017

The audit of NUDSP for the financial year ended 30th June, 2017 was completed and we issued an unqualified audit opinion.

The issues raised in our audit management report were as follows:

1. Follow up from previous year's audit

Of the eight (8) recommendations issued, only one was not yet resolved and is repeated again in this year's audit:

Outstanding issues 2014/15	
1	That PMU should ensure that committee meeting should be carried out on a quarterly basis. ***Current Position:*** *Not yet RESOLVED*
Outstanding issues 2015/16	
2	Program Steering Committee (PSC) meeting minutes not signed. The Secretary of the Committee should ensure that the minutes are signed by the Chairman. ***Current Position:*** *RESOLVED*
3	*Timesheets not independently certified* That Project Accountant ensure that timesheets are independently certified for payment process. ***Current Position:*** *Not yet RESOLVED*

Outstanding issues 2015/16	
4	Program Steering Committee (PSC) meeting minutes not signed. The Secretary of the Committee should ensure that the minutes are signed by the Chairman. ***Current Position:*** *RESOLVED*
5	*Timesheets not independently certified* That Project Accountant ensure that timesheets are independently certified for payment process. ***Current Position:*** *Not yet RESOLVED*
6	Project Procurement and Tender Committee (PPTC) members not signing Confidential and Conflict of Interest Declaration form. That the PPTC members should complete and sign the Confidential and Conflict of Interest Declaration for every procurement activity. ***Current Position:*** *Not yet RESOLVED*
7	Evaluation Panel Members not signing the Confidential and Conflict of Interest Declaration form. That the Evaluation Panel members should complete and sign off the Confidentiality and Conflict of Interest Declaration form for every procurement activity. That the PMU team leader must ensure that this form is completed by the Evaluation Panel. ***Current Position:*** *Not yet RESOLVED*
8	Incomplete construction but the contractor period has expired. That the project team leader and manager ensure that when designing bidding documents, it should cover requirements for confirming the financial stability of the bidder in order to avoid cases such as this one.

2. Bank Reconciliation

In reviewing bank reconciliation, there were bank reconciliation provided. But these bank reconciliations were prepared by MoF.

There were no bank reconciliation prepared by the project or evidence shown that they agree with the bank reconciliation prepared by MoF.

Recommendations	
1.	Project Accountant to ensure bank reconciliation is carried or whether is efficient to review MoF's reconciliation and sign it if they agree or make adjustment as necessary. Also ensure this is independently reviewed.

3. Notes to the Financial Statement

The work on the financial statements is greatly appreciated. There are additional disclosure that can improve the usefulness of the financial statements to its stakeholders.

These include disclosing the following:

i) Withdrawal Applications – All withdrawal applications should be listed by Number and amount.
ii) Undrawn Funds – There should a note on the total funds available at year end.
iii) Commitments – All commitments that the Project has entered into should be disclosed at year end.
iv) Related Parties - The policy applied to the disclosure of related-party

Recommendations
2. That Project Accountant to revise these to include in the next set of financial statements.

4.3.6 Tonga Energy Road Map Implementation Unit (TERM IU) Financial year ended 30th June, 2017

The audit of TERM-IU for the financial year ended 30th June 2017 has been completed and we issued an unqualified audit opinion. The project closed on the 30th June 2017 with the outstanding recommendations from prior year audit. There were no issue raised for 2017.

The issues raised in our management report were as follows:

1. Follow ups from previous year's audit

The following recommendations were yet to be resolved and thus, repeated in this year's audit:

Outstanding recommendations
1. That the PMU should document minutes properly with complete and accurate information. That the PMU should provide meeting minutes on a timely manner. 2. That PMU should provide all documents request by the auditor.

4.3.7 Cyclone Ian Recovery Project (CIRP) Financial year ended 30th June, 2017

The audit of this project for the financial year ended 30th June, 2017 has been completed and we issued an unqualified audit opinion.

There was no issue raised in the management report.

4.3.8 Tonga Cyclone Ian Reconstruction and Climate Resilience (TCIRCRP) Financial year ended 30th June, 2017

The audit for the TCIRCRP for the financial year ended 30th June, 2017 has been completed and we issued an unqualified audit opinion.

4.3.9 The Pacific Environment Community Funds (PECF) Financial year ended 30th June, 2017

The audit for the PECF for the financial year ended 30th June, 2017 has been completed and we issued an unqualified audit opinion.

