



Performance Audit

Management of Government Asset

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To the Honourable Speaker
Legislative Assembly

I have the honour to submit herewith the Performance Audit Report on “Management of Government Asset”, in accordance with section 10A of the *Public Audit Act 2007 (as amended)*.


Sefita Tangi *ACPA (Aust.)*
AUDITOR GENERAL



cc: Hon. Prime Minister
Prime Minister's Office

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PERFORMANCE AUDITS MAY COVER ONE OR MORE GOVERNMENT AGENCIES, MINISTRIES, OR PUBLIC ENTERPRISES, WHERE AUDIT MAY FOCUS ON THE OPERATIONS OF A SINGLE ENTITY OR ON PARTICULAR ISSUES ACROSS A NUMBER OF ENTITIES.

PERFORMANCE AUDITS ARE REPORTED SEPARATELY TO PARLIAMENT.

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List of Abbreviations

MDAs	Government Ministries, Departments and Agencies
TSDF II	Tonga Strategic Development Framework II (2015-2025)
AMF	Asset Management Framework
PEs	Ministry of Public Enterprises
PSC	Public Service Commission
TAMF	Tonga Asset Management Framework
MoF	Ministry of Finance
AMG	Asset Management Policy and Procedure Guide
GOT	Government of Tonga
IPSAS	International Public Sector Accounting Standard
IT	Information Technology
AMS	Asset Management Strategy
MoI	Ministry of Infrastructure
MoH	Ministry of Health
TPL	Tonga Power Limited
TCC	Tonga Communication Corporations
TCL	Tonga Cable Limited
TWB	Tonga Water Board
MoP	Ministry of Police
PPE	Property, Plant and Equipment

Glossary

Performance Audit – The Independent, objective and reliable examination of whether the public sector’s undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement¹.

Economy – minimization of the costs for an activity while sustaining the appropriate quality and quantity.

Efficiency – achieving optimal outputs in terms of quantity, quality and timing while keeping resource inputs at a minimum.

Effectiveness – the achievement of the planned outcomes.

Asset Management Framework – The superseding document that shows the system of asset management by bringing together the inter-relationships between the major *MDAs* or *PEs* planning activities and asset management allowing *MDAs* or *PEs* strategic goals to be cohesive with the asset portfolio to meet *MDAs* or *PEs* overall outcomes.

Asset Management Strategy – describes how the *MDAs* or *PEs* strategic intent will be implemented to meet outputs and outcomes as it relates to the *MDAs* or *PEs* asset portfolio.

Asset Management Policy and Procedures Guide – The basis of the *MDAs* or *PEs* internal control of the asset management environment providing a day-to-day instructions for the management of assets.

Strategic Intent - Denotes the purpose which each *MDAs* or *PEs* ventures to achieve.

Infrastructure Assets – Assets with many large component parts that work together to provide a service or system and need the input of many different workers to operate and maintain. If one part fails, the system fails. The system might not stop functioning but its functionality will deteriorate.

¹ *International Standards of Supreme Audit
Institution 3000 Standards for Performance Auditing*

Foreword

Asset management is an essential component of good governance in both public and private sector organizations. Assets exist within entities to support programs' delivery and assets management decisions are not to be made in isolation from broader decision-making and financial management of the entity. Thus, requirements and responsibilities throughout the assets' lifecycle are to be incorporated into the broader strategic planning of the organization.

Management of assets can be very complex tasks and there are considerable costs involved therefore, measures need to be taken to ensure that these costs are minimized while ensuring that programs' delivery and other operational objectives are achieved.

This audit looked at potential measures that would enhance the economy, efficiency and effectiveness of management of assets. It looks at the current situation and provide recommendations for improvement in critical areas of assets management.

This report is intended to be a resource for Ministries, Departments, and Agencies, MDAs, and Public Enterprises, PEs, that management significant infrastructure assets; property, plant and equipment and intangible assets.

This is the first time that the Office of the Auditor General attempts to conduct a performance audit on the management of government assets and it is anticipated that follow ups and similar audits will follow in the future.

Sefita Tangi *FCPA*
AUDITOR GENERAL

Executive Summary

Objective

The objective of the audit is to assess how government assets are managed economically, efficiently, and effectively.

The following criteria are applied to assess the management of government assets:

Criteria 1

- That government assets are managed effectively to deliver the outputs and outcomes in the Annual Management Plan or Annual Plan of *MDAs* which, together, implement the vision of the Tonga Strategic Development Framework II, *TSDF II* and the Annual Budget.
- An Asset Management Framework, *AMF* enables *MDAs* to monitor and report on the performance of assets applied to achieve organisational outputs and outcomes.
- The *AMF* includes a national Asset Management Policy and Procedure Guide, *AMG* to record the policies and procedures for *MDAs* to record, track, update, deploy, replace or dispose, safeguard assets so they achieve their intended purpose. It is managed centrally to ensure it is compliant with the *Treasury Instructions 2010*, *Public Service Commission*, *PSC Policy Manual* as it is updated and with appropriate Ministry of Public Enterprise, *PE*, guidelines.

Conclusion:

A Tonga Asset Management Framework, *TAMF*, has been proposed by the Ministry of Finance, *MoF*. When designed and implemented, it could assist *MDAs* in managing the performance of their assets to better deliver outputs and outcomes. The government *MDAs* would benefit from a whole of government framework, as they still need to improve efforts in monitoring their assets.

Recommendations:

1. We recommend the timely development of the *TAMF* to provide an overall systematic government guideline for asset management for the *MDAs* to follow.
2. As part of their Annual Report, *MDAs* should include the assets managed on behalf of the public and/or held to deliver services and how they directly relate to the delivery of their mandate.

Criteria 2

- That government assets are managed efficiently by *MDAs* managers who have access to an internal asset management policy and procedures guide, *AMG*. This *AMG* is adapted from the national *AMG* to guide the specific *MDAs* staff to record, track, update, deploy, replace or dispose, safeguard assets so they achieve their intended purpose.

Conclusions:

Some *MDAs* have *AMG* that are clear and well thought through however, they were finding it difficult to ensure staff always adhered to them. For those that do not yet have *AMG* in place to establish their *AMG* to add value to their asset management. The lack of central government leadership contributes to risk in the *MDAs* and *PEs* internal control environment which, in turn, hinders efficiency. The lack of a regular system for stocktake and updating the *MDAs* asset register increases the risk for the delivery of services.

