



Cook Islands Audit Office

1st Quarter Report of the Audit Office Part 3: Ministry Stock takes

1 July 2006 – 30 September 2006



PARLIAMENT OF THE COOK ISLANDS

PARLIAMENT PAPER NO. 2006/99

Speaker of Parliament
Parliament of the Cook Islands
Nikao, Rarotonga
Cook Islands

Honourable Speaker

I have the honour to present the 1st Quarter Report of the Audit Office, Part 3: Ministry Stock takes for the period 1st July to 30 September 2006.

Hon. Dr. Terepai Maoate,
**DEPUTY PRIME MINISTER AND
MINISTER RESPONSIBLE FOR THE
OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT.**



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30 May 2008

Hon Dr. Terepai Maoate
Deputy Prime Minister
Minister Responsible for the Office of Public Expenditure
Review Committee and Audit.
Avarua

Honourable Deputy Prime Minister,

Pursuant to Section 33 of the Public Expenditure Review Committee and Audit Act 1995-96, I have the honour to submit my 1st Quarter Report on the operations of the Audit Office, Part 3: Ministry Stock takes for the 1st July to 30 September 2006.

Following its delivery and presentation to Parliament, the report will be placed on the Cook Islands Audit Office's website (<http://www.auditoffice.gov.ck/>).

Yours Sincerely,

Paul R.S. Allsworth
Director of Audit
OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

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Introduction & Commentary

This report is Part 3 of the Cook Islands Audit Office's first quarterly report to Parliament for the 2006/2007 financial year. It highlights and discloses for Parliament's attention all ministry stocktakes and fixed assets verifications carried out by the office during the period 1 July to 30 September 2006.

The Audit Office issues Quarterly Reports, in addition to its Annual Report, in order to provide more timely information to Parliament and the general public on audit issues, problems identified and recommended solutions. It is hoped that timely quarterly information will better promote good governance.

STOCKTAKES AND MOTOR VEHICLE VERIFICATION

During the period 1 July to 30 September 2006, a total of 9 Stock takes and Motor Vehicle verification reports were completed and issued by the Audit Office. The purpose of the reports were to verify total inventory and motor vehicles held by Ministries and other Crown agencies as well as selected State Owned Enterprises as at the 30 June 2006.

It is hoped that such reports would help management of these entities better safeguard these public assets as well as assist in the upcoming financial audit of the 30 June 2006 financial year.

The following lists the Stock takes and Motor Vehicle verifications conducted by the Audit Office in the first quarter:

1. Ministry of Health Stocktake Vehicle verification 30 June 2006
2. Ministry of Education Stocktake 30 June 2006 and Vehicle verification
3. OMIA Stocktake and Vehicle verification 30 June 2006
4. Numismatic Stocktake and Vehicle verification 30 June 2006
5. Airport Authority Stocktake and Vehicle verification 30 June 2006
6. Aitutaki Power Stocktake and Vehicle verification 30 June 2006
7. Ministry of Works Stocktake and Vehicle verification 30 June 2006
8. Ministry of Culture Stocktake and Vehicle verification 30 June 2006
9. Parliament Stocktake 30 June 2006 and Motor vehicle verification.

Stocktakes and Motor Vehicle Verification

The major findings and recommendations contained in the Stocktake and Motor Vehicle verification reports issued by the Audit Office are summarised below.

AIRPORT AUTHORITY STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

Please find attached the stock and motor vehicle verification report of the Airport Authority – Rarotonga and stock and fixed asset report of the Airport Authority - Aitutaki for the year ended 30 June 2006.

The attached report details our audit findings and recommendations for both branches and the following are important recommendations:

Rarotonga

1. Disclose total diesel and petrol on hand at the physical dip stick reading of 2,230 litres and 811 litres respectively.
2. Adjust spare parts and disclose correct value of inventory on hand at \$24,499.00.
3. Further details are sought with regards to vehicle number MN9867.

Aitutaki

4. Audit recommends that the Airport Authority conduct a full asset stocktake of all Aitutaki assets to ensure the completeness of the Aitutaki Fixed Asset Register.
5. Audit also recommends that the Airport Authority review the status and condition of all assets to ensure that assets are fully efficiently utilized.

Stock and Motor Vehicles – Rarotonga & Aitutaki

All motor vehicles have been physically sighted as per listing on Fixed Asset Register and inventory is fairly disclosed at **\$66,539.44** and **\$4,200.00** for Rarotonga and Aitutaki respectively. This is represented by:

<u>Rarotonga</u>		<u>Aitutaki</u>	
Stationery	\$ 1,824.85	Croda Foam	\$4,200.00
ID Cards	\$ 1,013.80		
Fuel – Diesel	\$ 1,218.85		
- Petrol	\$ 2,882.94		
Spare Parts	\$24,949.00		
Croda Foam	<u>\$34,650.00</u>		
TOTAL	<u>\$66,539.44</u>		<u>\$4,200.00</u>

Fixed Assets - Aitutaki

Several assets sighted by Audit were not recorded on the Fixed Asset Register as at 31 May 2006. Due to the incomplete fixed assets register, Audit is unable to conclude on the value of total fixed assets as at 30 June 2006.

The recommendations of this report will be addressed at the year end financial audit and a follow up of its implementation at the next year end stock take.

MANAGEMENT REPORT

Introduction

A stock take and motor vehicle verification of the Airport Authority for the financial year ending 30 June 2006 was carried out on the 3rd July 2006.

Objectives

The objectives of this review were to:

- Determine whether stock on hand as at the 30 June 2006 reconciles with the figures on the stock card and the stock listing provided
- Review the maintenance and adequacy of internal controls over stock
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.
- Determine whether all motor vehicles were appropriately accounted for as at 30 June 2006.

Audit Scope

- Physical stock count of the items disclosed on the stock listing
- Review of the stock cards to determine that they have been updated
- Inspection of environment in which the stock is kept
- Review of the financial statement disclosure of stock
- Discussions with the Finance Manager and Stock Controller regarding the internal controls over stock.
- Sighting of motor vehicles

Audit Findings

1. STOCK AUDIT

The Airport Authority stock on hand consists of:

- Ø Stationery
- Ø Identification Cards
- Ø Fuel
- Ø Spare parts
- Ø Croda Foam

Airport Authority uses a computerized program called “Attache” which is currently known as “Business Partner – NZ”. This program enables the client to enter inventory that is purchased, sold and used in the ordinary course of business and determine the total purchase, sale and inventory balances at any point in time. The cost price of each stock is entered into the system that converts the quantity of stock on hand to monetary value (NZD value).

Whilst the use of the computer system, the client also keeps stock cards for individual stock items which is matched to the balances generated by the system at the end of the month.

1.1 Stationery

Security

The storage of stationeries is located in the Finance and Administration Office. These consist of purchase of photocopy paper, fuel issue pads, purchase order pads, calculation pads, salary and wage timesheets, leave and overtime application forms, and petty cash issue books and stores issue pads

These products are kept in an unlocked cupboard and are issued to the various departments by either one of the four Finance and Administration staffs that hold the keys to the Office.

Record Keeping

The Finance/Payables Officer monitors the level of stationery items and gets authorization from Finance Manager to purchase the low level items. The invoice cost price and quantity are entered into the Attaché system.

Stock cards are used for stationery items. At the end of each month, the Finance/Payables Officer updates Attaché for that month’s issues.

Costing and Valuation

Stationery items are valued at cost price, this being the unit price of the invoice received. This can be verified from the Product Status Report generated by Attaché.

Physical Count

Audit performed a 64% count of stationery stock on hand at 30 June 2006. There were no discrepancies between the items physically on hand, stock card balance and the item balances on the stock listing provided for Audit from the Attaché program.

Total stationery on hand at 30 June 2004 was **\$1,824.85**.

1.2 Identification Cards (Ids)

Security

The storage of Id materials is located in the Aviation Security Office in an unlocked cupboard and consists of card clips, pouches and PVC cards.

The Security Officer issues Ids and only the Security staffs hold keys to the Office.

Record Keeping

The Security Officer in charge of Ids monitors the level of materials and reports to the Finance Manager for items to be purchased. The invoice cost price and quantity are entered into the Attaché system.

There is a spreadsheet that is kept by the Security Officer and is given to the Administration Staff at the end of the month for update and reconciliation of records.

Costing and Valuation

Id cards stock is valued at cost price, this being the unit price of the invoice received.

Ids are sold for \$30.00 (VAT Incl.). Ids are prepared and sold to Airport, Ports Authority, Customs & Immigration, Quarantine Departments and private ids for other businesses.

Physical Count

Audit performed a 100% count of Id card stock on hand at 30 June 2006. There were no discrepancies between the items physically on hand, and the item balances on the stock listing provided to Audit from the Attaché program.

Total inventory on hand as at 30 June 2006 was **\$1,013.80**.

1.3 Fuel

There are two (2) types of fuel used by Airport Authority:

- 1) Petrol
- 2) Diesel

Fuel is used by the service vehicles of the client or sold to other tenants of the airport like Air New Zealand, Juhi, Air Rarotonga, and LSG Cater Air.

Security

The storage of diesel is located in the Rescue Fire Services division. The diesel pump is locked and the key kept by the Fire Chief. The pump is unlocked and diesel is issued when a Diesel Issue Form is completed upon request.

The storage of Petrol is located at the Works Area of the Airport in front of Andersons and Raro Freight. It is locked and the key kept by the Finance Manager. If requested by a department, a Petrol Issue form is completed and submitted to Finance Division before the keys are released to the buyer. The Finance Division monitors the start and end date of the pump meter reading and invoice the customer for the difference.

Record Keeping

The Finance Manager reorders the fuel when the physical dip stick reading reaches 700 litres (minimum level). The invoice cost price and quantity are entered into the Attaché system and client purchases petrol from Triad Petroleum Ltd.

As mentioned earlier, petrol is given to customers upon receiving of Petrol/Diesel Issue forms. This form is given to the Stock controller to input into the Attaché program. At the end of the month, a fuel reconciliation form is completed, all Issue forms during the month and a print out from the Attaché program together with a physical dip stick reading is attached to the reconciliation. The Stock Controller prepares the reconciliation and a report is given to the Finance Manager. Any discrepancies between the computer and dip stick reading are investigated.

Costing and Valuation

Stock of fuel is valued at weighted average cost price. This can be verified from the Product Status Report generated by Attaché. The prices for diesel and petrol per litre are \$1.5029 and \$1.2928 respectively.

At the end of each month, a Product Status Report is printed out. This shows the movement in stock and the balance at hand.

Physical Count

	<u>Dip Stick Reading (litres)</u>		
	Client	Audit	Variance
Petrol	811	811	Nil
Diesel	2,230	2,230	Nil

	Attaché Bal (ltr)	Dip Stick (ltr)	Variance
Petrol	1,045	811	234ltrs
Diesel	2,256	2,230	26ltrs

Upon enquiry to the above variances, the Finance Manager, Florence Epati mentions that the variances are due to a slow leak in the tank and regular pump break downs during the year.

Total fuel inventory on hand as at 30 June 2006 was:

Petrol -	\$2,882.94
Diesel -	<u>\$1,218.85</u>
Total -	<u>\$4,101.79</u>

The above valuation is taken from the actual physical dip stick reading and the variances of 234 litres and 26 litres should be written off for petrol and diesel respectively.

1.4 Spare Parts

Security

The spare parts were held in three (3) locations at the airport grounds:

1. Shed One
2. Shed Two
3. Rescue Fire Services Building

Spare parts consist of fire hoses, starter motors, tyres, truck parts and fire engines. The Fire Chief and Mechanic Supervisor hold the keys to these locations. There are also spare keys to open all premises that are kept in a glass case at the fire station but are only accessible in emergencies and by breaking the glass.

Record Keeping

The Fire Chief has full control over the spare parts. When a part is required to be replaced, it is taken out of stores.

Purchases of all spare parts is requested by the Fire Chief to the Finance Manager who then authorizes for purchase of parts. The Finance Officer/Payables updates Attaché for the item purchased.

Costing and Valuation

All spare parts are valued at cost price, this being the unit price of the invoice received.

Physical Count

Audit performed a 100% count on spare parts on hand. There was a variance of a beacon assembly valued at \$450.00 that was used in June 2006 but was included in the inventory listing.

Total inventory on hand (after adjustment) as at 30 June 2006 is **\$24,499.00**

1.5 Croda Foam

Security

33 drums of Croda film foam were located in the Works Area of the Airport. It is locked and the Fire Chief and the Mechanic Supervisor hold the keys.

Record Keeping

The Fire Chief has full control over the foam, which is used for putting out fires. This is additional material and used only for emergencies.

Costing and Valuation

This is valued at a cost price \$5.00 per litre.

Physical Count

Audit performed a 100% count on foam drums on hand and found no discrepancies between the items physically on hand and the item balances on the stock listing provided to Audit.

Total inventory on hand as at 30 June 2006 was **\$34,650.00**

Recommendations

Audit recommends the following adjustments:

- that the variances that were identified at 30 June 2006 are written off so as to disclose total diesel and petrol on hand at the physical dip stick reading of 2230 litres and 811 litres respectively.
- That the variance of spare parts (beacon assembly for \$450) be adjusted so as to disclose the true value of inventory as at 30 June 2006.