The following issues were raised in our management report:

1. Prior year issues 2015-16

Outstanding prior years issues		*Status*
1.	No supporting documents for meeting fees	Partially resolved – Minutes of minutes not provided.
2.	Fund Transfer form to Ha'apai and Vava'u were not signed as evidence of received by the respect agent.	Resolved.
3.	Consumption Tax paid by the project not lodged with IRD for refund	Outstanding.
4.	Funds allocated for M1 was spend on M2 activities	Resolved.
5.	Ineligible expenses of $190 paid from the project fund	Outstanding.
6.	Supporting documents not properly maintained.	Outstanding.
7.	Consultant approved his own appointment.	No similar case in 2016-17
8.	Project Manager's is on a private practice contract which means he should be only working for the project after 4:30pm weekdays and weekends but the Finance Agreement requires that the Project Manager should be employed on a full time basis.	No action.
9.	Timesheets for time worked not provided	Outstanding.
10.	Private Practice vs Employee of the Ministry (MEIDECC). The project manager is a full time employee of the Ministry and also working on a full time contract for the project.	Resolved.
11.	Laptop's purchase for the use of the Project Manager and Consultant but their contracts does not state that they are entitle to these.	Resolved.

2. Expenses were partly disclosed in the Financial Statement

In confirming expensed disclosed in the financial statement to payment vouchers and supporting document, it was noted that the expenses were understated by TOP3,000.

Recommendations
1. Project Manager to perform a monthly reconciliation of payment voucher with transaction list from Sun System in order to ensure completeness of expenses disclosed in the financial statement.

3. Monthly reconciliation not carried

In reviewing the project bank account with National Reserve Bank of Tonga (NRBT), monthly bank reconciliation. Even though no payment has been made out of this account, it is important to carry out this reconciliation in case there are payment pending to disclose in the bank statement. Therefore the actual balance is misstated.

Recommendations
2. That Project Manager carries out a monthly bank reconciliation for this bank account.

4. No purchase order request form

In vouching expenses to supporting documents, identified transactions totaled TOP$2,810 did not have purchase order request form. This is a recurring issue from prior year. This indicates payment procedure has not been followed.

Recommendations
3. Project Manager to be held accountable for not following payment procedure as this is a recurring issue.

5. Nine (9) transactions has no payment vouchers and supporting documents

In vouching expenses to supporting documents, nine (9) transactions amounted TOP$3,857.38 did not have any payment voucher and supporting documents.

The identified transactions were from the transaction lists obtained from Sun System. The Project Accountant has been asked to provide these but these have not been provided. This is a recurring issue from prior year. Accounting proper records is not filed and kept for auditing purpose.

Recommendations
4. Project Manager to be held accountable for not keeping proper payment and supporting document as this is a recurring issue.

4.3.10 Outer Island Renewable Energy (OIREP) Financial year ended 30th June, 2017

The audit for OIREP for the financial year ended 30th June, 2017 has been completed and we issued an unqualified audit opinion. This is the first audited financial statements for OIREP.

The following issues were raised in our management report:

1. Project Manager working days claimed was more than what is stipulated in the contract agreement

In reviewing the accuracy of the consultant payment made to the Project Manager, it was noted that the contract allowed the manager to claim up to 22 days per month. Since May 2016, more than 22days has been claimed every month up to May 2017.

Chief Executive Officer (CEO) of the MEIDECC in November 2016, requested to ADB to increase the project manager's working days from 22 to 25 days effective from September 2016. There has been no formal response from ADB to this letter been provided.

A new contract has been signed by MoF and MEIDECC on the 19th December 2017 where the working days is increased from 22 to 25. It was effective from the 18th January 2018.

During the period under audit, May 2016 – June 2017, 28 days has been paid above what has been allowed by the contract. Total cost comes to USD$11,200.

Recommendations
1. If there was an approval to increase the Project Manager's working days from 22 to 25 as a response to the CEO of MEIDECC request in November 2016, then MEIDECC should forward this to us as soon as possible. 2. If there has not been any direction for this increase in working days, then this overpayment should be deducted from future remuneration claim of the Project Manager.

2. Project Manager's Land Transport expenses exceeded the budget allocation

In reviewing payment for other entitlement of the Project Manager under his contract, Land Transport (second hand vehicle) was exceeded. The contract provided for Land Transport cost of up to USD20,000. USD21,732. has been paid under this category. The excess of USD1,732, USD745 should be classified under the National Per Diem as this cost relates to travel allowance. The remaining USD987 is part of the vehicle cost purchased under the Land Transport. Land Transport payment has been exceeded by USD$987.00.