Recommendations:

3. *A National AMG be formulated. Individual MDAs and PE then adapt it and implement an internal control environment of asset management for its day to day operations. The AMG will consolidate all of the MDAs accounting, legislation, operation policies and procedures for the entire asset lifecycle. This included train staff in the AMG use and monitor the benefits accruing to service providers from an internal control environment of asset management supporting their day to day operations.*
4. *Asset Registers be prepared and maintained in order to derive concise and correct information for future decision making.*
5. *That all Information Technology, IT, software that is procured separately and together from any IT hardware be classified as an Intangible Asset and capitalized at original purchase and included in the MDAs fixed Asset Register. The register is to contain warranty information, service contracts and contacts for service and updates. This will enable the Government of Tonga, GoT, to be in compliance with the International Public Sector Accounting Standards, IPSAS 31, Intangible Assets.*

Criteria 3

- That government assets are managed economically as part of the optimum asset base vital to support program delivery requirements. This asset base is reported in an Asset Management Strategy, AMS. Such a strategy will record how the MDAs intends to create assets, acquire, maintain, rehabilitate, replace and dispose of them in the period. It also includes details of the level of service required for each major asset to enable the MDAs to deliver the services to be provided. The lowest possible cost is then identified within the required level of service.

Conclusion:

The process of procurement is designed to ensure the acquisition of a new asset is done methodically and transparently in a way that builds the public's confidence in the government's use of resources. That is, it demonstrates value for money.

However, the acquisition of an asset is just one part of an economical asset management system. Economy is achieved when the level of services required are delivered for least cost over the life of the asset. This economy is achieved with reference to the Acquisition, Operation, Maintenance, Performance monitoring, and disposal of the assets required to deliver services. An AMS will provide the planned cost of the services over the assets entire lifecycle together with non-cash impacts (depreciation, financing costs, sunk costs).

Recommendations

6. *That MDAs and PEs developed and implement an AMS to appropriately manage assets over their lifecycle: acquisition, operation, maintenance, performance monitoring, and disposal.*

Acknowledgements

I would like to convey my appreciation for the invaluable assistance provided by the management and the staff of the MDAs and PEs that were assessed during this audit.

CHAPTER I: INTRODUCTION

1.1 Background

We carried out an audit to provide Parliament with an independent view of the *MDAs* and *PEs* of the *GoT* strength in managing the assets they use to deliver expected outcomes. Subsequently, the audit identified areas where improvement can be made and provides recommendations for improvement where appropriate. The applicable governing legislation is the *Public Finance Management Act 2002*.

“Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity”.²

There are two types of assets managed by *MDAs* and *PEs*: (1) financial; and (2) non-financial. Non-financial assets are further classified into 3 types, which are:

- Physical, constructed assets (e.g. infrastructure, plant and machinery);
- Natural assets (e.g. land, fisheries, oil, gas, mineral, gold); and
- Intangible assets (e.g. contracts, intellectual property)

The audit focused on the management of non-financial assets, specifically on the long-term physical assets, defined in the Treasury Instructions 2010 as “*includes property, plant and equipment (PPE), and infrastructure assets*”. The audit briefly assessed the management of intangible assets. Although the definition of *PPE* is commonly understood, the definition of infrastructure assets is less so. For comprehension, the definition of infrastructure assets is “assets with many large component parts that work together to provide a service/system and need the input of many different workers to operate and maintain”. If one part fails, the system fails. The system might not stop functioning but its functionality will deteriorate.

While as yet incomplete, the estimated fair value of *PPE* disclosed in the Financial Statements of the *GoT* for the last five years has increased, as shown in *Table 1* below.

Table 1 - Value of PPE for financial years 2012/13 - 2016/17³

<i>Financial Year</i>	<i>Value of PPE</i>
2012/13	\$ 181,251,032
2013/14	\$ 185,149,130
2014/15	\$ 188,660,958
2015/16	\$ 199,816,092
2016/17	\$ 217,804,225

² IPSAS 1 – Presentation of financial statements, International Accounting Standards Board (IASB). Assets managed.

³ Government Financial Statements 2012/13 – 2016/17

Previous financial audits and compliance audits of both *MDAs* and *PEs* have raised the need to address and improve the management of government assets. The following issues were commonly raised during audits:

- The impact on the stock of assets held as a result of *MDAs* not carrying out a thorough review of the implementation of the Budget. Funds available at year end has sometimes resulted in unplanned acquisition of assets.
- Various *MDAs* Fixed Asset Register are not yet regularly updated.
- The Annual Management Plan or Annual Plan shows minimal information on assets applied to delivering outputs and outcomes.

The issues found by previous financial and compliance audits highlighted the weakness in the planning stage. Planning is key for good asset management because it addresses the entire asset life-cycle from the specification need of the asset, to acquisition, maintenance and disposal. When the plan addresses the entire lifecycle of the asset it will consequently address the economy, efficiency, and effectiveness of the asset laying the foundation for good asset management.

- The last five years' financial statements of Government did not disclose all PPE controlled by Government. This incomplete disclosure contributed to the qualified audit opinion of the *GoT* Financial Statements over the past years.

1.2 Objective and Scope

The objective of the audit is to assess how government assets are managed economically, efficiently, and effectively.

The audit team conducted a risk assessment (refer to *Annex I*) to identify government assets that were at most risk of not being properly managed. Also taken into consideration in the risk assessment were major assets that were outlined in the *TSDF I* and *TSDF II* as government assets that need their quality and sustainability ensured. These assets were:

- (1) Healthcare;
- (2) Education and Training;
- (3) Infrastructure – Electricity, Transport, Communication, Building; and
- (4) Environment.

The result of the risk assessment identified the following assets for focus on the audit: Vehicles, *IT* software, Roads, Telecommunication, Electricity, Water, and Buildings.

Considerations for the audit were made for the wharf, airport, new boat, parks, and stadium assets, however due to limited resources in staff, the audit was limited to the above mentioned major assets. We will consider covering these assets in a future asset management audit.

Based on the government assets selected for the focus of this audit, we then selected the government *MDAs* and *PEs* that were responsible for management of the selected assets. Selection of the *MDAs* or *PEs* for review was based on assessment of various criteria including the *MDAs* or *PEs* that owned or controlled a large quantity of the selected asset and the *MDAs* or *PEs* where critical issues relating to asset management had been raised in previous audits. *Table 2* provides an overview of the selected Assets and *MDAs* or *PEs* for the audit, and cross references to audit findings within the report.