Follow up of Recommendations from Prior Period Audit - 2005

- Disclose total diesel and petrol on hand at the physical dip stick reading of 1400 litres and 896 litres respectively – **Actioned.**
- Encourage AACI to dispose of three (3) correctable film ribbons and eleven (11) advanced imaging packages – **Actioned.**

Conclusion

In conclusion, inventory is fairly disclosed at **\$66,089.44**. This is represented by:

Stationery	\$ 1,824.85
ID Cards	\$ 1,013.80
Fuel – Diesel	\$ 1,218.85
- Petrol	\$ 2,882.94
Spare Parts	\$24,499.00
Croda Foam	<u>\$34,650.00</u>
TOTAL	<u>\$66,089.44</u>

2. MOTOR VEHICLE AUDIT

In addition to attending the stock take this year, Audit attempted to verify all motor vehicles owned by the Airport Authority as at 30 June 2006. The key purpose of sighting the vehicles was to ensure that the client's fixed asset register accurately captures all existing Airport Authority vehicles and these assets are appropriately safeguarded.

Audit physically verified the following vehicles:

<u>Particulars</u>	<u>Reg. #</u>	
1. Isuzu Doublecab – white	2522	(Insured)
2. Nissan – Red	K04005	(Insured)
3. F/E F Chief	RFS R4	(Insured)

<u>Particulars</u>	<u>Reg. #</u>	
4. M/Trailer	MN8107	
5. Mitsubishi D/Cab	K02521	(Insured)
6. F/E Domestic – red	RFS F1	(Insured)
7. F/E Stryker – Yellow	RFS R2	(Insured)

8. Pump Trailer	MN2932	(Insured)
9. F/E New Stryker	RFSR1	(Insured)
10. Isuzu D/Cab	RFSRC	(Insured)
11. Isuzu D/Cab	RFSFC	(Insured)
12. Toyota Surf	KO4121	(Insured)
13. Tractor	KO326	(Insured)
14. Isuzu D/Cab-Red	KO2481	(Insured)
15. Trailer		
16. Trencher		
17. Isuzu D/Cab – Blue	KO2595	(Insured)
18. Truck Pickup - White	KO3914	(Insured)
19. Toyota Surf	4091	(Insured)

A listing provided by Bank of the Cook Islands (BCI) of vehicles registered to Airport Authority were as follows:

1. MN9867
2. RFS F1

Audit sighted RFS F1 but did not sight MN 9867.

A total of seventeen (17) vehicles have been insured with Willis NZ Ltd.

RECOMMENDATION

Accordingly, Audit recommends that Airport Authority request further details regarding the scheduled item from BCI to ascertain whether this vehicle:

- has been sold but registration details had not been updated with the BCI,
- the vehicle is no longer in working order and should be de-registered and any usable parts salvaged, or
- the vehicle has been incorrectly omitted from Airport Authority's fixed asset register and therefore this needs to be rectified.

RESPONSE TO AUDIT REPORT

The Airport Authority Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 10th July 2006 to the following individuals for comment:

- Joseph Ngamata, Chief Executive Officer of the Airport Authority
- Honorable Tangata Vavia, Minister for Airport
- Mr. Arama Wichman, Chairman of the Board
- Mr. Kevin Carr, Financial Secretary

Attached is a copy of the responses received by the Audit Office from:

- Joseph Ngamata, Chief Executive Officer of the Airport Authority dated the 6th September 2006
- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

AITUTAKI POWER SUPPLY STOCK TAKE 30 JUNE 2006

EXECUTIVE SUMMARY

A stock take of the Aitutaki Power Supply for the financial year ending 30 June 2006 was carried out on 30 June 2006. The stock take was attended by Oropai Rouru of the Aitutaki Power Supply and Edward Herman of the Cook Islands Audit Office. This was the first stock take for the Aitutaki Power Supply that the Audit Office has attended.

The Aitutaki Power Supply's inventory consists of Fuel, Lube Oil and Spare Parts. All stock is stored on the premises, with the exception of excess stock that is stored at the Ports Authority.

Please find attached the stock take report for the Aitutaki Power Supply for the year ended 30 June 2006.

The attached report details our findings and recommendations that are summarized as follows:

- Ø A more efficient method and system of recording the movement of fuel is needed as the current system is prone to misstatements and errors.
- Ø Develop a system or procedure that ensures that the monthly fuel stock take's (dipstick) are performed at exactly month end after the last fuel movement for the day.
- Ø A reconciliation process between fuel purchased in the monthly fuel report and the supporting documents (payment voucher and invoice) should be implemented to ensure that all fuel purchased is received and accounted for in the monthly Fuel stock take report.
- Ø A full spare parts cost listing and stock take should be conducted and updated every month to ensure that stock and value of stock is fully accounted for.

Overall the maintenance and security of inventory was found to be satisfactory. Audits valuation of inventory held by the Aitutaki Power Supply as at 30 June 2006 are as follows:

Fuel	\$108,983.43
Lube Oil	<u>\$ 7,049.61</u>
Total	<u>\$114,348.06</u>

An itemized cost listing of all spare parts had not been provided by the Aitutaki Power Supply at the time our stock take was completed and this report was written. Audit is therefore unable to verify the true valuation of spare parts inventory held by the Aitutaki Power Supply as at 30 June 2006 but concluded that there were 1,175 items on hand.

MANAGEMENT REPORT

1.0 Introduction

A stock take of the Aitutaki Power Supply for the financial year ending 30 June 2005 was carried out on 30 June 2006.

This is the first stock take for the Aitutaki Power Supply that the Audit Office has attended. The Aitutaki Power Supply's inventory only consists of Fuel, Lube Oil and Spare Parts. All stock is stored on the premises, with the exception of excess stock that is stored at the Ports Authority.

The Aitutaki Power Supply operations basically involve providing electricity for the island. At present, they have hired a new generator as the power source and are awaiting approval and/or confirmation on when they can purchase their own. Prior to the hireage of the new generator, the Aitutaki Power Supply ran the islands power on two relatively old generators. Due to a major breakdown to one of these generators, the remaining generator could only generate power for half the island. As a result, the new generator was brought in, which could solely generate power for the whole island.

As it stands, the Aitutaki Power supply have two operational generators, the new (hired) and the old. The old generator is used only as a back up, as was the case on 21 June 2006, when the new generator had temporarily malfunctioned. As a result only half the island had power.

2.0 Objectives

The objectives of this review were to:

- Determine whether stock on hand as at the 30th June 2006 reconciles with the figures on the stock card and the stock listing provided
- Review the maintenance and adequacy of internal controls over stock
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.

3.0 Audit Scope

- Physical stock count of the items disclosed on the stock listing
- Review of the stock cards to determine that they have been updated
- Inspection of environment in which the stock is kept
- Review of the financial statement disclosure of stock
- Discussions with the Finance Manager and Stock Controller regarding the internal controls over stock.

4.0 Audit Findings

The Aitutaki Power Supply's stock on hand consists of:

- Fuel
- Lube Oil and
- Spare parts

4.1 Fuel

Rimaroa Tuiravakai (Long), Aitutaki Power Supply Manager, orders the Fuel (Reef Bulk Fuels) from Auckland, New Zealand. The fuel arrives by boat, transported to the island by barge, and stored at the Wharf. R & R Maki are contracted to transport the Fuel from the wharf to the APS Premises.

The fuel is then pumped into a 16,000 litre Storage tank, at the same time as fuel is being pumped from the storage tank into the two 30,000 litre Bulk tanks.

Due to the limited storage space at the APS, some fuel tanks (off the barge) are stored at the Ports Authority. Audit has sighted this off site storage and is satisfied with the condition and security of the premises.

Bulk Tank: Its fuel is only pumped into the Storage Tank and Day Tank
Storage Tank: Its fuel is only pumped into the Generator (New) and APS truck
Day Tank: Its fuel is only pumped into the Generators (Old and Very Old-not operating)

Oropai Rouru, Power Station Manager and Nooroa Nooapii, Trainee oversee the administering and condition of fuel.

Gauges are used to measure the usage and movement of fuel. Every time, before the pump is used (only where a gauge is attached), the gauge is reset back to zero.

New Generator: Two Gauges

- (1) One measures the fuel pumped from the storage tank into the bulk tanks.
- (2) The other measures the fuel pumped (hand held pump) from the storage tank into the generator

Very/Old Generator:

- (3) One Gauge to measure the fuel pumped from the Bulk tanks into the Day tanks.

APS Truck:

- (2) The hand held pump is also used to fill the truck.

There is no gauge or device to measure how much fuel is pumped from the Bulk tanks into Storage tank. This pump is specially designed to fit the nozzles on both

tanks. According to Oropai, all the gauges are fairly new and there has been no history of any faults or errors.

Refer to Figure 1. for a visual representation of the above process.

4.1.1 Security

The only way to access the fuel is through the nozzles of each tank, which subsequently requires a pump and hose for the fuel to be extracted.

There are 4 pumps - *Refer to Figure 1 (A, B, C and D)*:

Pump A: is securely attached at each end. Even if it was possible to detach this pump, it would be extremely difficult to access fuel, due to the size of the pump.

Pump B: is securely attached to the storage tank, and is a hand held pump at the other end. This hand pump is secured by a chain and lock, which only Oropai and his trainee Nooroa have a key to.

Pump C: is stored in the secured power house/station, which only Oropai and Nooroa have a key to. This pump is similar (physically) to pump B, but is mobile and is only attached to the 2 tanks when the level in the storage tank is low.

Pump D: is securely attached at each end. This attachment is fairly inaccessible (high of the ground) and like pump A, would be extremely difficult to use if detached.

The bulk and storage tanks are stationed outside the power station Audit is satisfied with the condition and security of these tanks. The day tanks are stationed on a secure ledge in the power station. As far as Oropai is concerned there has been no history of stolen Fuel.

4.1.2 Record Keeping

The Manager orders the fuel and the Finance Officer prepares the payment (TT transfer) and posts the transaction into the accounts. In accordance with International Accounting Standards 2, Inventories, paragraph 7, “the cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.” The transportation cost and other related costs form part of the fuel purchases account.

The APS has a daily and monthly fuel report. The Daily report records the daily movement of fuel into the generator and this report is completed by either Oropai or Nooroa.

The monthly report that only Oropai prepares, provides the following information:

- A dipstick reading of the actual amount of fuel present in all storage tanks at all locations.
- A reconciliation of the monthly fuel on hand by taking into account the monthly movement in fuel against the prior months closing balance.

These two (2) balances are reconciled against each other. Audit tested the completeness of the monthly reports by confirming fuel purchases in the report to the corresponding payment voucher and invoice. Audit found that a purchase made on 21 February 2006 for 80,042 ltrs of fuel, was not updated in the monthly fuel report.

This manually prepared report (monthly) is then submitted to the Finance Officer, Teau Maki for checking and inputted on to a spreadsheet for filing. Teau then posts the closing stock balance from the dipstick (first) calculation into the general ledger.

4.1.3 Costing and Valuation

Fuel is valued at cost price (FIFO), however given the nature of fuel, Audit recommends that the fuel stock be valued at weighted average cost (WAC).

Therefore, given all the payments made out for Fuel during the 2006 fiscal year, Audit has determined that fuel is to be valued at the weighted average cost price of \$1.0990 per ltr.

4.1.4 Physical Count

Audit attended the dipstick reading (Bulk and Storage) carried out by Oropai, and observed the recording and the formulation of the end of the month (30th June 2006) report. There were no discrepancies with the above process. However, after reviewing the monthly reports there were anomalies regarding the reconciliation process between the two different forms of calculating closing stock at month end.

Given the physical count and costing and valuation, Audit has concluded that Fuel on hand at 30 June 2006 is fairly stated at \$108,983.43. This is represented by 99,166 litres @ \$1.0990 p/litre.

4.2 **Lube Oil**

4.2.1 Record Keeping

Rimaroa Tuiravakai (Long), Aitutaki Power Supply Manager, orders the Lube Oil (Reef Bulk Fuels) from Auckland, New Zealand. The oil arrives by boat, transported to the island by barge, and stored at the Wharf. The Aitutaki Power Supply staff, using their truck, picks up the oil (40 gallon drums) and delivers it back to the station. Like the fuel system, every movement of oil is documented and summarized monthly to derive monthly reports. Either Oropai or Nooroa are responsible for administering the use of the lube oil. Again, only Oropai can write up the monthly reports.

4.2.2 Security

The oil can only be accessed through a nozzle/tap which is locked away, at all times, in the storeroom in the power station. When a drum is in use, the tap is attached, and put in the storeroom. When the generator is low on oil, a measuring container is used to access and transfer the oil from the drum and into the generator. Only Oropai and Nooroa have access to the storeroom and subsequently, the oil.

4.2.3 Costing and Valuation

All the oil is valued at cost price. As there was only one purchase of oil during the 2006 fiscal year, there is no need to calculate weighted average cost.