Recommendations
3. That the amount of USD745 should be classified under the National Per Diem category instead of the Land Transport. If there has not been any direction for this increase in working days, then this overpayment should be deducted from future remuneration claim of the Project Manager. 4. That the excess of USD987 be paid back by the Project Manager through a direct deduction in his future remuneration claim.

3. Project Steering Committee, (PSC), chaired by Hon Minister for MEIDECC instead of MoF CEO as stipulated in the PAM.

In reviewing the PSC, it was noted that Minister for MEIDECC at the time chaired the committee. According to the Project Administration Manual (PAM, Sept 2015) page 6 paragraph 2, CEO-MoF is the designated PSC chairperson.

There was no official direction provided where the PSC is to be chaired by the Minister for MEIDECC.

Recommendations
5. That MEIDECC and MoF clarify who should be chairing the PSC and formalize this.

4.3.11 Tonga Health Promotion Foundation (THPF) Financial year 30th June, 2017

The audit for THPF for the financial year ended 30th June, 2017 has been completed and we issued an unqualified audit opinion.

4.3.12 Other Projects' Audit

4.3.12.1 Tonga Cyclone Ian Reconstruction Climate Resilience Project (TCIRCP) Special Audit

The request for this audit came from the Infrastructure in regards to a material misconduct of the project bookkeeper who was based in Ha'apai.

Findings from this special engagement were:

1. Misappropriation of Project Fund

A total of TOP$4,299.44 of project fund was used by the bookkeeper for personal use.

2. Forgery – Invoice and Signature

The bookkeeper issued a false invoice on behalf of the supplier for which the claim was for. She also imitated the signature of the supplier in order to increase the authenticity of the invoice.

3. Encourage lying about the project stock

The bookkeeper has asked the supplier to lie about the fuel stock that the supplier was holding for the project.

4. Using of TCIRCRP purchase order for personal purpose

The bookkeeper use a cancelled purchase order of the project with Real Tonga Airline for personal travel for a return trip to Tongatapu.

5. Date in the original order differs from the date in the copy

It was identified that the date in the original order date differed from the date in the copy for the payment in which the misconduct occurred.

6. Missing supporting document

In vouching the payments to the supplier which the bookkeeper use to disguise her misconduct, one of the payments to this supplier, the supporting documents were missing. Audit could not confirm the validity of this payment.

Recommendations
1. That the project bookkeeper who is based in Ha'apai, Ms 'Unaloto Penitani be seriously disciplined.

4.3.12.2 Ha'apai Development Community Fund (HDCF)

The request for this audit came from the Chairperson of the Ha'apai Development Committee, Office of the Legislative Assembly.

The audit conducted was limited to the fund allocated under MIA's budget, Program 5: Community Development, subprogram 1: Development Committee, amount of $150,000 with the location Ha'apai as this would have been the fund allocated for the Development Committee of Ha'apai. The fund allocated for the period of July 2016 to June 2017 was the focus of this audit.

Issues Identified in relation to the utilization of the fund:

1. Non-compliance with Procurement Regulation

There were four construction project that the fund was utilized for. The costs for each of this construction project exceeded the threshold of $7,500 that the Procurement Regulation require to be processed through the procurement division at MoF. None of this went through the procurement process.

2. Non-compliance with Public Service Commission (PSC) Regulation 2010 (Amended)

A total of $20,382 was used to pay for labor services. The nature of the service provided was for cleaning up around the downtown area of Pangai Ha'api. Individual and group of individuals were engaged to perform the cleaning service.

Engagement of individual to perform a service pays out of public funds are required to recruit in the manner prescribed in the PSC Regulations. The individuals and group of individuals were engaged and paid that amount to a total of $20,382 was not recruited in accordance with PSC Regulations.

There was no documentation on how these individuals were engaged.

3. Labour work not approved before work commenced

There was a total of $20,382 was used to pay labour services. The supporting documents reflected that those who were engaged to carry out the cleaning work were engaged without approval in writing. Therefore the purchase order approval date in many of the vouching supporting documents were dated after the date that the work was performed. Invoices were usually have the same date as the purchase order. The description in the invoices, clearly stated the date the work was performed. These dates were before the date that the purchase order was approved.