Table 2: Scope of the audit - selected government assets related to MDAs and PEs

<i>Type of Asset</i>	<i>Asset</i>	<i>MDA or PE</i>	<i>Ref</i>
Physical Assets - Infrastructure Assets	Economic:		
	Transport – Roads	Ministry of Infrastructure (MoI)	2.1.3.3 2.2.3.5 2.2.3.6 2.3.3.5
	Building	Ministry of Health (MoH)	2.1.3.2 2.1.3.3 2.2.3.2 2.2.3.5 2.2.3.6 2.3.3.5 2.3.3.5
	Energy – Electricity	Tonga Power Limited (TPL)	2.2.3.1 2.2.3.5 2.3.3.1
	Telecommunication	Tonga Communication Corporation (TCC) Tonga Cable Limited (TCL)	2.2.3.1 2.2.3.5 2.3.3.5
	Environmental:		
	Water	Tonga Water Board (TWB)	2.2.3.2 2.2.3.3 2.2.3.5 2.3.3.2 2.3.3.3 2.3.3.4
Physical Assets – plant and machinery	Vehicles	Ministry of Infrastructure (MoI)	2.1.3.1 2.1.3.3 2.2.3.2 2.2.3.3 2.2.3.5 2.2.3.6 2.3.3.2 2.3.3.3 2.3.3.4 2.3.3.5
		Ministry of Police (MoP)	2.1.3.1 2.1.3.3 2.2.3.1 2.2.3.2 2.2.3.5 2.2.3.6 2.3.3.5
Intangible Assets	IT Software – Sun System	Ministry of Finance (MoF)	2.2.3.4 2.1.3.3 2.2.3.6 2.3.3.5

The audit period examined covered the financial years 2011/12 to 2016/17.

1.3 Analysis of Risk and Audit Criteria

The audit team conducted a risk assessment during the planning phase of the audit (*refer to Annex 1*). The purpose of the assessment was to determine the government assets whose management that would be assessed for the audit. The assets selected are in *Table 2*.

Three lines of enquiry and criteria were established as audit benchmarks for the assessment of the management of government assets. These are outlined in *Table 3*.

Table 3: Line of Enquiry and Audit Criteria

<i>Line of Enquiry</i>	<i>Audit Criteria</i>
1. Are government assets managed effectively?	<ul style="list-style-type: none"> That government assets are managed effectively to deliver the outputs and outcomes in the Annual Management Plan or Annual Plan of <i>MDAs</i> which, together, implement the vision of the <i>TSDf II</i> and the Annual Budget. An <i>AMF</i>, enables <i>MDAs</i> to monitor and report on the performance of assets applied to achieve organisational outputs and outcomes. The <i>AMF</i> includes a national Asset Management Policy and Procedure Guide (<i>AMG</i>) to record the policies and procedures for <i>MDAs</i> to record, track, update, deploy, replace or dispose, safeguard assets so they achieve their intended purpose. It is managed centrally to ensure it is compliant with the <i>Treasury Instructions 2010</i> and <i>PSC Policy Manual</i> as it is updated and with appropriate <i>PEs</i> guidelines.
2. Are government assets managed efficiently?	That government assets are managed efficiently by <i>MDAs</i> managers who have access to an internal Asset Management Policy and Procedures guide (<i>AMG</i>). This <i>AMG</i> is adapted from the national <i>AMG</i> , the <i>Treasury Instructions 2010</i> , to guide the specific <i>MDAs</i> staff to record, track, update, deploy, replace or dispose, safeguard assets so they achieve their intended purpose.
3. Are government assets managed economically?	That government assets are managed economically as part of the optimum asset base vital to support program delivery requirements. This asset base is reported in an <i>AMS</i> . Such a strategy will record how the <i>MDAs</i> intends to create assets, acquire, maintain, rehabilitate, replace and dispose of them in the period. It also includes details of the level of service required for each major asset to enable the <i>MDAs</i> to deliver the services to be provided. The lowest possible cost is then identified within the required level of service.

1.4 Approach and Methodology

The audit used a system-oriented approach. This approach examines the proper functioning of management systems. Elementary principles of good management will be helpful in examining the conditions for efficiency or effectiveness. This approach does not focus primarily on the policy or the goals, but on well-functioning management systems as a condition for effective and efficient policies.

The audit methodology included:

- Conducting interviews with relevant personnel
- Review of relevant documents (legislation, regulation, policies, directives, manuals)
- Data trend analysis

1.5 Statement of Assurance

Sufficient and appropriate audit procedures have been conducted, and enough evidence was gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance.

CHAPTER 2: FINDINGS AND RECOMMENDATIONS

2.1 How are Government Assets Managed, GAM, Effectively?

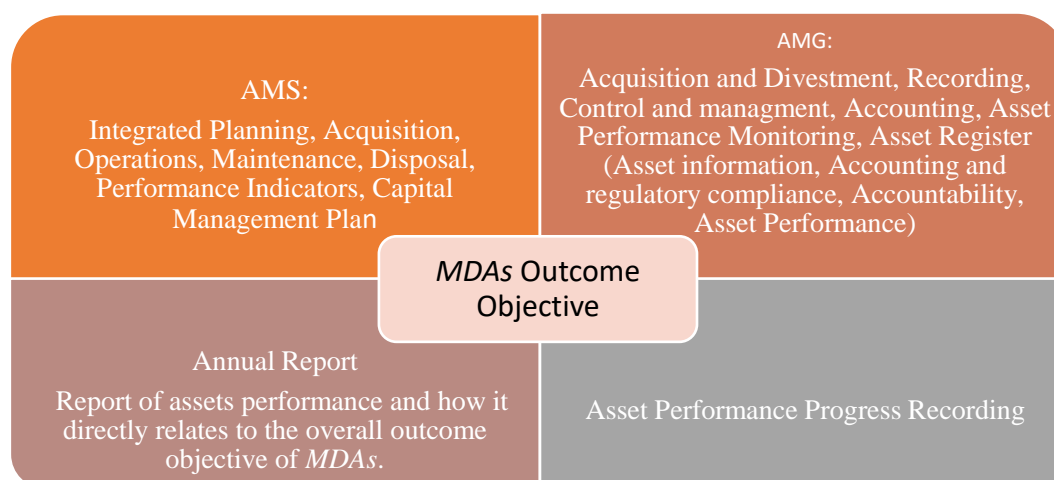
2.1.1 Audit Criteria

- That government assets are managed effectively to deliver the outputs and outcomes in the Annual Plans of *MDAs* which, together, implement the vision of the *TSDF II* and the Annual Budget.
- An *AMF* enables *MDAs* to monitor and report on the performance of assets applied to achieve organisational outputs and outcomes.
- The *AMF* includes a national *AMG* to record the policies and procedures for *MDAs* to record, track, update, deploy, replace or dispose, safeguard assets so they achieve their intended purpose. It is managed centrally to ensure it is compliant with the *Treasury Instructions 2010* and *PSC Policy Manual* as it is updated and with appropriate *PEs* guidelines.