4.2.4 Physical Count

Audit performed a 100% physical count of the drums of oil and verified total volume to client's records. Audit noted that there were two different brands/types of Lube Oil, these being Mono 30 and Hiro 55. Audit reviewed the monthly usage reports to verify the volume of the drum currently in use. Audit is satisfied with the physical controls, maintenance and procedures around the purchasing and usage of lube oil. The monthly report submitted by Teau was incorrect based on the information provided in the manually prepared monthly report. The quantity of Oil has been stated at 1,611 litres, when in actual fact it should be stated at 2,117 litres.

Therefore, lube oil is fairly stated at \$7,049.61

4.3 **Spare Parts**

These are parts for the old generators that are no longer being used. These parts are kept in their original boxes, to prevent the parts from rusting. These are put away in the storeroom, which is locked at all times. Audit observed the condition of the stock and sighted a significant number of rusty parts sitting out of the boxes. After talks with Oropai, it was revealed that this 'keep in the box' policy was only implemented upon his arrival in 2002.

Oropai has informed Audit that due to the nature and purpose of these parts, the likelihood of theft is very low. Basically these parts were specifically designed for the old generators.

Oropai carries out a stock take at the end of each fiscal year.

Based on the physical stock take and Audit's sampled verification with the assistance of Oropai, the quantities of spare parts have been fairly stated. However the client failed to provide a full spare parts cost listing. The Aitutaki Power Supply has not updated their cost listing since September 2004. Teau has informed Audit that in order for her to update the cost listing of spare parts, she will have to review all corresponding payment vouchers and invoices.

The Aitutaki Power Supply has not included spare parts as part of their inventory disclosed in the financial statements. International Accounting Standards, Section 2

states; “Inventories are assets, and in the case of a service provider, inventories include the cost of the service, for which the enterprise has not yet recognized the related revenue.” Despite the fact that these old generators are no longer being used, one of the two is used as a standby, therefore under IAS2 these spare parts should form part of the inventory, and are to be shown in the financial statements.

These parts are classified under two different categories based on the engine type:

- E.R.S Engine, with 1,069 pieces.
- E.U. Engines, with 106 pieces.

5.0 RECOMMENDATIONS

- A more efficient method and system of recording the movement of fuel is needed. The current system is prone to misstatements and errors. Audit recommends some form of spreadsheet that clearly outlines the specifics and/or items of the recording and updating of the fuel process. Furthermore to ensure the accuracy of this report, a senior or administration staff should be delegated the responsibility of checking to ensure the report is accurate in terms of the calculation and the correct period (within the month)
- Develop a system or procedure that ensures that the monthly fuel stock take’s (dipstick) are performed at exactly month end after the last fuel movement for the day.
- A reconciliation process between fuel purchased in the monthly fuel report and the supporting documents (payment voucher and invoice) should be implemented to ensure that all fuel purchased is received and accounted for in the monthly Fuel stock take report.
- A full spare parts cost listing and stock take should be conducted and updated every month to ensure that stock and value of stock is fully accounted for.

6.0 CONCLUSION

Overall the maintenance and security of inventory was found to be satisfactory.

Audits valuation of inventory held by the Aitutaki Power Supply as at 30 June 2006 are as follows:

Fuel	\$108,983.43
Lube Oil	<u>\$ 7,049.61</u>
Total	<u>\$114,348.06</u>

An itemized cost listing of all spare parts had not been provided by the Aitutaki Power Supply at the time audits stock take was completed and this report was written. Audit is therefore unable to verify the true valuation of spare parts inventory held by the Aitutaki Power Supply as at 30 June 2006. However, total quantity on hand was 1,175.

RESPONSE TO AUDIT REPORT

The Aitutaki Power Supply Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 10th July 2006 to the following individuals for comment:

- Rimaroa Tuiravakai, Aitutaki Power Supply Manager
- Hon. Teina Bishop, Minister of OMIA
- Hon. Terepai Maoate, Minister of Finance & PERCA
- Kevin Carr, Financial Secretary of MFEM

Attached is a copy of the responses received by the Audit Office from:

- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

MINISTRY OF CULTURAL DEVELOPMENT STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

Please find attached the stock take and motor vehicle verification report of the Ministry of Cultural Development (MCD) for the year ended 30 June 2006.

STOCK AUDIT

The stock take was conducted by the Chief Librarian of MCD, Justina Nicholas in the presence of Rosalie Fiel, Senior Auditor from the Audit Office last 30 June 2006 between 10:00am – 11:30am.

We are pleased to report that improvements have been identified from previous year's stock take. However, we are concerned over the undocumented stocks coming out which do not bear documented approval and authorization. A better Inventory System shall ensure that all movements of inventory are documented and kept on file.

Further, it should be noted in the previous year's stock take that inventories are valued at selling price. We understand the difficulty faced by the staff especially the Finance Manager and the Chief Librarian in costing the very old items. However, we noted that even new items are not valued at actual cost incurred. Audit found that Video Tapes / DVDs / VCDs are valued at estimated cost. As a production process is involved in this inventory item, actual costs of conversion must be computed by the Finance Manager and should be used as the basis for costing this item. The current practice of MCD on how items are costed does not comply with Generally Accepted Accounting Practice (GAAP) requirements set by International Accounting Standards (IAS) on Inventories where stocks must be valued at actual cost price.

IAS also requires that inventory must be valued at lower of cost or net realizable value. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use. Audit however noted that there are items which are valued at estimated cost (EC) when selling price is lower than EC.

Audit is also pleased to note that over-all inventory accuracy rate for all items stood at a very satisfactory level of 99%.

We commend MCD for implementing the recommendations outlined in last year's stock take report, *except for the recommendation to have all stock disclosed at cost price*. However, to achieve a better and sound inventory system, stock handling and inventory reporting, the Ministry must consider the recommendations contained in this report to strengthen controls on inventory and attain GAAP compliant inventory records.

Key Audit Recommendations

- Ensure that all gifts, donation, complimentary copies given out and damaged/faulty stock for recovery shall be properly documented, filed and authorized by the HOM. The Finance Manager should be furnished with a copy of the documents that he will use to ensure that transactions are properly taken up in the General Ledger.
- Ensure that the six (6) boxes of books called “Visions of the Pacific” be locked away and put in a more secured place as its current location in the tea room is not fully secured and thus prone to theft.
- Conduct cycle counts regularly giving emphasis on items of high value and/or fast-moving products and differences be immediately investigated. This will eliminate any variance on stock count as against stock per record at year-end. This will also give the Ministry a fair view of which item is highly susceptible to theft and instigate corrective measures to prevent inventory losses.
- Ensure that in the event where new items are purchased or produced for the purpose of resale, the cost of these items should be disclosed at cost price / conversion costs and not selling price or estimated costs. Actual costs should be provided by the Finance Manager to the Chief Librarian for each new item in the inventory.
- Ensure that all obsolete/damaged inventories be communicated with the Finance Manager and the latter (Finance Manager) should ensure that proper authorization is sought from the HOM and the Financial Secretary of any obsolete / damaged stocks write-offs.
- Ensure that stock card balances for Tiare Festival 2004 and Visions of the Pacific be amended to 6 and 130 pieces respectively.
- Ensure that stock cards and stock listing balances for Ghost of Tokatarava, Te Mara Kapa DOTY 2006 VDO, Te Mara Kapa DOTY 2006 VDO (Oldies) and Te Maeva Nui 2004 VDO be amended to 638, 14, 4 and 20 pieces respectively.
- Ensure that inventory of damaged items not yet written-off shall be reflected as part of the gross balance of Inventory and appropriate allowance for inventory obsolescences be provided as well to ensure a clearer state of inventory. This will provide the Ministry zero (0) net realizable value of damaged stocks at year-end.
- Ensure that in the event where cost of stock is above selling price, the difference should be recorded as Allowance for Decline in Value of Inventory. The debit side of it is an expense in the Profit and Loss account while the credit side is a contra-asset account of Inventory. Any recovery in the future for the allowance provided, such as if the management wishes to sell it above cost, recovery should form part of Other Income in the Profit and Loss or a separate account can be created as Recovery from Decline in Value of Inventory. This will also reduce or zero out the allowance provided earlier from the asset section.
- Amend the stock values in the financial report for year end 30 June 2006 to the value of \$38,191.40 and record related Allowance for Decline in Value of Inventory (contra-asset account from Inventory) amounting to \$190. This will achieve a net realizable value of inventory amounting to \$38,001.40

In conclusion, inventory is fairly disclosed at **\$38,001.40**. This is represented by:

Books	\$ 26,966.40
Video Tapes / DVDs / CDs	9,925.00
Audio Tapes	<u>1,300.00</u>
Total Inventory	\$ 38,191.40
Less Allowance for Decline in Value of Inventory	<u>190.00</u>
Net Realizable Value	<u>\$ 38,001.40</u>

MOTOR VEHICLE AUDIT

Audit sighted all motor vehicles registered to MCD. This is the first time that this has been done. Audit did not find any exceptions and we concluded therefore that the following motor vehicles are in the possession of MCD and are in good working order:

- GA205 – 2000 Suzuki Van
- GA28 – 1999 Single Cab Holden Rodeo

The recommendations of this report will need to be addressed immediately and will be followed up as part of the year end financial audit for year-ending 30 June 2006.

MANAGEMENT REPORT

1.0 Introduction

A stock take and motor vehicle verification of the Ministry of Cultural Development (MCD) for the financial year ending 30 June 2006 was conducted on the 30 June 2006 between 10:00am – 11:30am.

The stock take and motor vehicle verification was attended by Justina Nicholas, Chief Librarian of MCD and Rosalie Fiel, Senior Auditor of the Cook Islands Audit Office.

The Chief Librarian, Justina Nicholas is responsible for maintaining and safeguarding the stock while her assistant, Odile Urirau is responsible for updating stock records from stock cards and monthly stock listing from the excel file. A stock count was performed by the Chief Librarian and her assistant last 28 June 2006 prior to the stock count on the 30 June 2006 in the presence of Rosalie Fiel of the Audit Office.

2.0 Objectives

The objectives of this review were to:

- Determine whether stock on hand as at the 30 June 2006 reconciles with the figures on the stock card and the stock listing provided
- Review the maintenance and adequacy of internal controls over stock
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.

- Determine the security and safety measures over stock held by the Ministry of Cultural Development.
- Determine whether all motor vehicles were appropriately accounted as at 30 June 2006.

3.0 Audit Scope

- Physical stock count of the items disclosed on the stock listing
- Review of the stock cards to determine that they have been updated
- Inspection of environment in which the stock is kept
- Review of the financial statement disclosure of stock
- Discussions with the Finance Manager and Stock Controller regarding the internal controls over stock.
- Sighting of motor vehicles.

STOCK AUDIT

4.0 Audit Findings

The Ministry of Cultural Development stock on hand consists of:

- Ø Books
- Ø Video Tapes / DVDs
- Ø Audio Tapes

MCD administer all stock items through the stock cards and the monthly stock listing on the excel spreadsheet. All purchases, sales, donations, gifts and write-down of faulty or damaged stocks are updated on the stock cards and the excel spreadsheet on a monthly basis. A receipt is issued by the Chief Librarian or her assistant. Our stock take revealed that the sales portion of the excel spreadsheet included other reductions to stock in the form of donations, gifts, complementary copies, and faulty or damaged stock. These movements are not substantiated by supporting documentation instead, notations are hand written on the stock cards and then re-entered into the excel spreadsheet to update the stock listing.

The cost price of each item is entered into the system based on the invoice price received from the supplier. However, video tapes, DVD's and CD's which are reproduced in-house are valued at estimated cost. The reason for this is because there is no actual costing provided to the Chief Librarian by the Finance Department so an estimate is used for her records.

There are three (3) main locations of inventory namely, the cupboard behind the reception desk, the cupboard situated in the tea room and the National Auditorium storeroom. These locations are always kept locked away and are only opened when a sale is made or when stock is replenished. The tearoom cupboard houses the bulk of inventory and these was properly labeled with the items shelved on hand, quantity of each item and the location of these items in the cupboard, that is, the name of the book or tape and where it is placed on the shelf.

4.1 Books

4.1.1 Security

The storage of books is kept at four (4) different locations, namely the storeroom in the National Auditorium, locked cupboard situated in the tea room, behind the reception desk and an unsecured place in the tea room beside the locked cupboard. Bulk of the books are kept inside the locked cupboard in the tea room. Only one type of book is kept at the storeroom in the National Auditorium which is called “Visions of the Pacific”. 60 pieces or 6 boxes including 10 books per box situated in an unsecured place in the tea room beside the locked cupboard while the other 5 pieces is located behind the reception desk.

The keys to the storeroom are held by the Finance Manager, Cedric Toru while the keys to the locked cupboard behind the tea room are kept by the Chief Librarian, Justina Nicholas and her assistant Odile Urirau.

4.1.2 Record Keeping

The Chief Librarian deals directly with the supplier regarding the purchases and reprinting / reproduction of books. An invoice is received by the Chief Librarian who then updates her records of inventory as well as the cost. The invoice is then forwarded to Finance Department for payment processing.