This is interpreted as unauthorized expenses as these expenses took place without proper approval. In some instances, the invoices were dated before the date of purchase order.

4. Labour rates not in accordance with government policy

As in item 3 above, that those engaged to carry out the cleaning service were not recruited in accordance with PSC Regulation, it also means that the labor rates charged by these individual or group of individual were also not in accordance with government policy. The remuneration of those recruited on a daily basis is to be set by the Commission of PSC.

5. Close family business engaged to do construction work

One of the staff spouse who runs a construction firm was engaged to construct one of the projects categorized. The concerned staff confirmed this was the case. Because, construction work that should have been processed through the government procurement process were not done so, it exposes this kind of transaction to the risk of involving related parties without proper handling of such situation.

Recommendations
1. That the Governor of Ha'api and his staff immediately stop engaging staff to work on a daily basis. Should it require to do so, then it is to be recruited in accordance with PSC Regulation. 2. That the Governor of Ha'api should not authorize expenses relating to an activity that the total cost of the activity exceeds the threshold that requires it to be processed through the Procurement Division at MoF. 3. That the Governor of Ha'apai should ensure that services are authorized before they are engaged. Therefore, purchase order is approved before any service is commenced. 4. That the Governor of Ha'apai should refrain from engaging close family of his or his staff to provide services to the office. If it is done so, then the related party transaction should be documented and the exchange should be ensured that it is done at an arm's length. 5. That the Governor of Ha'apai should ensure that his office follow and complies with government procurement regulation and all other government acts/regulations. 6. That the Chief Clerk should formally inform the Governor in writing of the serious breach of government regulation and procedures raised as issues in 1 - 5 above. That it requires him to respond in writing regarding these serious breach.

Issues Identified in relation to the purpose of the fund:

6. Purpose of fund not formally documented

We were in search of government documents that would explicitly discuss what should be funded from this operational fund.

7. MIA Corporate Plan for 2016-17 not provided

MIA's corporate plan for 2015/2016-2017/2018 was the corporate plan provided to us. If the most recent one was available, we could have confirmed whether there has been a direction on how the Development Committee fund be utilized.

8. MIA Corporate Plan not specific on the activities that should be funded from this operational fund

The corporate plan provided to us, did not specifically spell out what the allocated fund is set out to achieve. Major projects was listed but it was not clear on whether these projects would be funded from this allocation or some other source. If it lacks on prescribing how the funds would be used, then it should have made some links to documents that would guide the activity the fund should be used on.

9. Ha’apai Development Committee does not have Term of Reference (TOR)

The absence of a TOR does not set a clear direction on the responsibilities of the committee. The TOR could have linked HDC to the fund allocated under MIA’s budget.

10. Ha’apai Development Committee activities to align with Ha’apai Development Master Plan (HDMP) or Ha’apai Island Development Strategic Plan (HIDSP)

From the minutes of HDC meeting, there was no reference made to HDMP or HIDSP when they decided how the funds would be used. Audit has skimmed read the draft HISDP and water has been ranked as number one priority by all the districts. HDC should also remember that the Cabinet has directed them to have Strategic Development Plan to guide their activities.

Recommendations
7. That the Chairman of HDC should ensure that MIA completes a TOR for the committee as soon as practical. 8. That the Chairman of HDC should ensure that the committee and MIA finalizes the HIDSP. 9. That the Chairman of HDC should ensure that the activity of the committee is guided by the HIDSP. Therefore spending of fund allocated to the committee should be in line with the priorities set out in the HIDSP. 10. That MIA should ensure that spending of the development committee funds are in accordance with HIDSP and in the absence of one, be in line with Community Development plans. 11. That the Chairman of the HDC should ensure that the committee plan ahead of time on the activities to be funded form this allocation. 12. That MIA should require development committees to submit an annual plan or similar documents during government budget season to ensure that funds allocated already have activities set out to utilize this fund.

Issues Identified in relation to the administration and disbursement of the fund:

11. Governor of Ha’apai spent fund he was not appropriated to spend

The responsibilities for administering the fun and authority to decide on what the fund should be spent may not be documented but confirmation from Governor of Ha’apai assured that the fund was not intended for his office. Therefore the responsibilities for administering the fund and to authorize activity to cover from this allocation should not have been with the Governor of Ha’apai and his office.