2.1.2 Importance of Audit Criteria

When the Government manages public assets effectively these assets can deliver the critical services needed to deliver *MDAs* outputs and outcomes. Government, therefore, needs to monitor the performance of assets, whether they are used appropriately, whether they are operating as expected, and report this performance so that remedial measures can be taken as needed. This framework will support asset managers keeping assets in service, and ensuring the assets held and acquired meet the needs of service providers as well as the overall budget. Then the *GoT* will have confidence that the assets are performing in such a way that the outputs and outcomes of *MDAs* will be delivered. Therefore, a well-structured *AMF* could facilitate to measure the effectiveness of assets by providing the realistic overview of the linkages between the asset levels and the outcomes expected which will promote appropriate and practical decisions on asset management.

Figure 1: Element of an AMF⁴



⁴ Australian National Audit Office (ANO). *Better Practice Guide on the Strategic and Operational Management of Assets by Public Sector Entities*.

Delivering agreed outcomes through an efficient and optimal asset base, (Barton, ACT: Commonwealth of Australia, 2010), 15.

2.1.3 Audit Findings

2.1.3.1 Few MDAs are monitoring and reporting on the use of their assets

- The MoI has included in its Corporate Plan the target to maintain an updated fixed assets register.
- The MoP has a vehicle fleet management policy. The next step is for the MoP, having substantial number of government vehicles, which are very critical assets for delivering of the services of the ministry, to report regularly on how the ministry has used and managed its assets.

2.1.3.2 Some MDAs monitored and reported asset performance

- The MoH monitors, records, and reports performance of its buildings in terms of repairs and maintenance works and bed occupancy rates for each of the different wards of the MoH in order to provide adequate health facilities to adjust to the public health needs. A Facility and Equipment Committee that includes MoH management and the MoH Maintenance Unit provides a forum for discussion of issues related to the management of the ministry's buildings.

Figure 2: New buildings for Vaiola Hospital



2.1.3.3 Proposed Development of the Tonga Asset Management Framework, TAMF

The Tonga Public Financial Reform Roadmap 2014/2015 – 2018/2019⁵ proposed the development of an AMF to be approved by Cabinet by 31 December 2015. TAMF will set out a framework for the management of government assets including infrastructure assets that will provide uniformity for all MDAs in monitoring, recording, and reporting asset performance. By the end of the audit, development of the TAMF has not been initiated. According to the MoF, they are waiting on assistance for the development of this TAMF.

⁵ Tonga Public Financial Reform Roadmap
2014/2015-2018/2019, Part 5: Section 5.7.6, pg
5-41 – 42.

2.1.4 Audit Conclusion

A TAMF has been proposed by the MoF. When designed and implemented, it could assist MDAs in managing the performance of their assets to better deliver outputs and outcomes. The government MDAs would benefit from a whole of government framework, as they still need to improve efforts in monitoring their assets.

2.1.5 Recommendations

1. *A timely development of the TAMF to provide an overall systematic government guideline for asset management for the MDAs to follow*

Client's response

The MoF has stated that they still need to initiate the preparation of the TAMF

2. *As part of Annual Report, MDAs should include the assets managed on behalf of the public and/or held to deliver services and how they directly relate to the delivery of their mandate.*

Client's response

All Clients agreed to the recommendation.

2.2 How are Government Assets Managed, GAM, Efficiently?

2.2.1 Audit Criteria

The government assets are managed efficiently by MDAs managers who have access to an internal AMG. This AMG is adapted from the national AMG to guide the specific MDAs staff to record, track, update, deploy, replace or dispose, safeguard assets so they achieve their intended purpose.

2.2.2 Importance of Audit Criteria

An AMG clearly establishes what is required to record, account for, control and safeguard assets. An AMG can be structured to give practical direction as to how to undertake day-to-day management of assets. For entities with a small asset base, it may be more efficient to incorporate the key parts of an AMG into its policy and procedures guidance manual.

The structure of an AMG should be logical so that it reflects an MDAs activities, typically under a framework similar to that illustrated in *Figure 3*.

Fundamental elements of an AMG are likely to include the following:

- **Acquisition and divestment:** the processes of procurement and disposal are explained.
- **Recording:** this provides the definitions of what establishes an asset, asset thresholds and grouping, asset classes, and the asset register.

- **Control and management:** establishes the requirements of the (1) regulatory environment; (2) operation environment which includes asset management roles and responsibilities, physical security, stocktakes, personal issues and loans, losses and damages, asset performance indicators, disposals, write offs and insurance.
- **Accounting:** establishes the guidance on accounting for assets including valuation, impairment, useful lives, restructure, assets held for disposal, depreciation methods and rates, and heritage and cultural assets. The asset register will be account to keep asset information as well as historical record of both financial and non-financial information over each asset's life-cycle for the purpose of asset planning, assisting in meeting accounting standards and legislative compliance, monitoring performance, and accountability.

Figure 3: Element of an AMG⁶



2.2.3 Audit Findings

2.2.3.1 *Three audited entities have an Asset Management Policy and Procedure Guide (AMG)*

Audit found that the *MoP*, *TPL*, and *TCL* each had a written document that records their AMG.

MOP's asset management policy and procedure is called the "*Tonga Police Asset Control and Accountability Policy*". Referencing the "*Tonga Police Asset Control*" and *Accountability Policy*" is the "*Tonga Police Vehicle Policy*" and "*Tonga Police Driver's Policy*". These policies are in place. The next step is to train all officers in their use and adapt them where they are impractical or result in perverse outcomes. Such training provide clear definition of roles, and the regularity of documentation.

⁶Australian National Audit Office (ANO). *Better Practice Guide on the Strategic and Operational Management of Assets by Public Sector Entities*.

Delivering agreed outcomes through an efficient and optimal asset base, (Barton, ACT: Commonwealth of Australia, 2010), 160.