A stock card is kept for each individual book. There are nine (9) types of books held by MCD for sale. When a sale is made, either the Chief Librarian or her assistant receives the cash and writes a receipt. As earlier mentioned, updating of stock cards and the excel spreadsheet are performed on a monthly basis by Odile Urirau. The Auditor is pleased to note that the Ministry maintains their records to achieve monthly balances of inventory.

4.1.3 Costing and Valuation

Books are valued at selling price except for the “Learning Rarotonga Maori” book and “Maori Names (Ingoa)” in which values are amended based on reproduction costs as per Audit recommendation last financial year. The Chief Librarian advised that the other seven (7) books are valued at selling price as they were purchased a long time ago, even before she first worked as as librarian of MCD.

4.1.4 Physical Count

Audit performed a 100% count of books stock on hand at 30 June 2006. All inventory balances are found to be in order except for “The Ghost of Tokatarava” which was short by two pieces from the actual count. The quantities reported on the stock listing and stock cards showed a balance of 640 pieces while the actual count was 638. Inventory for Books have accuracy rate of 99.9%.

Total value of the books on hand as per stock listing and stock cards was \$26,986.40. The balance of books on hand at 30 June 2006 is fairly reflected at **\$26,966.40** taking into consideration the discrepancy uncovered for The Ghost of Tokatarava books.

4.2. Video Tapes / DVDs / CDs

4.2.1 Security

The storage of video tapes, DVDs and CDs are located at the Library in the two (2) cupboards behind the reception desk. These consist of Te Mire Atu Composers, Dancer of the Year, Te Mire Kapa, Te Maeva Nui, Tangi Kaara and Tiare Festival.

These items are always locked away in the cupboard. The key to this cupboard is held by the Chief Librarian and her assistant. Video tapes are well maintained and kept in covers. They are properly shelved according to the activity by the year.

4.2.2 Record Keeping

The Head of the Ministry for MCD normally instructs the production of tapes, DVDs and CDs after an event has occurred e.g. Miss Tiare Festival. Once the production is finished, all finished products are brought to the Librarian for display and storage. The replenishment of stock is normally done upon the instruction of the Chief Librarian who directly liaises with the Production Personnel to reproduce the item.

A stock card is kept and used for each item type. Once a sale is made, the Chief Librarian or her assistant receives the cash and writes a receipt. Updating of stock cards and the excel spreadsheet are performed on a monthly basis by Odile Urirau. No proper documentation is kept for donations, gifts, complimentary copies to sponsors and damaged/ faulty inventories.

4.2.3 Costing and Valuation

This item category is valued at estimated cost. This issue was raised with the Chief Librarian who advised that she didn't have the actual costs of production from the Finance Department so she based the costs on the estimates given by the Production Personnel and historical charges from Cook Islands Television (CITV) when MCD was still hiring CITV to reproduce all visual tapes for MCD.

In addition, Audit identified that there were some costs of items whose values are higher than the selling price. Generally Accepted Accounting Practice on Inventories as stated in International Accounting Standards (IAS) 2 requires that inventories be valued at cost or net realizable value, whichever is lower. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use. Audit identified that the value of inventory is carried at estimated cost though selling price is lower than the estimate. These consist of items as follow:

<u>Stock</u>	<u>Estimated Cost</u>	<u>Selling Price</u>
Te Mire Kapa DOTY 2006 VDO	\$ 50/unit	\$ 40/unit
Te Mire Kapa DOTY 2006 DVD Oldies	\$ 40/unit	\$ 35/unit

4.2.4 Physical Count

Audit reconciled the quantity stated in the stock cards as against the stock listing from the excel spreadsheet. We identified that one item in the stock card quantity differed from the excel spreadsheet which formed the basis for Audit to validate actual stock on hand as at 30 June 2006. This item is called Tiare Festival 2004 of which the stock listing showed six (6) pieces on hand while the stock card had a nil balance.

We performed 100% count of this inventory category as at 30 June 2006. The following discrepancies were identified:

Stock	Quantity Per Audit	Quantity Per Stock Listing	Difference Over/(Under)
Te Mire Kapa DOTY 2005 VDO	14	9	(5)
Te Mire Kapa DOTY 2006 VDO(Oldies)	4	9	5
Te Maeva Nui 2004 VDO	20	19	(1)

The review of stock cards and inventory spreadsheet revealed several issues of which MCD should focus on to improve their inventory system. Although there is an audit trail for the movement of inventories going out, we are nevertheless concerned about the validity and accuracy of these transactions as no proper documentation and/or documented approvals are put on file. This does not only affect the accuracy of the reported inventory but also the way it should have been captured and entered into the general ledger.

Further, Audit understands the valuation of some very old items was based on selling price. However, for new stocks of which costs can be traced and accurately quantified, valuation based on estimates or selling price is not in compliance with Generally Accepted Accounting Practice and should not be used for costing purposes. IAS 2 requires that cost of conversions be used should there be any production process involved in bringing the inventory to its present condition. The cost of conversion of inventories is not limited to direct materials used in the production process but also include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

Audit also wishes to point out that damaged stocks should not be taken out and deducted from inventory. As damaged items for this type of inventory can still be recovered, a separate stock listing should be maintained to achieve a clear audit trail and any write-offs should have the approval of the Finance Secretary. However to achieve a more realistic inventory value, IAS 2 also requires that appropriate allowance be provided for damaged or obsolete inventory. Thus damaged stocks should have a net realizable value of zero (0) at all

times. This will create an expense account in the Profit and Loss section for Provision for Damaged Stocks and a corresponding contra-asset account from the Inventory as Allowance for Damaged Stocks. Any recovery of damaged stocks should form part of Profit and Loss as Other Income or Recovery from Damaged Stocks and a corresponding debit from the allowance set-up must be made. Upon write-off of inventory, allowance must be closed and the total value of stocks written-off must be credited from Inventory.

In addition, as Inventory is valued at cost, appropriate allowance for any decline in value of inventory shall be recognized from the general ledger. This is the difference between Cost and Selling Price should cost of inventory exceed its selling price. The Provision for Decline in Value of Inventory shall also be an item from the Profit and Loss account and Allowance for Decline in Value of Inventory shall be a contra-asset account from Inventory. Any recovery from decline in value of stock or should the selling price be increased, recovery must be shown as Other Income or Recovery from Decline in Value of Inventory and a corresponding debit from allowance previously set-up must be made

As per reference to materiality set in the 2003/2004 accounts, the Auditor believes that the issues sighted do not have material impact on the financial statements because of the minimal inventory value the Ministry is currently holding. But because MCD shall be responsible for the accurate recording of their stocks, all recommendations in this report should be put in place to achieve a better inventory system next year.

Inventory for Video Tapes / DVDs / CDs after adjustment on stock quantity is fairly reflected at **\$9,925.00** and Allowance for Decline in Value of Inventory is fairly reflected at \$190.

4.3. Audio Tapes

4.3.1 Security

The storage of audio tapes is located in both cupboards situated in the tea room and behind the reception desk. These consist of two (2) types of audio tapes, namely, Maire Nui Theme Song and Visions of the Pacific.

The audio tapes are always locked away in the cupboard. The key to this cupboard is held by the Chief Librarian and her assistant. Audio tapes are well maintained and kept in covers to ensure they are not damaged by fungus or dirt.

The cupboard is only opened when a sale is made or when a customer inquires about a particular tape. Otherwise, this cupboard is usually locked.

4.3.2 Record Keeping

No purchases have been made for any of these items during the year as these items are not as popular and in demand as compared to video tapes.

A stock card is kept and used for each type of audio tape. When a sale is made, either the Chief Librarian or her assistant receives the cash and writes a receipt. As mentioned in the previous 2 inventory types, updating of stock cards and the excel spreadsheet is done on a monthly basis. Review of inventory movements for the year revealed that no donations,

write-off, complimentary and the like were given out on this type of inventory this financial year.

4.3.3 Costing and Valuation

Audio tapes are valued at selling price. This issue was already raised in the previous year's stock take report and the Chief Librarian advised that she did not know the cost price of audio tapes as these were purchased a long time ago and no further purchases were made in the recent years. She also advised that these items were purchased well before she worked as a librarian in MCD.

4.3.4 Physical Count

Audit performed 100% count of audio tapes stock on hand at 30 June 2006. There are no discrepancies found from the stock listing as against actual stock on hand. However, Audit noted that there was a difference of 1 piece between the stock listing and the stock card. Stock listing and stock card balances were 130 and 131 respectively.

Inventory for Audio Tapes on hand at 30 June 2006 is fairly stated at **\$1,300.00**.

5.0 Recommendations

Audit recommends the following to the Chief Librarian and the Finance Manager:

- The Chief Librarian shall ensure that all gifts, donations, complimentary copies given out and damaged/faulty stock for recovery should be properly documented, filed and authorized by the HOM. The Finance Manager should be furnished with a copy of the documents that he will use to ensure that transactions are properly taken up in the general ledger.
- The Chief Librarian should ensure that the six (6) boxes of books called "Visions of the Pacific" be locked away and put in a more secured place as its current location in the tea room is not fully secured and thus prone to theft.
- A cycle count be conducted regularly giving emphasis on items of high value and/or fast-moving products and differences be immediately investigated. This will eliminate any variance on stock count as against stock per record at year-end. This will also give the Ministry a fair view of which item is highly susceptible to theft and instigate corrective measures to prevent inventory losses.
- The Chief Librarian and the Finance Manager should ensure that in the event where new stock items are purchased or produced for the purpose of resale, the value of these items should be disclosed at cost price/ conversion costs and not selling price or estimated costs. Actual costs should be provided by the Finance Manager to the Chief Librarian for each new item in the inventory.
- The Chief Librarian shall ensure that all obsolete/damaged inventories be communicated with the Finance Manager and the latter (Finance Manager) should ensure that proper authorization is sought from the HOM and the Financial Secretary of any obsolete/ damaged stocks to be written-off.

- The Chief Librarian shall ensure that stock card balances for Tiare Festival 2004 and Visions of the Pacific be amended to 6 and 130 pieces respectively.
- The Chief Librarian shall ensure that stock cards and stock listing balances for Ghost of Tokatarava, Te Mara Kapa DOTY 2006 VDO, Te Mara Kapa DOTY 2006 VDO (Oldies) and Te Maeva Nui 2004 VDO be amended to 638, 14, 4 and 20 pieces respectively.
- The Finance Manager should ensure that inventory of damaged items not yet written-off should be reflected as part of the gross balance of inventory and appropriate allowance for inventory obsolescence be provided as well to ensure a clearer state of inventory. This will provide the Ministry zero (0) net realizable value of damaged stocks at year-end.
- The Finance Manager should ensure that in the event where cost of stock is above selling price, the difference shall be recorded as Allowance for Decline in Value of Inventory. The debit side of it is an expense in the Profit and Loss account while the credit side is a contra-asset account from Inventory. Any recovery in the future for the allowance provided, such as if the management wishes to sell it above cost, recovery should form part of Other Income in the Profit and Loss or a separate account can be created as Recovery from Decline in Value of Inventory. This will also reduce or zero out the allowance provided earlier from the asset section.

If cost is higher than selling price the following journal entry is required:

DR	Provision for Decline in Value of Inventory (P&L)	xxx	
CR	Allowance for Decline in Value of Inventory (BS)		xxx

[To record provision for decline in value of inventory due to cost > selling price.]

If the selling price of the items which *were previously provided allowances* be higher or equal to the recorded cost, inventory should be restated at cost and the related journal entry should be:

DR	Allowance for Decline in Value of Inventory (BS)	xxx	
CR	Recovery from Decline in Value of Inventory (P&L)		xxx

[To record recovery from decline in value of inventory]

If the items which are provided allowances are already sold and the selling price remains the same, the journal entry should be:

DR	Allowance for Decline in Value of Inventory (BS)	xxx	
CR	Inventory (BS)		xxx

[To reverse allowance previously set-up for sold items]

- The Finance Manager should amend the stock values in the financial report for year end 30 June 2006 to the value of \$38,191.40 and related Allowance for Decline in Value of Inventory (contra-asset account from Inventory) amounting to \$190. This will achieve a net realizable value of inventory amounting to \$38,001.40.