Recommendations
13. That the Governor of Ha’apai should refrain from spending funds that he has access to if the fund is not appropriated for his office. Audit has confirmed that Ha’apai Development Committee budget allocation for 2017/18 still has a Ha’apai location. Consequentially, Governor of Ha’apai can still access this fund. 14. That the Ha’apai Development Committee work closely with Ministry of Internal Affair Chief Executive Officer in sourcing fund to cater for activities of HDC that were planned to fund from the allocation in 2016/17. 15. That MIA should clearly document whom that fund is intended for and its purpose in their Corporate Plan.

CHAPTER 5: PUBLIC ENTERPRISES

5.1 Summary

We carried out six (6) financial statements audits, and four (4) audit reviews during the year.

We issued 6 unmodified audit opinions for the 6 statements and 6 review certificates for the 6 reviews we carried out during the year. We raised 27 issues and recommendations in our management audit reports for appropriate remedial actions. This excludes the issues and recommendations in our management reports to the management of organisation mentioned in item 5.3.5.6 below.

5.2 Background

We audited the Public Enterprises, (PE) that appointed the Auditor General as their external auditor. For those PEs that appointed other private accounting firms/individuals as their external auditor, the Auditor General reviewed and approved the audited accounts of those PEs.

The main challenge we encountered in this Division from year-to-year is the untimeliness of submitting the draft accounts to be audited and the audit working papers (of the other external auditors) to be reviewed. Moreover, the number of audit and review we carried out is limited to only the draft accounts and working papers of other auditors submitted and received. This challenge is the major stumbling block for this Division.

We charged audit fees on this part of our audit services and deposited in full to Treasury of the Ministry of Finance & National Planning.

5.3 Audit Findings and Recommendations

5.3.1 Waste Authority Limited (WAL) 2016-17

1. Prior year issues

All issues raised in the previous year were followed up. No outstanding issues were noted.

2. Current year issues

2.1. Revenue

There was an increase of 41% in WAL's revenue recorded in comparing to the previous period. Also the joint billing arrangement between WAL and Tonga Power Limited (TPL) contributes positively to this increase of revenue.

Recording and recognising of revenue is on an accrual basis which is in accordance with International Financial Reporting Standards (IFRSs). As a result, at balance date there was an outstanding amount of $114,022 that has been accumulated during the period. This is 29% of the overall Accounts Receivable and Other Receivables.

Despite the management preferring for waste fees to be recognised and recorded on cash basis, this is not in line with IFRSs. It may be suitable for WAL's monthly reporting purpose to the Board, but for financial reporting purpose, it's not.

Recommendations
1. For the management to ensure that recording and recognising of revenue particularly the Waste Fees does comply with requirements of applicable IFRSs which would reflect the true situation of WAL's waste fees.

2.2. Fix Assets (6 Portable Toilets)

Audit appreciate the effort made by the Authority to have a register of its Fixed Assets. However, audit identified 6 portables toilets totalled $51,342.00 were purchased during the period that were not budgeted for. The information provided from WAL that there was an understanding and verbal agreement with the Government of Tonga (GOT) for WAL to purchase the portable toilets on its behalf and the cost would be later reimbursed. Also four (4) of these portable toilets are at the Popua Park and the Golf Course.

There are no written documents regarding this arrangement.

Recommendations
2. The management should follow-up with the appropriate authority (GoT) regarding these assets and to have proper arrangement in place for using of these assets that are at Popua Park and the Golf Course.

2.3. Clean-up cost of the fire at Tapuhia

The fire that erupted during the Christmas Break in which the cost of maintenance and clean-up was recorded at $44,663. The information provided from the management that the cost for the maintenance and clean-up should have been covered by the Government.

However there is no written documents in place to verify the claim that the Government is responsible for these costs so that WAL can follow-up for reimbursing of these costs.

Recommendations
3. That the management should follow-up with the appropriate authority for the action to be taken regarding the recovering of the maintenance and clean-up cost of the fire.
4. Because of its nature and the possibility for this (fire to erupt) to happen again is highly likely, recommend for WAL to consider having a provision for this.

2.4. Minutes of Meeting

Audit wished to remind the importance of having the complete minutes and keeping them in a secure place. The information in these documents are important which recorded the management's important decision regarding the operation of the Entity.

Recommendations
5. That the management should ensure that minutes provided to the audit are the complete minutes for the audited period.