TPL has “The Asset Management Procedure Finance Policy” and the “Financial Delegated Authorities Policy”. The Asset Management Procedure Finance Policy purposes is to ‘ensure that capital expenditure by the Company is planned, evaluated, authorised, implemented, monitored and reported in a systematic manner to meet the objective of best practice.’⁷ The Financial Delegated Authorities Policy works in coherence with the Asset Management Procedure Finance Policy and aims to provide a framework ensuring consistency and preventing mishandling of funds.

TCL has TCL’s Financial Policies and Procedures, TCL’s Fixed Asset Policies and Procedures, TCL’s Fixed Asset Register, Tonga Cable System Description Hand Book which together establishes asset management policy and procedures for the management of its asset.

Since, Infrastructure assets deals with components of assets that works together to provide the infrastructure asset such as roads, electricity, etc., an AMG is crucial for the efficient management of the Government’s asset portfolio.

Figure 4: TPL’s statement for providing reliable electricity to Tonga⁸



Source: TPL’s website

2.2.3.2 Systems used to record, track update, deploy, replace or dispose, and safeguard assets are not yet clear and well documented

Audit found that systems used to record, track, update, deploy, replace or dispose, and safeguard assets are not yet clear and well documented. Vehicle drivers were experiencing difficulties in complying with current vehicle fuel recording procedures and vehicle driver procedures.

- The MoI does not yet have a strong system in place to manage ministry vehicles. This makes it difficult to ensure preventative maintenance is undertaken when required, e.g. maintaining of appropriate log books.

⁷ Asset Management Procedure Finance Policy, Section 1

⁸ Tonga Power Limited website, <http://www.tongapower.to/> (accessed 1 August, 2018)

2.2.3.3 Asset Registers are not well kept and maintained

Audit found that the majority of the asset registers are not yet well kept and maintained especially within the MDAs.

- *MoI* prepared its asset register financial year 2016/17 and is strengthening its systems to keep it updated.

2.2.3.4 IT Software has yet to be included in MDAs asset registers

Audit noted that *IT* software, an intangible asset⁹, has yet to be included in MDAs asset registers.

- *MoF* has not yet included its Sun System (software program) in its asset register.

2.2.3.5 Valuation of Asset Stock

Audit found that for assets reviewed, revaluation of asset value had yet to be conducted. Revaluation is an adjustment made to the recorded value of an asset to accurately reflect its current market value. A revaluation of government assets would accurately describe the true value of the assets that the government owns. Revaluation is carried out to get the fair market value of assets in case they are put on sale.

The *Treasury Instructions 2010*, section 80, requires the revaluation of the value of *PPE* to be conducted on a yearly basis. However, the *Treasury Instructions 2010* does not yet have procedures for revaluation of infrastructure assets such as roads or similar. It is important to consider, at end of the financial year, assets that have been fully depreciated but are still productive. These assets need to be revalued and included in the asset register.

2.2.3.6 Tonga Asset Management Framework

As mentioned in section 2.1.3.3, this Framework also proposes to set out the Government policy on management of assets, and ensure that all assets procured are accurately and completely recorded, managed, accounted for, and reported on a regular basis.

2.2.4 Audit Conclusion

The audit concluded that some MDAs has begun to develop and implement asset management policy and Procedure Guideline, *AMG*, however, they were finding it difficult to ensure the staff always adhered to them. The next step for those that do not yet have *AMG* in place is to establish their *AMG* to add value to their asset management. The lack of central government leadership contributes to risk in the MDAs and *PEs* internal control environment which, in turn, hinders efficiency. The lack of a regular system for stocktake and updating the MDAs asset register increases the risk for the delivery of services.

⁹ *IPSAS 31 – Intangible Assets*, published by the International Accounting Standards Board (IASB)

2.2.5 Audit Recommendations

3. A National AMG be prepared so individual MDAs can base this document in the preparation of their AMG.

That MDAs then adapt the national AMG to meet their needs, policies and procedures, train staff in the AMG use and monitor the benefits accruing to service providers from an internal control environment of asset management supporting their day to day operations.

The AMG record the MDAs policies and procedures for managing their major assets. The procedures would include how staff would comply with accounting procedures, legislative requirements and operational policies for the lifecycle of assets. It would include the preventive maintenance schedule and steps to bring assets back into operation.

Client's Response

TWB, MoH and MoF has agreed to the importance of establishing an AMG. TPL, TCL, and MoP who already has an existing AMG also agreed to the importance of having such a document to guide their day to day operations.

Additional Comments:

- *At the time of audit, MoI commented that they do not have an official driver at the moment. The Ministry has various branches and it cannot employ drivers for all division. However, MoI has approved its VIP driver to undertake the responsibilities of looking after the ministry's motor vehicles. The Ministry provides services or works which many times require 2 to 3 vehicles at one time in order to satisfactory carry out these services or works. Of which, our responsible officer has done his best to monitor vehicle usage.*

4. Asset Registers must be regularly updated to provide concise and correct information for decision makers.

Client's Responses:

MoI responded that the officer responsible for the ministry's assets was transferred to the Ministry of Tourism, therefore, MoI had to replace the officer with another staff member. However, MoI is currently looking to permanently fill the post in which that Officer will have full responsibility for the managing of MoI fixed asset's records.

With regards to TPL asset register, TPL has noted that they still need to improve their revaluation for all their assets. TPL is currently in the process of completing the Tonga Village Upgrade Project, which TPL saw provided commendable results after Tropical Cyclone Gita. When they have completed the project, then TPL could carry out an overall revaluation of their assets. TPL also need to take into consideration that some of TPL main generators have a zero depreciation life value, but are still in good condition and are still efficiently working.

With regards to TWB asset register, TWB have made progress with the revaluation of their assets.

The rest of the clients: MoH, MoP, MoF agreed to the recommendation.

5. *That all IT software that is procured separately and together from any IT hardware be classified as an Intangible Asset and capitalized at original purchase and included in the MDAs fixed Asset Register. The register to contain warranty information, service contracts and contacts for service and updates. This will enable the GoT to be in compliance with IPSAS 31, Intangible Assets.*

Client's Response

MoF agreed with this recommendation and have stated that they are currently working to implement this.