6.0 Follow up of Recommendations from Prior Period Audit

- Ensure that the unit costs of the Learning Rarotonga Maori Book and Maori Names (Ingoa) Book disclosed in the stock cards be amended from \$10.00 to \$3.85 and \$20.00 to \$15.00 respectively. *Audit has verified that this is already in place for the period under audit.*
- Ensure that in the event where the existing 7 books and 3 audio tapes are reprinted or reproduced, the costs of the reprints or reproduction of these items should replace the selling price disclosed on the stock cards. The cost price should take precedent over the current selling price. *There were only two purchases/ reprints made during the year and these were for books called Anatakitaki and Learning Rarotonga Maori. Audit was not able to validate the costs used as there were no documents available for these two books.*
- Ensure that in the event where any new items are purchased or added to the current stock for the purpose of resale, the cost of these items should be disclosed at cost price and not selling price. *Audit identified this year's stock take that estimated cost is used rather than actual purchase or cost of conversion to value inventory for Video Tapes / DVDs / CDs.*
- Ensure that items donated to sponsors, judges, cultural groups and to schools are not only recorded on the stock cards but also the monthly stock listing spreadsheet. *Audit noted that this recommendation is already in place.*
- Amend the stock values in the financial report for year end 30 June 2005 to the value of \$34,765.65. *Audit confirms that this recommendation was put in place.*
- Communicate the cost price of new items purchased to the Chief Librarian so these could be reflected and disclosed in the stock cards. *This recommendation is not yet in place as the Chief Librarian is using estimated cost to value inventory items which are reproduced in-house.*

7.0 Conclusion

In conclusion, inventory is fairly disclosed at **\$38,001.40**. This is represented by:

Books	\$ 26,966.40
Video Tapes / DVDs / CDs	9,925.00
Audio Tapes	<u>1,300.00</u>
Total Inventory	\$ 38,191.40
Less Allowance for Decline in Value of Inventory	<u>190.00</u>
Net Realizable Value	<u>\$ 38,001.40</u>

MOTOR VEHICLE AUDIT

8.0 Audit Findings

The Ministry of Cultural Development motor vehicles as per fixed assets register (FAR) consist of:

- GA205 – 2000 Suzuki Van
- GA28 – 1999 Single Cab Holden Rodeo

Audit sighted both vehicles as at 30 June 2006. GA205 is the service car of the Head of the Ministry. This was found to be in good running condition when we conducted our physical asset sighting. GA28 which is used for administrative purposes is found to be parked at the Ministry of Culture on the day we conducted the stock count. It was still in good running condition but is proposed to be tendered next financial year according to Cedric Toru, Finance Manager. This is due to the high maintenance costs that MCD is incurring on this vehicle.

The following vehicles are registered at the Bank of the Cook Islands and appear on the list of Crown assets insured by the Ministry of Finance and Economic Management but are not in the physical possession of MCD:

- GA227 – 2001 Liftback Kia Mentor
- GAA131 – Honda Motorbike
- GAA214 – Motorbike

Audit has confirmed that these vehicles are used by the Office of the Minister of Culture. We have also validated that the two motorbikes GAA131 and GAA214 are on the FAR listing of Minister of Culture as at 30 April 2005, when Audit conducted the clearance for then outgoing Minister Hon. Piho Rua. GA227 is used as a service car of the current Minister Wilkie Rasmussen and Audit expects this vehicle to be listed under the FAR of the Office of the Minister of Culture as at 30 June 2006.

9.0 Conclusion

Audit noted that the following motor vehicles were sighted and were found to be in order as at 30 June 2006:

- GA205 – 2000 Suzuki Van
- GA28 – 1999 Single Cab Holden Rodeo

RESPONSE TO AUDIT REPORT

The Ministry of Cultural Development Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 6th July 2006 to the following individuals for comment:

- Raemaki Karati, Secretary of the Ministry of Culture
- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of Finance and PERCA
- Hon. Wilkie Rasmussen, Minister of Cultural Development
- Kevin Carr, Financial Secretary of MFEM

Attached is a copy of the responses received by the Audit Office from:

- Raemaki Karati, Secretary of the Ministry of Culture dated 17th July 2006
- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

MINISTRY OF EDUCATION (MOE) STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

Please find attached the stock take report of the Ministry of Education (MOE) for the year ended 30 June 2005.

It is encouraging to report that the maintenance and monitoring of stock and stock records is adequate, with the exception of updating of stock cards. Stock controls over the purchasing and distribution of stock were found to be satisfactory.

However, concerns raised over the current condition of storage environment should be addressed to prevent further deterioration and minimise damage to stocks in the outer storeroom.

It should be noted that MOE have implemented the recommendations outlined in last years stock take report, except for the recommendation to address fire/theft insurance of the Ministry's stock. This is particularly important, when MOE had given Audit assurance in your letter dated 03 August 2004 that this issue would be addressed in the 2004-2005 period.

The attached report will provide detailed audit findings and recommendations that are summarised below:

Key Audit Recommendations:

1. Ensure current conditions of the storeroom be improved to stop further deterioration and damage to stock items. Missing louvers and wooden planks of wood must be replaced, to prevent rain, sun and moisture damage to the items in the outer room.
2. Stock cards and summary stock list must be updated regularly and on a timely basis, given that 1 to 2 transactions are processed per month. These records should be presented, preferably on a monthly basis, only if there is any movement in stock during the month in hard copy form and backed up to be stored or filed for the Ministry and audit purposes.
3. The Ministry needs to request formal approval from the Financial Secretary to write off obsolete stock stated at \$6,930.54 for the year under review.
4. To ensure efficient computer system operation, utilisation by the users and maintenance by system development is effective and reliable, there must be an adequate level of up-to-date documentation on the system. This should include a proper user manual describing when and how to use the application and related policies and procedures concerning stock card processes.
5. There are no written and clear stock policies and procedures' regarding stock takes at year end. This would assist and ensure staffs are fully aware of the necessary steps to take and the procedures to adhere to when managing stock items and their relevant records and reports, both for current and future reference.

In conclusion, inventory is fairly disclosed at **\$47,623.52**. This is represented by Stationery and Cleaning products.

The recommendations of this report will need to be addressed immediately and will be followed up as part of the year-end financial audit for year-ending 30 June 2005

MANAGEMENT REPORT

1.0 INTRODUCTION

A stock take of the Ministry of Education (MOE) for the financial year ending 30 June 2005 was conducted on the 30th June 2005.

Mr Anthony Turua (Finance Manager) and Ms Terangi Charlie (Senior Finance Officer) of the Ministry of Education, Administration Division and Margret Numanga, Senior Auditor of the Audit Office were present at the stock take. Anthony Turua provided a stock list with details of each stock item, code, quantity and value of the stock.

The auditor performed random checks on the accuracy of the stock information contained on the stock sheet.

The Finance Manager, Anthony Turua is responsible for maintaining and safeguarding the stock including the updating of stock records. Anthony Turua and Terangi Charlie performed a stock count on the 27th of June 2005 prior to the stock take count on the 30 June 2005.

The Ministry's stock is kept in a locked building located at Nikao Primary School.

2.0 AUDIT OBJECTIVES

The objectives of this review were to:

- Determine whether stock on hand as at the 30 June 2005 reconciles with the figures on the stock card and the stock listing provided.
- Review the maintenance and adequacy of internal controls over stock.
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory.
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.
- Determine the security and safety measures over stock held by the Ministry of Education.

3.0 AUDIT SCOPE

- Physical stock count of the items disclosed on the stock listing.
- Review of the stock cards to determine that they have been updated.
- Inspection of environment in which the stock is kept.
- Review of the financial statement disclosure of stock.
- Discussions with the Finance Manager and Stock Controller regarding the internal controls and maintenance over stock.

4.0 AUDIT FINDINGS

The Ministry of Education stock on hand consists of:

Ø Stationery/Cleaning Products

The stock held by the Ministry of Education are utilised by the teachers and students of Primary Schools, Secondary Colleges and Teachers Training College. The stocks are stationery and consumables (e.g. Exercise books, Chalks, Pencils, Pens, Envelops, Photocopy A2, A3, A4 papers, Rulers, Toilet papers, Disinfectants, Dusters, Manilla folders).

Stocks held at Nikao School were properly labeled with identity codes, the items on hand and quantity of each item.

1. Stationery/Cleaning products

1.1 Security

The storage of stationery and cleaning products are kept in a locked building located at Nikao Primary School. The building has two rooms, one surrounded with louver windows (some missing) with wire mesh on the outer wall side for security reasons, and the other room with closed walls. The stock are stored on timber pellets for the large items and shelves for the small items. Anthony Turua and Terangi Charlie hold the keys to the storeroom.

Audit observed items vulnerable to the elements, damaged by exposure to the rain, sun and moisture. Current conditions of the outer storeroom area needs to be addressed particularly to replace the missing louvers and repairs to the upper section of the walls, where planks of wood have been placed haphazardly in an attempt to prevent access into the building, but not the elements, which have contributed to the deteriorating state of some stock items.

There is still no fire and theft insurance arranged or prepared by the Ministry, as been the case for the past years, however as advised by Mr Turua, discussions have been held with other Ministries concerning this issue to form an alliance, in an attempt to minimise premium costs overall.

There is no system documentation of the computer program currently in operation for stock. The Ministry is currently experiencing problems with the system and has decided to transfer all its stock details from EDP to manual system. To ensure efficient system operation, utilisation by the users and maintenance by system development is effective and reliable, there must be an adequate level of up-to-date documentation on the system. This should include a proper user manual describing when and how to use the application, related policies and procedures relating to stock card processes.

1.2 Record Keeping

The stock cards are maintained and monitored by Mr Turua through an EDP stock card computer program (Access Inventory Database) which records receipts and the disbursement of stock. This system records the total stock balances, purchases and stock issued on a monthly basis. Audit was not able to determine whether stock on hand as at the 30 June 2005 reconciled with the figures on the stock card and the stock listing provided. This was due to,

the stock cards not updated and made available for audit perusal. It is important that MOE records the cost price of items on the stock cards and stock listing should any new items be purchased or distributed.

Anthony Turua and Terangi Charlie and Lydia Sijp (Schools Resource Officer) are in charge of ordering, purchasing and distributing the stock from the stock room. All school request their stock by writing to the Ministry, which is incorporated into the bulk purchase order administered by the Ministry and is distributed accordingly.

The Ministry had three major bulk stock orders during the year. Prior to the purchase of stock, a public tender is published in the local and overseas newspaper for value costing quotations. A tender committee was appointed to review the tender applications to ensure a competitive process was undertaken by the Ministry. Following the selection process, the Finance division proceeds with the order and payment of stock.

The three successful applicants were:

u Croxley Stationery Ltd, Wellington	,\$73,015.19
u Polyvista Exports Ltd, Auckland,	\$24,015.92
u Nutech Suppliers	\$5,743.18

These costs include insurance, packing and handling costs. On receiving the stock it is checked by Mr Turua and Ms Charlie before it is stored away at the storeroom.

1.3 Costing and Valuation

Stationery and cleaning products are valued at cost price, this being the unit price of the invoice received which is compliant with GAAP. The cost price of each stock item is entered into the spreadsheet system that converts the quantity of stock on hand to dollar values. MOE adopted the FIFO method of inventory valuation that is "First In First Out" method.

The GL opening balance of all stock brought forward does not agree with the closing stock balance as at 30 June 2004.

Closing stock balance as at 30 June 2004	52,380.92	
Plus purchases during the year	<u>118,133.02</u>	
		170,513.94
Less sales for the year	8,869.66	
Less school distributions (expensed inventory for the yr)	<u>105,642.72</u>	
		<u>114,512.38</u>
Closing stock balance as at 30 June 2005		56,001.56
Stock listing as at 30 June 2005		<u>54,554.06</u>
Variance		1,447.50

Audit was able to vouch all stock transactions in the GL, stock purchased, sold and distributed during the year to supporting documentation.

Stock sales for the year amounted to \$8,869.66, this is derived from private schools only. The Ministry caters to the Private schools stationery needs, their orders are incorporated along with the Public schools orders. They are invoiced once stock have been properly priced and distributed.

1.4 Physical Count

Audit performed a 76% (or \$40,875 of total stock) count of stationery and cleaning products stock on hand at 30 June 2005. There were 2 discrepancies found between the items physically on hand and the item balances on the stock listing provided.

Total value of stock on hand at 30 June 2005 was \$54,554.06. The value of \$54,554.06 reflects the amended book value, which takes into account the adjustments relating to the anomalies found, with the exception of obsolete stock recommended to be written off.

1.5 Write off and Obsolete Stock

There were no write off of stock during the year, however Audit identified some obsolete stock on hand, no longer required by the schools which have been dormant in movement of stock for a number of years. It is recommended these items be written off and/or perhaps be donated to non-government schools or charitable organisations. The Ministry would need to request the Financial Secretary's approval, along with the concurrence of the Minister of Finance to write off these obsolete stock.

<u>Obsolete Stock (Book keeping Ledger books & envelopes)</u>		
1.	Exercise books 14P8, (100), (43 ctn + 50 books)	\$4,914.42
2.	Envelope DLE white seal Easi, (500), (159bxs)	\$2,016.12
	TOTAL	<u>\$6,930.54*</u>

** which makes up 13 % of the total value of stock disclosed.*

5.0 RECOMMENDATIONS

The following recommendations are addressed to the Finance Manager and Senior Finance Officer of MOE:

1. Current conditions of the storeroom should be improved to end further deterioration and damage to stock items. Missing louvers and wooden planks of wood must be replaced, to prevent rain, sun and moisture damage to the items in the outer room.
2. Stock cards and summary stock list must be updated regularly and on a timely basis, given that 1 to 2 transactions are processed per month. These records should be presented, preferably on a monthly basis in hard copy form and backed up to be stored or filed for the Ministry and audit purposes.
3. The Ministry needs to request formal approval from the Financial Secretary to write off obsolete stock stated at \$6,930.54 for the year under review.

