

Review Management Report for 30 June 2017

Parliament of the Cook Islands

Helen Maunga, Acting Clerk of Parliament

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Date of Report: 17 August 2018



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1 Introduction

We have completed the review for the Parliament of the Cook Islands for the year ended 30 June 2017 in accordance with our arrangements letter dated 28 May 2018. This report presents our findings and draws attention to areas where the Parliament of the Cook Islands ("Office") is doing well or where we have made recommendations for improvement.

The review procedures we performed are summarized as follows:

- We performed a review of the financial statements of the Office, which comprises the statement of financial position, statement of comprehensive revenue and expenses, statement of changes in equity, statement of appropriations and statement of cash flows for the years ended 30 June 2017.
- We documented and performed a walk-through of processes and internal controls of the Office in respect of trading revenue, personnel costs, cash at bank, operating expenditure, property, plant and equipment, receivables, and payables.
- We undertook an examination of the Office's compliance with key legislation and regulations.

The review was conducted in accordance with the International Standard on Review Engagements (ISRE) 2400 – Engagements to Review Historical Financial Statements. The scope of a review of the financial statements is substantially less than the scope of an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) whose objective is the expression of an opinion regarding the financial statements and accordingly, we shall express no such opinion.

We agreed to report to you any matters which come to our attention that you need to be aware of.

Review Conclusion

We have issued a qualified conclusion on the Office's financial statements for the 30 June 2017 financial year.

Our modification was issued on the following basis:

1. **Accrued Expenses** - The valuation and existence of accrued expenses of \$43,644 could not be confirmed as Management was unable to locate and provide any supporting documents relating to this balance. We were therefore unable to determine if accrued expenses was correctly valued.
2. **Other Expenses** - The occurrence and classification of other expenses of \$13,611 could not be confirmed due to a lack of relevant information and supporting documents. On this basis, we were unable to confirm the completeness, occurrence, accuracy, and classification of other expenses reported at \$73,748.



2 Review Findings

The purpose of this report is to present the results of the Office's Review engagement for the 2017 year and of the issues arising out of the engagement that you should be made aware of. **Appendix 1** provides a summary of the status of prior year issues.

We acknowledge the Parliament of the Cook Islands for addressing two (2) of the five (5) management issues raised in the prior year management report.

The issues that follow are raised for your attention:

| Review Procedures | Risk Level | Finding | Recommendation | Office/ Head of Office Response |
|-------------------|------------|--|--|---|
| Accrued Expenses | High | <p>Included within accrued expenses of \$43,644 is a liability named 'POBOC Payable – PLPG' of \$34,939. We note that this balance has been outstanding since the 2012 financial year. The valuation and existence of POBOC Payable - PLPG could not be confirmed as there were no supporting documents available.</p> <p>However, we would like to acknowledge that Management have been proactive in resolving this issue with the Ministry of Finance and Economic Management (MFEM).</p> | We recommend that Management continues its efforts to resolve this issue with the MFEM and the Financial Secretary. | Management had addressed this, prior to this report, with the Minister of Finance and Financial Secretary and had requested for write off. Initially the SFO had requested for write off internally as it was a transaction error by finance, however Audit in the 2016 Management report recommended otherwise. The 'write off' has now been referred to MFEM Crown Accounts for their advice and we await their decision. |
| Other Expenses | High | <p>From other expenses reported at \$73,748, the following issues were observed:</p> <ol style="list-style-type: none"> 1. The supporting documents for \$15,660 in other expenses could not be located. Of this total, we could not confirm if \$13,611 was bona fide and appropriately authorised. | Going forward, we recommend that Management ensures that all casual staff wages and overtime are treated as personnel expenses paid by the Office. | 1. Though these expenses were bona fide (UNDP payments) we accept responsibility for not having the supporting documents for view, most likely payment vouchers and documents were misplaced and not returned during acquittals request |