2.3 How are Government Assets Managed, GAM, Economically?

2.3.1 Audit Criteria

That government assets are managed economically as part of the optimum asset base vital to support program delivery requirements. This asset base is reported in an *AMS*. Such a strategy will record how the *MDAs* intends to create assets, acquire, maintain, rehabilitate, replace and dispose of them in the period. It also includes details of the level of service required for each major asset to enable the *MDAs* to deliver the services to be provided. The lowest possible cost is then identified within the required level of service.

2.3.2 Importance of Audit Criteria

An *AMS* appropriately plans the management of assets so that relevant costs are minimized while achieving the assets objective and *MDAs* or *PEs* strategic outcomes. The strategy is the practical implementation of *MDAs* or *PEs* strategic goals and helps to determine the best asset base to support *MDAs* or *PEs* program delivery objectives while aligning to applicable legislations. It also sets out the strategic goals for the asset portfolio by outlining what programs will be delivered, the methods of program delivery including non-asset solutions, and what assets and resources will be required. The existence of an *AMS* will help to address the following:

- Planning decisions which affect long-term operational and maintenance costs;
- Poorly designed and managed maintenance programs which lead to planning for asset replacements earlier than intended;
- Rationales for disposal of assets, such as low utilisation, poor functionality or end of useful life that will feed into broader planning process; and
- Realization of total costs of the entire asset's lifecycle

Characteristically, an *AMS* will have a long-term strategic focus. However, it will be supported by more detailed shorter plans such as an acquisition plan, an operation plan, a maintenance plan, and a disposal plan. It will also establish the performance requirements of assets where *MDAs* or *PEs* are committed to using assets to achieve its program delivery objectives.

Figure 5: Elements of an AMS¹⁰



2.3.3 Audit Findings

2.3.3.1 Two audited entities had a formal Asset management strategy,(AMS).

TPL and *TCL* has an existing *AMS*. These two *PEs* are responsible for the government's physical infrastructure asset of electricity and telecommunication. The management of the rest of the assets assessed are yet to be informed by any formal *AMS*.

- *TPL* has two existing Asset Management Plan, *AMP* for its generation assets and its distribution assets which clearly defines and outlines *TPL* intended strategies to develop and implement asset management throughout the asset's lifecycle (acquisition, operation & performance monitoring, maintenance, renewal and disposal) in order for *TPL* to provide continuous reliable electricity to existing and future customers.

¹⁰ Australian National Audit Office (ANO). *Better Practice Guide on the Strategic and Operational Management of Assets by Public Sector Entities. Delivering agreed outcomes through an*

efficient and optimal asset base, (Barton, ACT: Commonwealth of Australia, 2010), 38.

- The TCL has the following documents that outline strategies for the management of its asset over assets lifecycle:
 - *Project Administration Manual 27 June 2011 - `Kingdom of Tonga: Tonga-Fiji Submarine Cable Project.*
 - This document outline Implementation Plans, Project Management Arrangements, Costs and Financing, Financial Management, Procurement and consulting services, Safeguards, Performance Monitoring/ Evaluation/Reporting and Communication, Anticorruption Policy, Accountability Mechanism and Record of PAM Changes.
 - *“Marine Maintenance Service Agreement dated 25th July 2013 between Alcatel-Lucent Submarine Networks and Tonga Cable Limited for the Tonga Cable System”.*

Figure 6: Tonga Cable Submarine Fibre Optic Cable Laying on Seabed ¹¹



2.3.3.2 Acquisition Plan - Some assets are purchased without appropriate planning

Audit found that although no formal document of an AMS exists within the responsible MDAs or PEs which should explain planning for acquisition of an asset(s), procurement and purchases of assets are frequent throughout the financial year observed. Their formal planning does not yet include all procurement.

¹¹ Tonga Cable Submarine Fibre Optic Cable System. by Laupoini Manu. Presentation Overview. Tonga Cable Limited background Market Positioning Tonga-Fiji Route Optical

Infrastructure Backup and Redundancy Southern Cross Cable Network IP Transit Network TCL Services Offered.

Relevant *MDAs* are aware of procurement processes. Procurement regulations and procedures contribute to the economical process because they require that the *MDAs* identifies the assets to be procured aligned with its strategic and financial planning. The *MDAs* will identify the appropriate quantity, quality, and time to acquire assets and the appropriate procurement method and evaluation processes to be followed to ensure that the required assets are acquired at the lowest cost.

- *MoI* Annual Procurement Plan for financial year 2016-2017 included two vehicles to be purchased. Audit found that towards the end of the financial year five vehicles were purchased by the *MoI* accounting for a total of TOP \$185,000. Details of vehicle purchases stated below.

Table 4: Details of *MoI* Vehicle Purchases

Vehicle Model	Division	Amount (\$)
2004 ISUZU EIF Truck 2 Tons (White)	Building Division	\$25,000.00
Toyota Hilux 2000 (Black)	Chief Executive Officer	45,000.00
2004 Harrier (Black)	Procurement Division	35,000.00
2004 ISUZU Truck White		35,000.00
Toyota Hilux 2010	MoI-Vava'u	45,000.00
Total		\$185,000.00

The consequences of the assets being purchased without appropriate planning of its acquisition is that future maintenance and operation costs would be higher than expected. Disposal of asset issues may not have been considered which could lead to higher costs and wastage. Alternatively, the budget available may be insufficient to keep all motor vehicles on the road and hence the services cannot be delivered as intended. These elements should be addressed in the AMS through its acquisition plan.

Figure 7: Unserviceable Government Vehicles



2.3.3.3 Maintenance Plan – Maintenance of assets and performance monitoring is overlooked in the planning stages

Maintenance of assets and performance monitoring is often overlooked in the planning stages of acquiring a new asset. Preventive maintenance is a cost effective strategy for government. So planning preventive maintenance and the monitoring of the actual performance of assets adds enormous value to MDAs ability to deliver services and minimise costs.

2.3.3.4 Disposal plan – Method of asset disposal or renewal is yet to be formally strategically planned

The planning of disposal or renewal of assets was found to be vague. Most assets are said to be disposed at the end of its useful life or if it is rendered unserviceable. The method of disposal is yet to be formally planned strategically.

2.3.3.5 Tonga Asset Management Framework

As mentioned in sections 2.1.3.3 and 2.2.3.6 the TAMF will provide a clear direction for AMS for all MDAs.

2.3.4 Audit Conclusion

The process of procurement is designed to ensure the acquisition of a new asset is done methodically and transparently in a way that builds the public's confidence in the government's use of resources. That is, it demonstrates value for money.