4. To ensure efficient computer system operation, utilisation by the users and maintenance by system development is effective and reliable, there must be an adequate level of up-to-date documentation on the system. This should include a proper user manual describing when and how to use the application and related policies and procedures concerning stock card processes.
5. There are no written and clear stock policies and procedures' regarding stock takes at year end. This would assist and ensure staffs are fully aware of the necessary steps to take and the procedures to adhere to when managing stock items and their relevant records and reports, both for current and future reference.

6.0 CONCLUSIONS

In conclusion, inventory is fairly disclosed at **\$47,623.52**, this excludes obsolete stock recommended to be written off, however there remain issues identified with failure to provide up-dated stock card records and render approval for write off of obsolete stock to date.

RESPONSE TO AUDIT REPORT

The Ministry of Education Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 13th July 2006 to the following individuals for comment:

- Mii Rairi, Secretary of the Ministry of Education
- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of Finance and PERCA
- Hon. Jim Marurai, Minister of Education
- Kevin Carr, Financial Secretary of MFEM

Audit notes that as at the date of this report no response has been received by the Audit Office.

MINISTRY OF HEALTH STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

The stock take of the Ministry of Health's inventory and motor vehicle assets for the year ended 30 June 2006 was undertaken by the Audit Office on Monday, 3rd and Tuesday, 4th July 2006 as part of its annual audit programme.

AUDIT STOCK COUNT

The Audit Office stock take identified that progress has been made by the Ministry in addressing issues raised in our previous stock take audit report. The physical controls, maintenance of stock cards, procedures for purchasing and issuing of stock were found to be satisfactory.

Audits valuation of stock held at the six locations sighted are as follows:

<u>Location</u>	<u>Value</u>
Rarotonga Hospital Stores and Consumables	\$ 3,327.35
Rarotonga Hospital Kitchen	\$ 2,617.17
Rarotonga Hospital Laboratory	\$ 74,923.03
Rarotonga Hospital Pharmacy	\$ 44,145.39
Pharmacy outlet in Tupapa – normal stock	\$361,734.12
Pharmacy outlet in Tupapa – aid stock	\$ 51,500.74
Administration Storeroom in Tupapa	\$ 15,033.32
TOTAL	\$553,281.12

The report verifying quantity and valuation of stock held at the Aitutaki Hospital by the Ministry of Health had not been provided at the time Audit's stock take was completed and this report was written. The Ministry was also required to provide Audit with a general ledger report showing the actual value of inventory recognized for the year ending 30 June 2006.

MOTOR VEHICLE AUDIT

In addition to attending Ministry of Health's stock take this year, Audit attempted to verify all motor vehicles owned by the Ministry as at 30 June 2006. The key purpose of sighting the Ministry's motor vehicles was to ensure that their Fixed Asset Register accurately captures all existing Ministry of Health vehicles and the assets are appropriately safeguarded.

Audit compiled a list of motor vehicles owned by The Ministry of Health based on documents provided by the Bank of the Cook Islands (vehicle registration list), Ministry of Finance and Economic Development (list of Crown vehicle insurance payments August 2005) and the Ministry of Health (vehicle annual license list March 2006). Based on the

information collated from the above three sources Audit requested to sight each of the recorded motor vehicles.

The motor vehicle verification audit identified a number of concerns requiring immediate attention by the Ministry of Health. Audit has made recommendations to enhance the accuracy of reporting by the Ministry of Health along with suggestions to improve the safeguarding of high value Ministry assets.

In closing Audit notes that Paragraph 3.10, Section 2 Asset Management, Part B of the Cook Islands Government Financial Policies and Procedures ('CIGFPP) manual requires that every crown entity perform an annual fixed asset stock take. The CIGFPP stipulates that the asset stock take should then be reconciled to the fixed asset register and any proposed adjustments shall be referred to the Financial Secretary. This procedure specifies that the asset verification must be undertaken by more than one staff member, both of whom must sign the completed forms. A template 'Asset Stock take Form' is included in the CIGFPP.

The overall audit findings and recommendations are contained in the attached report.

MANAGEMENT REPORT

1.0 Introduction

As part of our audit programme, a stock take and motor vehicle verification of the Ministry of Health was conducted for the year ending 30 June 2006.

This report provides the findings, issues and recommendations identified from the stock takes undertaken by the Audit Office on Monday, 3rd July 2006 and Tuesday, 4th July 2006.

Audit examined 5 sites on Monday, 3rd July 2006, the Administration store room in Tupapa between 9.00am and 10.00am, the statistics department's storeroom, Hospital kitchen and Laboratory between 10.30am and 1.00pm, and the Pharmacy room at the Rarotonga Hospital between 2.30pm and 4.00pm. On Tuesday, 4th July 2006 audit examined the Pharmacy distribution store room in Tupapa between 8.00am and 12.00am.

The following Ministry staffs were present at the stock take: Moeroa Boaza (Statistics Department Assistant Manager), Peggy Matapo (Statistician), Kaota Tuariki (Kitchen Manager), Mata Taramai (Project Officer), Geoffrey Wuatai (Pharmacy Technician), Douglas Tou (Laboratory Manager), Kena Teamoke (Tupapa Pharmacy dispensary) and Randolph George (Dispenser-Rarotonga Hospital).

The Audit Office staffs present at the stock count were Ngatokorua Elikana and Charlie Vaai.

2.0 Objectives

The objectives of the review were to:

- Ensure the findings and recommendations raised in the 30 June 2005 Audit Stock Take Report have been addressed.
- Perform a physical verification of the Ministry's stock listing as at 30 June 2006 (on a sample basis).
- Review the maintenance and adequacy of physical and access controls surrounding stock.
- Determine whether stock on hand as at 30 June 2006 is fairly stated.

- Determine whether all motor vehicles were appropriately accounted for as at 30 June 2006.

3.0 Audit Scope

- Physical stock count of the items disclosed on the stock listing
- Review of the stock cards to determine that they have been updated
- Inspection of environment in which the stock is kept
- Review of the financial statement disclosure of stock
- Discussions with the Finance Manager and Stock Controller regarding the internal controls over stock.
- Follow up on Ministry's implementation of 30 June 2005 stock take audit report recommendations.
- Sighting of motor vehicle assets.

AUDIT STOCK COUNT

4.0 Audit Findings

The Ministry of Health ("Ministry") holds four types of stock:

- (i) stores and consumables which are mainly for cleaning and office use;
- (ii) pharmaceutical products for distribution to the public and supply to the outer islands;
- (iii) food stock used for the preparation of patient meals at the Rarotonga Hospital; and
- (iv) stationery and medical supplies used for the Hospital Laboratory.

The Ministry's inventory is secured in six locations. These are in:

- u the Administration store room in Tupapa,
- u the main Pharmacy distribution in Tupapa,
- u the Pharmacy room in the Rarotonga Hospital,
- u the Hospital kitchen at the Rarotonga Hospital,
- u the Laboratory at the Rarotonga Hospital, and
- u the storeroom in the Outpatient Ward at the Rarotonga Hospital.

4.1 PHARMACEUTICAL PRODUCTS

4.1.1. Security

The stocks for the Pharmacy division were found in two (2) locations. The main storage being in Tupapa at the main Health Administration building and the second the Pharmacy Room at the Rarotonga Hospital in Arorangi. Audit found the physical controls surrounding stock at both locations to be satisfactory. The stocks were found to be well maintained and clearly coded on the shelves. The staffs at both sites were knowledgeable of the different pharmaceutical products and were able to quickly and easily identify items selected for

testing. Medicines that come in sterilized and tamper proof packaging were not opened, however we relied on the manufacturer's control to assure that quantities were specified on the labels.

The Pharmacy storage area in Tupapa supplies the Hospital in Arorangi, the outer islands' hospitals and also outpatients on the island that have been prescribed drugs by their doctors. The processes involved in outgoing stock are similar for all customers. The same procedures are used for issuing drugs to the patients and hospital wards.

- i) Prescription papers are presented and signatures are checked for authority.
- ii) These prescription notes are used as source documents entered into the TONIQ system.
- iii) It should be noted that the TONIQ system prints a sticker to affix on the prescription to signify that the drugs are issued out to the patient.
- iv) The TONIQ label for the prescription indicates the drug and quantity issued.
- v) The drugs are then issued to the customer or delivered to the correct location.

The pharmacy inventory in both areas was secure and access restricted to authorize personnel only. Heat sensitive medications were stored in refrigerated units. Controlled drugs such as Morphine were kept in a separate cupboard under padlock with only the drug dispensers having access. A separate ledger is kept within the locked cabinet to control the issuing of controlled drugs. This register shows information such as doctor prescribing, patient and date issued. The senior pharmacist reviews the register on a regular basis.

As reported in prior years Audit stock takes reports, there were no security access controls in place for the TONIQ system at both locations. Staff at both locations, have access to the main computer and to the TONIQ system and are able to make changes to the system without any restrictions. Staffs do not use passwords when accessing the computer and TONIQ.

4.1.2. Record Keeping

The Pharmacy division uses a computerized inventory system known as "TONIQ". This system is widely used in New Zealand and other parts of the South Pacific. The staff demonstrated a good understanding of how the system works. TONIQ is used for the purchasing, dispensing and updating of stock held by the Pharmacy division. The system automatically updates the volume of stock when a purchase order has been receipted as goods received and when goods are issued. This means at any point in time, the system can generate a report that will show the level of stock on hand.

Stocks on hand held in the Pharmacy Room at the Rarotonga Hospital and at the Aitutaki Hospital are included in the 30 June 2006 year-end inventory balance for the Ministry. The stock take audit visit confirmed stock on hand at the Pharmacy Room at Rarotonga Hospital; however, the stock take audit visit did not include the Aitutaki Hospital. The Director of Finance and Administration informed the auditors that stock on hand held at the Aitutaki Pharmacy will be confirmed to a report provided by the Aitutaki Hospital. A copy of this report will be sent to the Audit Office once it has become available.

4.1.3. Costing and Valuation

The valuations of stock on the stock cards are based on the actual purchase price of the stock from the suppliers. The purchase price does not include other costs incurred in bringing the stock to its present location. The Director of Finance and Administration informed that no

extra costs such as transportation, tax, and duty is included in inventory costs as the inventory is not sold to the public at a profit, therefore other costs had been captured as part of operating expenditure.

Financial Reporting Standard 4 (FRS-4), Accounting for Inventories requires entities to measure inventory for financial reporting purposes at the “lower of cost and net realisable value”. The International Public Sector Accounting Standard 12 (IPSAS 12), Accounting for Inventories subsection 12 also states “inventories should be measured at the lower of cost” and current replacement cost where they are held for: i) Distribution at no charge or for a nominal charge; ii) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Cost of inventory includes the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to the present location and condition. The cost of purchase includes import duties and other purchase taxes, transport and handling costs; any other directly attributable costs of acquisition; and deductions for immediate or deferred discounts (other than settlement discounts), rebates and subsidies received. As all pharmaceutical products are from overseas, the Ministry needs to ensure that all costs associated with bringing the stock to its present location are taken into account in the valuation of stock.

4.1.4. Physical Count

Stock turnover at the Rarotonga Hospital Pharmacy is high as it is the main centre for Outpatient clients to get their prescription. The stock registry for the Pharmacy has been regularly maintained and stock take was carried out on the 30th June 2006 to ensure that stock report variances are kept at a minimal as compared to previous year’s stock take findings. Audit selected a random sample from the stock listing focusing on high value and high volume inventory items to determine the accuracy of the year-end physical count and compare to the valuation in the Ministry’s records.

In the case of the Tupapa Pharmacy distribution centre however the random sample selected was compared against a listing of their 30 June stock on hand according to the TONIQ (a computer software used by the Pharmacy division to monitor movement of stock) printout.

Audit found the stock on hand for items that were selected for sampling to be correct with a few discrepancies in both the Pharmacy division in Tupapa and stock sampled at the pharmacy room in Rarotonga Hospital.

Total pharmaceutical products on hand at the Rarotonga Hospital Pharmacy dispensary as at 30 June 2006 is fairly stated at **\$44,145.39**.

Total pharmaceutical products on hand at the Tupapa Pharmacy dispensary as at 30 June 2006 is fairly stated at **\$413,234.86**. This includes aid funded pharmaceutical products of **\$51,500.74**.

4.2. STATIONERY, STORES AND CONSUMABLES

4.2.1. Security

The stock for the Stationery and Stores division are located at the Health Administration in Tupapa and Outpatient Ward at the Rarotonga Hospital in Arorangi. Audit visited the two storage areas and confirmed that the conditions of the inventory were neatly arranged. The store room access at both locations is restricted to one staff member for each site who holds the key to the store room.

4.2.2. Record Keeping

Incoming and outgoing Stock for Stationery and Stores Division are as follows:

Tupapa Administration:

The flow of source documents with regards to the incoming of stocks is as follows:

- a. The Accounts/Stores clerk checks the store room to find out what items are low and prepares an inventory stores order.
- b. The Inventory stores order is then sighted and authorized by the Director of Finance and Administration.
- c. Order is made.
- d. Order checked when received and stored in store room.
- e. Purchase is recorded in QuickBooks.
- f. Account is prepared for payment and approved
- g. Cheque payment is issued.