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| | | <p>2. \$13,008 of other expenses were personnel expenses in nature. These related to staff overtime during Parliament sittings and casual wages. An adjustment was subsequently raised to reclassify these expenses.</p> <p>Based on the issues above, we were unable to confirm the completeness, occurrence, accuracy, and classification of other expenses reported at \$73,748.</p> | | <p>from UNDP. We will ensure processes and procedures are adhered to accordingly.</p> <p>2. \$13,008 was actually re-classified to personnel expenses and inclusive in total \$26,678.25 and Management, had since the 2016 Audit Report complied with the recommendations by Audit. In addition, all aid funded activities are classified under 'Other expenses' to ease paperwork/claims/acquittals request by the funding agencies.</p> |
| <p>Property, Plant and Equipment</p> | <p>Medium</p> | <p>The following issues were identified during testing:</p> <ol style="list-style-type: none"> 1. No year-end stock-take report of property, plant and equipment (PPE) was available to confirm that a stock take was actually performed. This is a breach of <i>Part B Section 2 subsection 3.10.2 of the CIGFPPM</i>. 2. There were 216 assets listed on the PPE register that had a 'nil' net book value (NBV). In order to appropriately maintain and update the PPE register, steps should be taken to dispose of those assets that have a nil NBV and no longer operational. Guidance on disposing of assets is provided in the <i>CIGFPPM Part B Section 10 – Disposal of assets</i>. | <p>We recommend the following:</p> <ol style="list-style-type: none"> 1. The Office should retain the year-end stock take report for confirmation that one was performed. 2. The PPE register should be adequately maintained at least on a monthly basis. Part of this responsibility entails ensuring that it is free of assets that no longer exist, are damaged/ in disrepair and no longer work. Disposal of these assets can be done in accordance with <i>CIGFPPM Part B, Section 10</i>. | <ol style="list-style-type: none"> 1. In the past, after concluding the audit of accounts there were no exit meetings held and verbal correspondence contradicted with the written report. However, going forward, we have ensured total compliance with Part B Section 2 subsection 3.10.2 of the CIGFPPM and this should not be an issue again in the 2018 report and onwards. |



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| | | | 3. All future purchases of PPE above \$3,000 requires Cabinet approval. | |
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3 Conclusion

I would like to take this opportunity to thank you and your staff for the kind assistance received during the engagement.

Yours sincerely



Allen Parker
Director of Audit



4 Appendix 1: Status of recommendations made in previous management reports.**Table A: Cleared Matters**

| Matter | Recommendation | Outcome and Status |
|--|---|---|
| VAT Receivables | | |
| Review of VAT records revealed that although the Office was deregistered for VAT in 2012, there remains a VAT receivable balance of \$3,153 in the financial statements. There was also insufficient information available to confirm this value. As a result, VAT receivables of \$3,153 was qualified. | We recommend that Management gets confirmation from the Revenue Management Division on the VAT receivables balance of \$3,153. | Confirmed that Audit recommendations has been carried out with requests to the Revenue Management Division and following discussions with auditors. <i>Issue cleared</i> |
| Cash Recall and Aid Funds | | |
| Review of aid funding for the year revealed that \$2,438 of the total \$7,362 in cash recalled at year end related to funds designated for aid projects. | We recommend that Management immediately seek the reimbursement of the \$2,438 in aid funds from Crown. This is to ensure that the Office and its aid projects are not adversely affected by the cash recall. | As per recommendation this will be actioned by Finance. <i>Issue cleared</i> |

Table B: Outstanding Matters

| Matter | Recommendation | Outcome and Status |
|--|--|--|
| Accrued expenses | | |
| Included within accrued expenses of \$40,081 is a liability named 'POBOC Payable – PLPG' of \$34,939. We note that this balance has been outstanding since the 2012 financial year. The valuation and existence of POBOC Payable - PLPG could not be confirmed as Management was unable to locate and provide any supporting documents relating to this balance. | We recommend that Management seeks the approval of the Clerk of Parliament, Financial Secretary and Minister to write this balance off. This is in accordance with Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM) Part D Section 12 subsection 3.4.1. | Confirmed that Audit recommendations has been carried out with request to write off the balance of \$40,081 made to the Financial Secretary and the Minister of Finance. <i>Outstanding issue</i> |
| Property, Plant and Equipment | | |
| The following issues were identified during testing: | We recommend the following: | <i>Recommendation 1:</i> |