However, the acquisition of an asset is just one part of an economical asset management system. Economy is achieved when the level of services required are delivered for least cost over the life of the asset. This economy is achieved with reference to the Acquisition, Operation, Maintenance, Performance monitoring, and disposal of the assets required to deliver services. An AMS will provide the planned cost of the services over the assets entire lifecycle together with non-cash impacts (depreciation, financing costs, sunk costs).

2.3.5 Audit Recommendations

6. *We recommend that each MDAs and PEs develop and implement an AMS to appropriately manage assets over their lifecycle: acquisition, operation, maintenance, performance monitoring, and disposal.*

Client's Response:

MoI, MoH, MoF, MoP, TPL, TCC, TCL and TWB agreed with the recommendation.

There were other comments:

- *MoI stated that they revise their procurement plan as needed. They have stated that vehicles they purchased towards the end of the financial year were purchased based on need for these vehicles rather than because there was surplus funds available.*
- *TWB has recently developed a ten year Asset Management Plan in April 2018 for the period of 2018-2028.*

MoH stated that they have had consultants over the years to develop a maintenance plan for its building but these consultants have not been able to develop a maintenance plan, therefore it is not fair to expect their staff to complete this task, if consultants were not able to develop such maintenance plan.

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 - b. *Tonga Police Vehicle Policy*
 - c. *Tonga Police Driver Policy*
29. Tonga Power Limited (TPL) Documents:
 - a. *Generation Asset Management Plan*
 - b. *Distribution Asset Management Plan*
 - c. *Business Continuity Plan*
 - d. *Financial Delegated Authorities Policy*
 - e. *Concession Contract No. 1*
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ANNEX I: RISK ASSESSMENT

A risk analysis is a systematic way to both identify and assess the risks of managing assets and, in doing so, to identify the priority for the possible audit.

The audit conducted the risk analysis in four (4) steps. These steps are explained below:

Step 1: All the classes of assets were assessed individually against the five types: Management Risk, Dollar Value Risk, Political Risk, Safety Risks, Asset Complexity Risk, and Overall Risk. The definitions of these risks are explained below. The rating of the risks were ranked from High (H), Medium (M), Low (L). Table 1 shows the results of the risk assessment for step 1.

Table 1. Risk Assessment per class of Asset

Asset	Management Risk	Dollar Value Risk	Political Risk	Safety Risks	Asset Complexity Risk	Overall Risk
Infrastructure Assets						
Roads	H	H	H	H	H	H
Electricity	H	H	M	H	H	H
Water	H	H	M	H	H	H
Airport	H	H	M	H	H	H
Waste	H	M	M	H	H	M-H
Forestry	H	M	L	H	L	L-H
Telecommunication - Tonga Fibre Optic	H	H	M	H	H	H
Toilet Blocks	H	M	H	H	M	H-M
Parks	H	M	H	H	H	H
Wharf	H	H	M	H	H	H
Stadium	H	H	H	H	M	H
Assets Generating services Potential						
IT Software	H	H	M	L	H	H
Other Capital Expenditure	M	H	M	L	M	M
Vehicles	H	H	M	H	H	H
Technical Equipment	M	M	L	L	H	L-M
New Boat	H	H	M	H	H	H
New Computers	M	H	L	L	M	L-M
New Equipment	M	H	L	L	M	L-M
Renovation	H	H	L	L	L	L
Furniture & Fittings	M	M	L	L	L	L
Buildings	H	H	H	H	H	H

Definitions of the Risks generally are as follows:

1. Management Risk – The aim is to assess the likelihood that assets are known and are being actively managed to maintain the required level of service. The risk of managing assets is high when there is no formal asset management system, changing personnel and managers cannot satisfy themselves that their objectives are being achieved.

2. **Dollar Value Risk** – The higher the value of the asset stock, the more interest of the government in ensuring the asset is well managed.
3. **Political Risk** – The higher the likelihood of the entity for the Government being embarrassed by the poor management of assets, the higher the interest of the entity's management. And, the higher the political interest in an area.
4. **Safety Risk** – pertains to the physical safety of the public, staff as well as the economic safety of the assets to deliver reliable services.
5. **Asset Complexity Risk** – Assets that are more difficult to manage have a greater interest for the entity.
6. **Overall Risk** – The overall risk is estimated from a review of risks 1-5 above. It is a means for ranking the risk faced by the entity in managing the services derived from the stock and flows of assets.

Step 2: After the assessments of the risks against the five types of risks above, the assets were sorted from High Risk to Low Risk according to the Overall Risk as shown in Table 2.

Table 2: Ranking of Asset from High to Low Risk

Asset	Management Risk	Dollar Value Risk	Political Risk	Safety Risks	Asset Complexity Risk	Overall Risk
Infrastructure Assets						
Roads	H	H	H	H	H	H
Electricity	H	H	M	H	H	H
Water	H	H	M	H	H	H
Airport	H	H	M	H	H	H
Telecommunication - Tonga Fibre Optic	H	H	M	H	H	H
Toilet Blocks	H	M	H	H	M	M-H
Parks	H	M	H	H	H	H
Wharf	H	H	M	H	H	H
Stadium	H	H	H	H	M	H
Waste	H	M	M	H	H	M-H
Forestry	H	M	L	H	L	L-H
Assets Generating Services Potential						
IT Software	H	H	M	L	H	H
Vehicles	H	H	M	H	H	H
New Boat	H	H	M	H	H	H
Other Capital Expenditure	M	H	M	L	M	M
Technical Equipment	M	M	L	L	H	L-M
New Computers	M	H	L	L	M	L-M
New Equipment	M	H	L	L	M	L-M
Renovation	H	H	L	L	L	L
Furniture & Fittings	M	M	L	L	L	L
Buildings	H	H	H	H	H	H

Step 3: The Assets with a High (H) Overall Risks were chosen and assessed for its priority to the audit. Table 3 shows the results of the assessment.

Table 3: Ranking of Physical Asset for Audit.