Supplies cleaning, maintenance and dry food to the Administration and Public Health. Also supplies stationery materials to the entire Ministry of Health.

- a. The various departments submit requisition forms which are authorized by the Head of the Department concerned.
- b. The Finance Officer fills the requisition from what is in the store room and marks requisition as filled.
- c. Finance Officer inputs the inventory movement information onto QuickBooks system.

Rarotonga Hospital:

The Rarotonga Hospital in Arorangi has its own storage room and ordering of stock is done by the Statistics Manager. The flow of source documents with regards to the incoming of stocks is as follows:

- a. Works order form is prepared.
- b. Work order sighted and authorized by Director of Finance and Administration.
- c. Works Order is sent to the supplier
- d. Supplier provides an invoice and delivers the goods at the same time.
- e. Order checked against goods received and stored in store room
- f. The order and checked goods received is inputted into the statistics departments own records of stock.
- g. Invoice that has been checked against good received with authorized work order is sent to the Finance Officer main office in Tupapa for payment.
- h. Payment is made by the Finance division according to the invoice sent to them.
- i. A copy of the statistics department records is then sent to the finance division in Tupapa to be reconciled against their own amounts.

Audit notes that the Stores and Consumables held at the Rarotonga Hospital store room supplies cleaning, maintenance and dry food to the various departments at the Rarotonga hospital. But does not supply stationery:

- a. Various departments or wards provide a requisition form which is authorized by the Head of the Department concerned.
- b. The requisition is given to Ngari Munokoa (Statistics Department Manager) or Moeroa Boaza (Statistics Department Assistant Manager) who then collects the stock from the storeroom with a staff from the department that ordered it.
- c. The requisition form is used to update the statistics stock list record and it is forwarded at the end of the month to the Tupapa Finance Department so that they may update their records.

4.2.3. Costing and Valuation

The Ministry uses an average cost system to value inventory for the stationery and consumables. This is computed by the accounts system “QuickBooks” based on a weighted average system. QuickBooks tracks the total number of items and the value for that number of items. As purchases are made the number of items is increased and the value of the stock is increased. When stock is issued it is valued at the percentage of the total items it represents.

4.2.4. Physical Count

Audit performed a 100% physical count of stock and found that physical count reconciled to the stock card.

Total stationery and stores on hand at the Tupapa Administration store room as at 30 June 2006 is fairly stated at **\$15,033.32**.

Total stationery and stores on hand at the Rarotonga Hospital store room as at 30 June 2006 is fairly stated at **\$3,327.35**.

4.3 FOOD STOCK

4.3.1. Security

The stocks for the hospital kitchen are all stored in the kitchen area in the main store room, the cooler and the Manager’s office. Access to the kitchen is restricted to only kitchen staff after hours. The storeroom is locked with the Kitchen Manager responsible for one key and another key which is used by the rest of the staff. At the end of the day both keys are kept by the Kitchen Manager. Some goods are kept in the Manager’s office for better control as there is potential for them to be used excessively, such goods include cans of corned beef.

4.3.2. Record Keeping

An excel spreadsheet is used to record movements of stock for the Hospital Kitchen. The Kitchen Manager, Kaota Tuariki is responsible for the purchasing, receipting, recording and issuing of stock. A physical count is performed on a weekly basis (every Friday afternoon) by the Kitchen Manager to determine the level of stock. The weekly stock count is also used to determine the amount of stock to be ordered for the following week (Monday).

Purchases orders are checked and approved by the Director of Finance or the Director of Nursing. Once approval is given the Kitchen Manager then orders stock from the suppliers (e.g. Meatco ltd). When the stock is delivered the Kitchen Manager checks that the delivery

agrees to the invoice and the purchase order. All invoices are then forwarded to the Finance Department to be approved for payment by the Director of Finance and Administration.

Audit notes that the physical controls surrounding the movement of stock from the store room in the kitchen are weak. Inventory amounts were somewhat estimated based on the prior weeks stock count add current weeks purchases and less estimated use of stock based on the weekly menu prepared by the Manager.

Audit notes that although the amount of stock kept on hand at any one time may be small, a stock register is required to record movement of stock in and out of the storeroom. The register can therefore be used as a basis for reconciling stock counted at the end of the week to determine the amount of stock used or lost because of damages or theft.

4.3.3. Costing and Valuation

All stocks are recorded at purchasing cost. Discussions with the Manager for kitchen noted that the cost of goods purchased from the suppliers rarely changes.

4.3.4. Physical Count

The last physical count for the year ending 30 June 2006 was performed on the 30 June 2006. Audit performed a 100% physical count of dry, canned and frozen stock and found that apart from discrepancies due to the kitchen using stock over the weekend the physical count reconciled to the stock card provided by the Kitchen Manager.

Total food stock on hand at the Rarotonga Hospital Kitchen as at 30 June 2006 is fairly stated at **\$2,617.17**.

4.4. STATIONERY AND MEDICAL SUPPLIES

4.4.1. Security

The stocks for the laboratory are stored in different sections within the laboratory and the mortuary. Access to the laboratory is restricted to staff only. Audit found the staff of the Laboratory to be very knowledgeable in the whereabouts of stock in their division.

The key to the mortuary is kept in the front reception of the Rarotonga Hospital and stock within the mortuary is kept under lock and key when not in use.

Stocks in the store room were found to be organized and neatly stacked and were easily identifiable on the shelves. The inventory list clearly identifies where the stock are kept and inventory are clearly labelled on the shelves in storage.

4.4.2. Record Keeping

The Laboratory Manager, Douglas Tou is responsible for making all purchases for the laboratory and sourcing suitable suppliers. He is also responsible for the purchasing, receipting, recording, issuing and recording of stock.

All purchase orders are approved by the Director of Finance and Administration before the order is made. Audit notes that when purchases are made and the stock delivered the Laboratory Manager checks the delivery against the invoice and purchase order. Once this is

done he then updates his records and forwards the invoice to the Finance Department for payment.

Audit notes that purchase of stock is made usually on a monthly basis and is determined by which stock is in short supply. However we also noted that the physical controls over the movement of stock within the laboratory were very weak and therefore the purchase of stock was reliant on the monthly stock take to determine what stock was on hand and which ones were in short supply.

4.4.3. Costing and Valuation

The Laboratory uses an average cost system to value inventory for the stationery and medical supplies. This is computed by the accounts system “QuickBooks” based on a weighted average system. QuickBooks tracks the total number of items and the value for that number of items.

4.4.4. Physical Count

Stock counts for the laboratory are performed on a monthly basis. The last stock count for the laboratory was done on the 30th June 2006. Audit selected a sample of stock from the inventory list provided by the Laboratory Manager and tested to ensure accuracy of stock levels.

The majority of the stock items tested reconciled to the level of stock reported in the inventory listing however Audit notes that during the stock count a few sampled items were found to have been expired. This is most likely due to staff using newer stock rather than the older ones.

Staff members that were in charge of respective sectors of the laboratory assisted the auditors with the physical count. The staffs were very helpful and knowledgeable of the different lab products and they were able to quickly and easily identify items selected for testing. We identified that staff members at this year’s stock take count were very helpful because they are now aware and understand the importance of stock take process as compared to previous years audit stock take.

5.0. Recommendations

Audit recommends the following adjustments:

5.1. Pharmacy Division:

- We reiterate that passwords are used to restrict access into the TONIQ system and desktop computers used by the Pharmacy staff at Tupapa, the Rarotonga Hospital and the Aitutaki Hospital. We were informed that the system does not have the capabilities to restrict access and find it hard to believe that any computerised system is unable to facilitate the most basic form of good inventory management.
- We recommend that the current TONIQ system be revised as to whether the programme is currently utilised to its full potential. If it is, how can it be improved to enable the system to print a Purchasing report as it does for stock dispensing report?

- We reiterate that the unit cost used for pharmaceutical products for the Pharmacy Division should take into account other costs directly attributable to bringing the stock to its physical location (e.g. import duties, purchase taxes, transport and handling costs). This will ensure compliance with Generally Accepted Accounting Practise (GAAP).

5.2. Hospital Kitchen:

- We recommend a stock register is used and placed on the wall in the Kitchen Storeroom to record all incoming and outgoing stock as they are received and issued from this storeroom.
- We recommend that food stock that have been used and are perishable (e.g. fruits and vegetables) are not included in the 30 June 2006 physical count. The food stocks that should be captured at year end are those that have not been opened, used and are not perishable.

5.3. Hospital Laboratory:

- We recommend that another stock count be conducted with the purpose of identifying and therefore removing and disposing of expired stock from the premises as well as from the stock records.
- It is recommended that the Laboratory Manager implement stricter physical controls over the recording of stock used in the laboratory. A possible solution would be to have staff record all test conducted in the laboratory and what chemicals or stock is used during these tests. The Manager can therefore use this information to reconcile his stock records against the monthly stock counts conducted within the division. All stock used or damaged in the laboratory should be recorded on a daily basis. The movement of stock, be it, purchase, use or damage should be reconciled to the monthly physical count conducted by the Laboratory Manager.

5.4. Stock Cards:

- We recommend that all divisions update their inventory listing based on the actual counts the Audit Office confirmed on the day of the stock take visits.

6.0. Follow up of Recommendations from Prior Period Audit

We followed up on matters raised in the 2005 Stock Take Audit Report. The Ministry have addressed some of the issues fully and partially as follows:

6.1. Pharmacy Division:

- During this financial period, the floor of the Ministry's Pharmacy distribution centre had been tiled and stock had been moved around because of this. Audit notes that the division is currently in the process of dusting and restocking the shelves as well as disposing of any expired stock.

- Access into the TONIQ system is neither name nor password restricted. Thus audit had recommend that passwords are used to restrict access into the TONIQ system and desktop computers by the Pharmacy staff, the exercise had proven impossible when the system does not provide for such option.

6.2. Stationery and Stores:

- The stock cards for the Stationery and Stores Room at the Rarotonga Hospital Statistics have been regularly updated to show incoming and outgoing stock. Therefore, as at 30 June 2006 the stock cards agree with physical stock count, except for three products – Blue Handisacks, white plastic bags and Alkaline Duracell 6v battery.
- Audit also noted that the stock listing provided by the Statistics Department at the Rarotonga Hospital matched that of the Tupapa Finance Department which shows that monthly reconciliations between the two departments were being conducted.

6.3. Hospital Laboratory:

- The stock of the Hospital Laboratory has since been recounted and the stock listing and measurement have changed to reflect a more accurate stock count by units. All staff of the Laboratory Department have been informed of the importance of the stock take process and how stock records are to be measured during stock take.

7.0. Conclusion

Overall, the physical controls, maintenance of stock cards and procedures around the purchasing, receipting and issuing of stock were found to be satisfactory.

Audits valuation of stock held at the six locations sighted are as follows:

Location

	<u>Value</u>
Rarotonga Hospital Stores and Consumables	\$ 3,327.35
Rarotonga Hospital Kitchen	\$ 2,617.17
Rarotonga Hospital Laboratory	\$ 74,923.03
Rarotonga Hospital Pharmacy	\$ 44,145.39
Pharmacy outlet in Tupapa – normal stock	\$361,734.12
Pharmacy outlet in Tupapa – aid stock	\$ 51,500.74
Administration Storeroom in Tupapa	\$ 15,033.32
TOTAL	\$553,281.12

The report verifying quantity and valuation of stock held at the Aitutaki Hospital by the Ministry of Health had not been provided at the time Audit's stock take was completed and this report was issued. The Ministry was also required to provide Audit with a general ledger report showing the actual value of inventory recognized for the year ending 30 June 2006.

MOTOR VEHICLE AUDIT

In addition to attending Ministry of Health's stock take this year, Audit attempted to verify all motor vehicles owned by the Ministry as at 30 June 2006. The key purpose of sighting the Ministry's motor vehicles was to ensure that their Fixed Asset Register accurately captures all existing Ministry of Health vehicles and the assets are appropriately safeguarded.

8.0. Audit Findings

Audit compiled a list of motor vehicles owned by The Ministry of Health based on the following documents:

1. Listing provided by the Bank of the Cook Islands ('BCI')

The BCI is responsible for the 'Cook Islands Motor Vehicle Registration' database which records particulars of all motor vehicles registered in the Cook Islands. BCI generated a schedule listing all motor vehicles owned by Ministry of Health as at 26 June 2006.

2. Listing provided by the Ministry of Finance and Economic Management ('MFEM')

MFEM is responsible for insuring government owned vehicles. Accordingly, the Audit Office obtained a copy of the most recent listing provided to their insurers, this was dated August 2005.

3. Ministry of Health's listing of vehicles for annual license payments as at 31 March 2006

The Ministry of Health had compiled a list of all vehicles belonging to them for the purpose of paying for annual licenses with BCI. The finance officer was able to provide Audit with a copy of this list.