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| | | |
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| <p>1. No year-end stock-take report of property, plant and equipment (PPE) was available to confirm that a stock take was actually performed. This is a breach of Part B Section 2 subsection 3.10.2 of the CIGFPPM.</p> <p>2. There were 218 assets listed on the PPE register that had a 'nil' net book value (NBV). In order to appropriately maintain and update the PPE register, steps should be taken to dispose of those assets that have a nil NBV and no longer operational. Guidance on disposing of assets is provided in the CIGFPPM Part B Section 10 – Disposal of assets.</p> | <p>1. The Office should retain the year-end stock take report for confirmation that one was performed.</p> <p>2. The PPE register should be adequately maintained at least on a monthly basis. Part of this responsibility entails ensuring that it is free of assets that no longer exist, are damaged/ in disrepair and no longer work. Disposal of these assets can be done in accordance with CIGFPPM Part B, Section 10.</p> <p>All future purchases of PPE above \$3,000 requires Cabinet approval.</p> | <p>As per recommendation and Part B section 2 subsection 3.10.2 of the CIGFPPM we will ensure that stocktakes at year end are carried out.</p> <p><i>Recommendation 2:</i></p> <p>Finance will ensure that the PPE register is adequately maintained and identify assets that no longer exist or are damaged.</p> <p><i>Recommendation 3:</i></p> <p>Will ensure that recommendation is not repeated by approval is sought from Cabinet.</p> <p>Outstanding issue</p> |
| <p>Other Expenses</p> | | |
| <p>Other expenses reported at \$74,054, was reviewed. The following was noted from the review:</p> <p>\$23,168 of total other expenses were personnel expenses in nature. These related to staff overtime during Parliament sittings and casual wages. Adjustments were subsequently raised to reclassify these expenses.</p> | <p>We recommend the following: Office to ensure that all casual staff wages and overtime are treated as Personnel expenses paid by the Office account.</p> | <p>Management will ensure that this practise does not continue as per Audit recommendation.</p> <p>Outstanding issue</p> |



5 Definitions – Risk Rating and Review Conclusion

The definitions used to rate the risks of audit issues has been adopted from the Cook Islands Audit Office’s risk criteria.

| Risk Rating | Definition |
|---------------|--|
| High | Potential for unfavourable or noticeable negative impact on the organisation’s objectives, income, expenditure, human resources and/or reputation. Management attention is required to ensure that the risk is managed in line with the organisation’s objectives. |
| Medium | Potential for unfavourable or negative impact on the organisation’s objectives, income, expenditure, human resources and/or reputation. Management needs to establish controls to address risk identified. |
| Low | Potential minor impact on the organisation’s objectives, income, expenditure, human resources and/or reputation. Management needs to identify if there is a cost benefit in establishing increased controls. |

| Review Conclusion | Definition |
|-------------------|---|
| Unmodified | An unmodified conclusion is expressed when the auditor is satisfied in all material respects with the matters on which an overall conclusion is required to be drawn. |
| Modified | <p>A modified conclusion is expressed when either of the following circumstances exists:</p> <p>(a) there is a limitation on the scope of the auditor’s examination; or (b) the auditor disagrees with the treatment or disclosure of a matter in the written assertion or set of assertions; and, in the auditor’s judgement, the effect of the matter is or may be material.</p> <p>In order of severity (most to least), qualified review conclusions may take the following form:</p> <ul style="list-style-type: none"> • Disclaimer – expressed when there is a limitation on the auditor’s work as a result of the lack of audit evidence • Adverse – expressed when the results of a disagreement with management or a conflict between applicable financial reporting frameworks is significant and pervasive • Qualified – expressed when an unmodified conclusion is inappropriate because of a disagreement with management or a conflict between applicable financial reporting frameworks is not so significant and pervasive |