Overall Risk	Services / Assets	Ministries/ SOEs	Comment	Priority for audit
H	Roads	MOI	Economic impact	1
H	Electricity	Tonga Power Ltd, MEIDECC	Economic impact	2
H	Airport	TAL	Economic Impact	2
H	Wharf	Port Authority	Economic Impact	2
H	Telecommunication	TCC, Tonga Cable Ltd.	Economic Impact	2
H	Water	TWB, Geology, Health, Environment.	Environmental Impact	2
H	Parks	Tourism / Environment.	Social./ Environmental Impact	2
H	Buildings	MOH , Police,	Social Impact	2
H	Stadium	TASA	Social Impact	2
H	IT Software	MET & Other Ministries	Economic Impact	3
H	Vehicles	Police, MOI	Economic Impact	3
H	New Boat		Economic/Social Impact	3

Step 4: The Assets from Table 3 were then assessed individually within a Risk Matrix (shown on the next page) to assess risks of events and its impacts and likelihood of events. Definitions are shown below:

1. Events is defined as the assumptions of what could go wrong if there are no asset management controls in place.
2. Likelihood is defined as the probability that the events would occur.
3. Impact is defined as the consequences if the events occurs.

The “Likelihood” and “Impact” of an event is ranked from 1 (lowest) to 5 (Highest). From the ranking of the ‘Likelihood’ and ‘Impact’ of an event, the Risk Table shown below is used to conclude if the Risk for the event is either High (H), Medium (M), or Low (L).

Risk factors include but not limited to:

- Complexity of operation/ service delivery process eg hospital vs clinic
- Natural disasters – eg Japan’s nuclear power reactors in an area prone to earthquakes and tsunamis
- Accidents
- Fraud and corruption
- Staff turnover
- Staff training and skill level

- Management ethics
- Political interest and will

1. Risk Rating Table

RISK RATING TABLE

IMPACT	5	M	H	H	H	H
	4	M	M	H	H	H
	3	L	L	M	M	H
	2	L	L	L	L	M
	1	L	L	L	L	L
		1	2	3	4	5
		LIKELIHOOD				

H = High Risk
M = Moderate Risk
L = Low Risk

2. Risk matrix

2.1: Roads

Asset/ Entity name: Roads/ MOI			
Event.	Impact	Likelihood	Risk
Roads condition, width, dusty and holes.	5	5	H
Pedestrian crossing	5	5	H
High rate of death causes by accident.	5	4	H
Busy before and after work and Schools	5	5	H
Flooding	5	5	H
What is the overall risk rating of the public asset? H			

2.2: Electricity

Asset/ Entity name: Electricity/ Tonga Power Ltd			
Event.	Impact	Likelihood	Risk
Cost of electricity is considered high.	5	5	H
High cost of establishing new electricity power to customer.	5	5	H
Street lights not cover all the places where the people stayed.	4	3	H
Sudden power outage without warning.	4	3	H
Electricity not reaching every household	5	4	H
What is the overall risk rating of the public asset? H			

2.3: Wharf

Asset/ Entity name: Wharf / Port Authority			
Event.	Impact	Likelihood	Risk
Point of entry for importing dangerous weapons, illegal drugs and alcohol.	5	5	H
Dusty and rubbish	5	5	H
The structure and layout of the wharf.	4	5	H
Sanitation facilities not consistently available	5	5	H
Security and safety hazard	4	3	H
What is the overall risk rating of the public Asset? H			

2.4: Buildings

Asset/ Entity name: Buildings			
Event.	Impact	Likelihood	Risk
Standard of the buildings – withstand natural disasters eg. Earthquake and tropical cyclones etc.	5	5	H
Evacuation Plan – cause of fire, collapse of building	5	4	H
Repair and maintenance of the buildings	5	4	H
Parking	5	5	H
Location	4	3	H
What is the overall risk rating of the public asset? H			

2.5: IT Software

Asset/ Entity name: IT Software			
Event.	Impact	Likelihood	Risk
Acquisition and Procurement	5	4	H
Training & Skills	4	3	H
Upgrade and Update – Repairing and Maintenance.	5	4	H
Staff turnover (Maintaining Staff)	4	3	H
Utilizing for the intended purpose	5	3	H
What is the overall risk rating of the public asset? H			

2.6: Telecommunication

Asset/ Entity name: TCC / Tonga Cable Ltd			
Event.	Impact	Likelihood	Risk
High cost for the users	5	5	H
Slow internet access	5	5	H
Access to inappropriate website	5	5	H
Cyber bully	5	5	H
Repair and maintenance	5	3	H
What is the overall risk rating of the public asset? H			

2.7: Airports

Asset/ Entity name: Airport / TAL.			
Event.	Impact	Likelihood	Risk
Off the light at the run way.	5	2	H
Passengers are getting wet in the rainy day when getting off from the plane to the Terminal.	4	5	H
Arrival area not suitable when multiple flights arriving almost at the same time.	4	4	H
Baggage area have problems such as missing and poor handling of passengers bags.	5	5	H
Drop off and pick up area.	3	5	H
What is the overall risk rating of the public asset? H			

2.8: Water

Asset/ Entity name: Water / TWB			
Event.	Impact	Likelihood	Risk
Rate of water flow is low in the morning	5	5	H
Water charges is relatively high	5	5	H
Level of chlorine in the water	4	3	H
Installation of new water system to household is high.	5	5	H
Carbonate(white build up) in water	3	5	H
What is the overall risk rating of the public asset? H			

2.9: Stadium

Asset/ Entity name: Teufaiva/'Atele/ TASA			
Event.	Impact	Likelihood	Risk
Acquisition & procurement	5	1	M
Repair and Maintenance	5	4	H
Security and safety	4	4	H
Stadium accessories should be proper for its intended purpose.	5	5	H
Parking	5	5	H
What is the overall risk rating of the public asset? H			

2.10: Parks

Asset/ Entity name: Parks/ Tourism/Environment/ PMO			
Event.	Impact	Likelihood	Risk
Design and Planning	5	2	H
Maintenance	4	3	H
Environmentally friendly for its intended users	5	2	H
Parking	5	3	H
Security and safety	5	3	H
What is the overall risk rating of the public asset? H			

2.11: New Boat

Asset/ Entity name: Toilet Blocks/ Tourism/Environment			
Event.	Impact	Likelihood	Risk
Repair and maintenance	5	4	H
Design and Planning	5	4	H
Site Accessibility	5	5	H
Security and safety	4	5	H
Utilizing for intended purpose	3	2	L
What is the overall risk rating of the public asset? H			

2.12: Vehicles

Asset/ Entity name: Vehicles			
Event.	Impact	Likelihood	Risk
Unplanned Acquisition	5	5	H
Maintenance	5	4	H
Disposal/Renewal	5	4	H
Incomplete or inaccurate asset register	5	5	H
Monitoring and reporting of vehicle usage	5	5	H
What is the overall risk rating of the public asset? H			