5.3.2 Tonga Broadcasting Commission (TBC) 2016-17

1. Prior year issues

Outstanding prior years issues	*Status*
1. No reconciliation of Consumption Tax payable to lodgement form	Outstanding
2. No reconciliation between Debtor's Control Account and Individual Ledger	Outstanding
3. Adjusting journal entries	Outstanding
4. Authorization of Petty Cash Disbursement	Outstanding
5. We identified discrepancies between Fixed Asset Register (FAR) and General Ledger	Outstanding

2. Current year issues

2.1. No reconciliation performed

Financial Statements amount not agree with the amount of General Ledger and Trial Balance. This was identified and pointed out during the audit and was corrected accordingly.

Not performing the importance task of reconciliations for these Items is in danger of not maintaining the correct and accurate amount for them. This is a control mechanism to ensure that what is recorded are accurate and reflect what actually happen during the audited period.

Recommendations
1. Management need to ensure that the importance task of reconciliation and checking that correct amount is recorded and carried out by the responsible person. ***Client's response*** *Agreed and appropriate action will be taken.*

2.2 Approval of discount

There are discount allowed but no proper documentation for the approval. Having unauthorised discount allowed will be a loss of revenue to TBC.

Recommendations
2. That the management should ensure that appropriate and proper approval authorisation is in place for such activities. ***Client's response*** *Agreed and appropriate action will be taken.*

2.3 Housing Allowance

Incomplete records regarding the amount from CEO housing allowances.
Having incomplete records of this expenses can be overstated if no proper documents in place.

Recommendations
3. That the management should ensure that proper documentation and records are in place for verification that the rate set were approved by the appropriate authorisation. ***Client's response*** *Agreed and appropriate action will be taken.*

2.4 Receipts Book

The system in-place for issued of receipts book was not always followed by those that are using the receipts book. This is a control mechanism to ensure that all receipt books are accounted for.

Not following what has been put in place to control the movement of the receipts book is at risk of having used receipts books not being accounted for and identify its whereabouts.

Recommendations
4. That the Supervisor for the Account Division ensure that the process put in place for issuing of receipts books are followed and comply with. ***Client's response*** *Agreed and appropriate action will be taken.*

2.5 Filling system

During the audit, we notice some files and records were not properly kept and stored. Not properly storing and kept the file and records contribute to time consuming when request for their availability.

Recommendations
5. That management should ensure that files and records are kept and store in a secure place. ***Client's response*** *Agreed and appropriate action will be taken.*

5.3.3 Tonga Market Corporation Limited (TMCL) 2016-17

1. Prior year issues

All issues raised in the previous year audit has been resolved.

2. Current year issues

2.1. Issuing invoice to unpaid rent

We identified that there was no invoice emit to the tenant that re renting rooms at TMCL. It was highlighted that issuing invoice to the tenant is a control mechanism and another source document to verify the tenant payment if unforeseen circumstances happens, i.e. if the register book is lost or gone missing.

Recommendations
1. Invoice should be issued to those tenants whose rent remain unpaid at year end. This will ensure that unpaid rents are accounted for. ***Client's response*** *The current practice is that TMCL issued a TMCL license to the tenant which details the rate for the rent, bond rent, electricity bond and other information. This license is renewed every year to the tenant. There has been no problem incurred from the past regarding the system we have been using and if there was an issue arise about this issue we will surely do something about it.*

2.2. On-going expenses still made to American Samoa regarding the Market space

We also identified on-going expenses disbursed to American Samoa. These expenses consist of the market utilities (waste, water and electricity) and salary for the care taker in American Samoa. We were informed that the Market in American Samoa is still not operate due to the business license that have not yet granted. Even though there have been various discussion since 2015 between delegations from the two countries regarding this issue, there is no progressing up to now. This is not viable for payment to be made and no return to receive from it but only expenses occurred.

Recommendations
2. That the responsible and appropriate authorities regarding this matter should follow-up the stage of what was agreed upon with the Minister of Labour and Commerce in American Samoa and act accordingly as this issue has been outstanding and long overdue. ***Client's response*** *We are still waiting for the detail proposal on Mr. Sione Kava to be Property Manager of GOT business ventures at American Samoa that should have been submitted from the Director of Commerce (Head of American Samoa Government Delegation), Department of Commerce American Samoa*

2.3 Staff and labour workers with a contract

The staff and labour workers at TMCL does not hold an employee contract except the General Manager (GM) for TMCL. Maintaining a contract is valuable and important document which include information about the employee. Information such as recruitment and entitlement ie. Leave, rate, salary per annum & etc. Also the recruitment and termination process should be transparent and in writing if there is no contract to specify the entitlement of an employee.

Recommendations
3. That the staff policy in place should be made available and known to TMCL staffs and any termination or recruitment should be documented and filed accordingly. ***Client's response*** *The TMCL maintain a staff policy. This staff policy describe the element of how to recruit or terminate an employee. Also, the Board have appointed a "staff committee" which are, The General Manager: Mr Metuliki Fakatava, Finance Manager: Ms Vika 'Olie, and Human Resource Manager: Ms Tupou Finau. This staff committee oversee any staff matter, such as behavioural, salary scale and etc. whilst the Board oversee any staff matter regarding the staff committee members*

2.4 Road stall market

Audit noted the on-going threats to TMCL operations because of private and individual road stall market.

Management information and response:
The Market Act clearly stated the boundary for the road stall as one (1) mile away from the Market property. However, the road stall moved two (2) meters away from the side walk and into their property and sell their products from there. This set them free and not bound by the law. However, TMCL is developing a plan for the Market at Tofoa so that the road stall market may possibly want to move in to the market property. Also on going working with the government regarding the lad issue at Siamelie Market in Ma'ufanga so that the proposed market is properly developed for more chance to persuade and encourage the road stall market to operate from it.

2.5 'Utukalongalu Market, Vava'u

Audit noted that according to Cabinet Decision No.982, dated 16th September 2016, regarding the transferring of managing and operating of 'Utukalongalu Market in Vava'u to the Tonga Market Authority. And yet no work or development have been identified to be progressing.

Recommendations
4. That the appropriate and responsible authorities to follow-up the current status and situation regarding this matter so that the work and develop need for the said market is carried out accordingly. ***Client's response*** *At the moment, it is only the managerial right that is transferred to the market. They are still waiting for the Ministry of Public Enterprise (MPE), Ministry of Finance and National Planning (MoFNP), and Ministry of Agriculture, Forestry and Food (MAFFF) to carry out a Board of Survey regarding the assets of the Market that should be transferred to Market Authority*

5.3.4 Tonga Water Board (TWB) 2016-17

1. Unresolved prior year issues

1.1. Prior year adjustment

There are entries that has been posted to the prior year adjustment, but they are not transactions relating to the prior year. There is no justifications provided on why it is posted to the prior year adjustment account. We have recommended that these transactions are reversed and posted to the correct ledger account.

Recommendations
1. Management to ensure that all prior year adjustment are properly justified.

1.2 Reconciliation

The reconciliation between the two accounting system, Teraterm and Attache needs to be strengthened, as they did not justified the variance between the closing balance of Trade Receivables from each system. Closing trade receivables from Teraterm was different from the closing balance from Attache.

Recommendations
2. Reconciliation between Teraterm and Attache be done with more regor.

1.3 Provision for doubtful debt

The provision for doubtful debt is realized as 10% of total trade receivables. There is no justification for the realization at 10% particularly when total debtor balance that are due more than 90 days are 50% of total trade receivable balance.

Recommendations
3. Provision for doubtful debt to be justified and calculated according to the aging trade receivables.

1.4 Inventory

The accounting software (Attache) cannot determine the closing balance for inventory on hand, so the result of the year end stock counting is the closing balance for inventory. This is not a reliable determination of inventory as there is no electronic record to confirm the inventory on hand.

Recommendations
4. Management to utilize the Inventory module in the Attache, to electronically calculate the inventory balance on hand. This will act as a control confirmation against the result of the stock take.

1.5 Inventory Transfer

The inventory system is not robust to track the movement of stock between branches. There is no reconciliation of inventory record between the head office and the outer island. Consequently, there was variance in the Inter-branch Transfer balance which were inventory that cannot be traced to where it was transferred to.

Recommendations
5. Reconciliation between the head office and the outer island branches inventory record is to be carried out on a monthly basis.

1.6 Fixed Asset Register (FAR)

The FAR is not reviewed and updated. Several assets with zero book value has not been removed from the register and there are assets which are not accounted for in the register.

Recommendations
6. The Finance Manager is to review and update the FAR on a regular basis.

1.7 Capitalization of Property, Plant and Equipment

The capitalization policy employed by TWB for its asset is not clearly defined. From the review of FAR there are asset items with cost of less than TOP$100 has been capitalized as asset instead of expenses. There were also items which are clearly expenditure in nature but has been capitalized such as per diem, overseas travel and accommodation cost.

Recommendations
7. The policy for capitalization should be clearly defined by management in a policy or board document. This will ensure and justify the threshold between realizing assets and expenses.

1.8 Payable

The reconciliation between the Aging Report, the financial statements and subsidiary ledger was not properly carried out by the accountant and finance manager. Consequently, there were variation between the payable figures in each record.

Recommendations
8. Reconciliation between payable aging report, subsidiary ledger and the financial statements should be carried out on a monthly basis by the accountant.

1.9 Journal entries

The board’s journals are not reviewed on a regular basis by an independent officer from the one posting the transactions. Consequently, there are transactions that were posted to the wrong journal.

Recommendations	
9.	TWB Management should ensure that journal entries is being reviewed on a regular basis to ensure correctness and accuracies of individual general ledger accounts.

2. Current Year Issue

2.1 Overcharged Customers

There are currently 944 customers (excluding customers whose negative balances are below $1) with a negative balance (water bills) in the TWB's trade receivable register. These negative balance customers were either incorrectly overbilled by the board or there was overpayment made on their accounts.

Recommendations	
1.	Management needs to ensure that these customers are consulted, and that they are aware of their credit balance. Further, there needs to be a close consultation between Billing division and Finance on how to eliminate these problem.

5.3.5 Public Enterprises reviewed by TOAG during the year 2017-18

5.3.5.1 Port Authority Tonga (PAT) 2015-16

The following observation was noted from our review:

- Pre-engagement Activities complied with the International Standards on Auditing, ISA.
- Strategic Planning complied with ISA (including risk assessment to determining audit strategies)
- Fieldwork complied with ISA
- Review and reporting was in compliance with the ISA

Based on the result of our review, we concluded that the audit conducted by PricewaterhouseCoopers (PwC), was in accordance with the International Standards on Auditing (ISA).

5.3.5.2 Tonga Post Limited (TPL) 2014-15 & 2015-16

The following observation was noted from our review:

- Pre-engagement Activities complied with the International Standards on Auditing, ISA.
- Strategic Planning complied with ISA (including risk assessment to determining audit strategies)
- Fieldwork complied with ISA
- Review and reporting was in compliance with the ISA

Based on the result of our review, we concluded that the audit conducted by PricewaterhouseCoopers (PwC), was in accordance with the International Standards on Auditing (ISA).

5.3.5.3 Friendly Island Shipping Agency (FISA) 2015-16

The following observation was noted from our review:

- Pre-engagement Activities complied with the International Standards on Auditing, ISA.
- Strategic Planning complied with ISA (including risk assessment to determining audit strategies)
- Fieldwork complied with ISA
- Review and reporting was in compliance with the ISA

Based on the result of our review, we concluded that the audit conducted by PricewaterhouseCoopers (PwC), was in accordance with the International Standards on Auditing (ISA).

5.3.5.4 Tonga Airport Limited (TAL) 2015-16

The following observation was noted from our review:

- Pre-engagement Activities complied with the International Standards on Auditing, ISA.
- Strategic Planning complied with ISA (including risk assessment to determining audit strategies)
- Fieldwork complied with ISA
- Review and reporting was in compliance with the ISA

Based on the result of our review, we concluded that the audit conducted by PricewaterhouseCoopers (PwC), was in accordance with the International Standards on Auditing (ISA).

5.3.5.6 Other Audit Engagements of the Division during the year 2017-18

There are other bodies that we audited during the year for they appointed the Auditor General as their external auditor. Also, there was one special audit request, which was conducted and reported by the Auditor General. These bodies are independent (separate legal entity from) of Government however, they all have direct financial relationships with Government.

All the audits mentioned below were completed and reported to Governance Body during the working year 2017/18. These bodies are the:

5.3.5.6.1 Tungi Colonnade Company Limited

The audit of the financial statements of the Tungi Colonnade Company Limited (TCCL) for the financial year ended 30th June, 2017 was completed in February 2018. We issued an Unqualified Opinion on the financial statements of TCCL and our detailed audit management report was sent to the CEO/General Manager of the TCCL.

5.3.5.6.2 Tonga National Rugby League

The audit of the Tonga National Rugby League (TNRL) was a special audit request. The request was as a result of a civil proceedings between members of the TNRL board of directors. The audit was for the four financial years 2012, 2013, 2014 and 2015. Our audit report was issued in February 2018.

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