Based on the information collated from the above three sources Audit requested to sight each of the recorded motor vehicles. The results of this review are summarized below:

Vehicles included on BCI ownership schedule but NOT sighted by Audit

The following vehicles were included on the summary of the Ministries vehicle registrations provided by BCI but could not be sighted by the auditor:

REG #	Owner Name	Make	Model
AAC763	HEALTH - BLACKROCK	unknown	unknown
GA336	RAROTONGA HOSPITAL	unknown	unknown
GAA1	PUBLIC HEALTH	unknown	unknown
GAA11	PUBLIC HEALTH	unknown	unknown
GAA12	PUBLIC HEALTH	unknown	unknown
GAA151	PUBLIC HEALTH	unknown	unknown
GAA27	PUBLIC HEALTH	unknown	unknown
GAA274	PUBLIC HEALTH	unknown	unknown
GAA56	PUBLIC HEALTH	unknown	unknown

GAA72	PUBLIC HEALTH	unknown	unknown
GAA74	PUBLIC HEALTH	unknown	unknown
GAA75	HEALTH - TUPAPA	unknown	unknown
GAA8	PUBLIC HEALTH	unknown	unknown
GAA9	PUBLIC HEALTH	unknown	unknown
MMB8	MINISTER OF HEALTH	unknown	unknown
VC330	HEALTH - BLACKROCK	unknown	unknown
VC331	HEALTH - BLACKROCK	unknown	unknown
VC348	HEALTH - BLACKROCK	unknown	unknown
VC349	HEALTH - TUPAPA	unknown	unknown
VC358	HEALTH - BLACKROCK	unknown	unknown
VC377	HEALTH - BLACKROCK	unknown	unknown
VC446	PUBLIC HEALTH	unknown	unknown
VC448	PUBLIC HEALTH	unknown	unknown
VC458	PUBLIC HEALTH	unknown	unknown
VC466	PUBLIC HEALTH	unknown	unknown
VC467	PUBLIC HEALTH	unknown	unknown
VC470	PUBLIC HEALTH	unknown	unknown

Audit notes none of the above registrations appear on the list of vehicles to which the Ministry paid annual licenses for on the 31st of March 2006 or are insured by MFEM.

Accordingly, Audit recommends that the Ministry request further details regarding the scheduled items from BCI to ascertain whether these vehicles:

- *have been sold but registration details have not been updated with the BCI,*
- *the vehicles are no longer in working order and should be de-registered and any usable parts salvaged, or*
- *the vehicles have been incorrectly omitted from the Ministry's fixed asset register and therefore this needs to be rectified .*

Vehicles included on MFEM's insurance schedule NOT sighted by Audit

The following vehicles were included on MFEM's insurance schedule but could not be sighted by the auditor.

REG #	Type	Make	Model	REG #	Type	Make	Model
GA189	Pickup	Holden	Rodeo	GAA277	Motor bike	Honda	Daelum
GA207	Sedan	Ford	Taurus	GAA283	Motorbike	Honda	Daelum
GA209	Pickup	Isuzu	unknown	GAA284	Motorbike	Honda	Daelum
GA341	Van	Kia	Pregio	GAA285	Motorbike	Honda	Daelum
GA98	Pickup	Mitshubishi	unknown	GAA29	Motorbike	Honda	unknown
GAA102	Motorbike	Honda	Daelum	GAA30	Motorbike	Honda	90cc
GAA115	Motor bike	Honda	Daelum	GAA73	Motor bike	Honda	90cc
GAA116	Motor bike	Honda	90cc	GAA75	Motorbike	Honda	90cc
GAA274	Motor bike	Honda	Daelum	GAA86	Van	Daihasu	Zebra

Audit notes none of the above vehicles or license plates appear on the list of vehicles registration provided by BCI however the Mitsubishi pickup GA98 and the motorbikes GAA102, GAA277, GAA73 and GAA75 were also on the list of vehicles to which the Ministry paid annual licenses for on the 31st March 2006.

Discussions with Haumata Hosking (Finance Officer) noted that the motor bikes shown above were issued to nurses in the Public Health department and therefore were all out in the field. Attempts by Audit to ascertain a list of which staff each of the motorbikes had been allocated to proved unsuccessful.

It is recommended that the Ministry (both the Public Health and Finance Department) compile a list of motorbikes issued to nurses or staff members. A copy of this list should be kept by both divisions.

The Ministry should implement written policies guarding itself from any future repair cost to these vehicles due accidents or abuse. Such policies should state that the responsibility of the staff to which the vehicle is allocated to.

It is also suggested that the Ministry conduct quarterly (every 3 months) checks on these motorbikes to ensure that the individual responsible for the vehicle has kept it in good working order.

Vehicles included on MFEM's insurance schedule NOT sighted by Audit which had been sold according to the Ministry of Health

Audit was informed by Haumata Hosking that the Ford Taurus Sedan (GA207) had been sold to a Dr. Daniels and that the Blue Daihatsu Zebra van had also been sold however she was not aware as to whom had purchased it. Both vehicles have been insured by MFEM as at August 2005.

Audit has requested for supporting documents pertaining to the tendering and sale of the above two vehicles, however we note that at the time this report was completed the documents are still outstanding from the Ministry of Health.

It is strongly recommended that the Ministry ensure these documents or copies of such are forwarded to the Audit Office to ensure that no further investigation into the above matter is needed.

It is also recommended that in future the Ministry should notify MFEM and BCI as to the sale and therefore change of ownership of any vehicles.

Discrepancies between clients list of vehicles to BCI for annual license payments and Audit physical sighting.

Audit notes that the clients listing of vehicles sent to BCI for the payment of annual licenses showed three Kia Pregio Ambulances (GA264, GA244 and GA267). Audit however notes that vehicle registration number GA264 was in fact a Kia Mentor sedan.

Audit also noted that the following vehicles sighted were not included in the clients list of vehicles to BCI for annual license payments.

REG #	Type	Make	Model
GA305	Pickup	Suzuki	unknown
GA336	Van	unknown	unknown
GAA333	Van	Suzuki	unknown
GAA71	Motorbike	Honda	90CC

All four vehicles were registered to the Ministry as per the BCI vehicle registration list.

Accordingly, Audit recommends that the Ministry request further details regarding the scheduled items from BCI to ascertain whether the Ministries vehicle listing should be updated to include these vehicles.

8.1. Conclusion

The motor vehicle verification audit identified a number of concerns requiring immediate attention by the Ministry of Health. Audit has made recommendations to enhance the accuracy of reporting by the Ministry of Health along with suggestions to improve the safeguarding of high value Ministry assets.

In closing Audit notes that Paragraph 3.10, Section 2 Asset Management, Part B of the Cook Islands Government Financial Policies and Procedures ('CIGFPP) manual requires that every crown entity perform an annual fixed asset stock take. The CIGFPP stipulates that the asset stock take should then be reconciled to the fixed asset register and any proposed adjustments shall be referred to the Financial Secretary. This procedure specifies that the asset verification must be undertaken by more than one staff member, both of whom must sign the completed forms. A template 'Asset Stock take Form' is included in the CIGFPP.

Audit recommends that the Ministry of Health perform a full asset stock take, in line with CIGFPP, to ensure all assets are properly captured in their fixed asset register and any discrepancies are promptly identified to ensure any matters of concern are rectified before finalization of the 30 June 2006 Financial Statements.

RESPONSE TO AUDIT REPORT

The Ministry of Health Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 7th July 2006 to the following individuals for comment:

- Dr. Roro Daniels, Secretary of Health
- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of Finance and PERCA
- Hon. Teina Bishop, Minister of Health
- Kevin Carr, Financial Secretary of MFEM

Attached is a copy of the responses received by the Audit Office from:

- Dr. Roro Daniels, Secretary of Health dated 13th September 2006
- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

MINISTRY OF WORKS STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

A stock take and motor vehicle verification was conducted by Audit for the year ending 30 June 2006. The stock take was attended by Adrian Teohati and Pare Rongokea from the Water Works and Road Works Divisions respectively and Tunoa Araitia and Maria Teaurima of the Cook Islands Audit Office.

The objectives of the review were to:

- Determine whether stock on hand as at the 30th June 2006 reconciles with the figures on the stock card and stock listing provided.
- Review the maintenance and adequacy of internal controls over stock
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.
- Determine whether all motor vehicles were appropriately accounted as at 30 June 2006.

The attached report details our findings and recommendations of the inventory stock take and the motor vehicle verification.

The Audit Office did not receive a valuation of all stock on hand at 30 June 2006 and therefore concluded on the actual quantities of each stock item on hand instead. This was a problem with past stock takes and remains unaddressed to date.

While the timeliness of the actual stock take has improved, particularly the Water Works Division, we were disappointed to note that the recommendations of our past reports have not been implemented neither have you indicated your disagreement with any of our prior years proposed recommendations.

The recommendations of this report will be addressed at the year-end financial audit and a follow up of its implementation.

MANAGEMENT REPORT

Introduction

A stock take of the Ministry of Works and motor vehicle verification for the year ending

Objectives

The objectives of this review were to:

- Determine whether stock on hand as at the 30th June 2006 reconciles with the figures on the stock card and the stock listing provided
- Review the maintenance and adequacy of internal controls over stock
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.
- Determine whether all motor vehicles were appropriately accounted for as at 30 June 2006.

Audit Scope

- Physical stock count of the items disclosed on the stock listing
- Review of the stock cards to determine that they have been updated
- Inspection of environment in which the stock is kept
- Review of the financial statement disclosure of stock
- Discussions with the Finance Manager and Stock Controller regarding the internal controls over stock.
- Sighting of motor vehicles.

STOCK AUDIT

Audit Findings

The Ministry of Works stock on hand consists of:

- 1. Road Works**
 - Bitumen and Emulsion
 - Chainsaws
 - Road Marking Paint
 - Tyres and Tyre Tubes
 - Kerosene and Engine Oil
 - Petrol and Diesel
 - Boots, Overalls, Caps and Safety Vets
 - Other Electrical fittings

- 2. Water Works**
 - Piping
 - Valves and Fittings

1. Road Works

Security

As in prior year the Road Works stock is located at the old Ministry of Works yard in Arorangi. Pare Rongokea, Stock Controller has a key to his office and adjoining storeroom, which is used to store most of the smaller items of stock. The drums of bitumen are stored within the compound; the first shed on the right upon entering the compound houses the Adhesive Diamine HBG bags. The second and third building also contain drums of bitumen and emulsion.

Record Keeping

The Stores Controller keeps stock cards for all Road Works stock. Stock cards recorded incoming stock, outgoing stock and the closing balance of physical stock on hand for the year ended 30 June 2006.

Purchase of Stock

As in prior year fuel and oil, bitumen and adhesive stock are recorded to their respective inventory accounts when stock is purchased; these are then credited to the Rarotonga Roads Expenditure Project in progress as the stock is used. All other stocks are credited directly to the project in progress account when they are purchased.

Issue of Stock

When an item of stock is required, the head of the division either calls the store man, Pare Rongokea, by telephone or sends someone to the compound in Arorangi to pick up the item required. Mr Pare Rongokea then issues out the goods and updates the stock cards. Mr Rongokea is not present at the compound the staff member would just take the stock without filling in a requisition form or using the blackboard. Mr Rongokea conducts a stock take once every week on the most used inventory which are the bitumen, kerosene and engine oil, petrol and diesel.

Costing and Valuation

The stock listing that was provided did not include the valuation of each stock item. The Stores Controller added that he did not know the value of each stock item, as he was not given the invoice when a purchase was made.

The Finance Manager records the value of stock at the unit invoice cost. Stock are not sold but expensed to the various projects that the Ministry undertakes. **As at 07th July 2006 the Ministry did not provide the Audit Office with a cost and valuation of the stock being held within the Roads Division.**

Physical Count

A random sample was selected from the stock listing provided and a physical verification of the stock balances were performed on 30 June 2006. Present from Audit were Tunoa Araitia and Maria Teaurima, and the Road Works Stock Controller Pare Rongokea.

There were 144 items of inventory, Audit selected 58 items of inventory and found no anomalies in the physical count.

Sample result shown above indicate that reliance can be placed on the physical count.

2. Water Works

Security

Inventory is housed in 2 store rooms and 1 container located at the old Ministry of Works yard in Arorangi. There is a third storage area where several 80mm PVC pipes were left in an open area beside the two locked store rooms. The Water Works division manager, Ben Parakoti and the Store manager Adrian hold keys to the container and the two high value storage room.

Record Keeping

The Water Works division does not have a stock card for each item nor is the computerized system considered reliable. As both systems are not updated on a regular basis.

Incoming Stock

The Director of Water Works contacts the supplier HUMES directly for materials needed. The supplier ships the stock down to Rarotonga with an invoice attached. The invoice is passed to the Finance division. Bulk orders are done at least once or twice a year. Re-ordering is based on physical inspection of remaining items in store.

Outgoing stock

The division has a computerized system called the Water Works system. The main aim of this system is to monitor jobs that have been completed and jobs that are not yet complete. This is custom made by the division.

There are three types of jobs that the division does. One is the 'complaints' (where the division attends to private homes). The second is the 'project' (government directed projects) and 'others' projects that are neither 'complaints' nor 'projects.'

For each job a job sheet is filled out by the person attending to the project. Detailing 'fittings used' 'description of job' and so on. The information from the job sheet is then loaded onto the Water works system.

The above however is unreliable. The Job Sheet is not completed for all jobs conducted. The Water Works computerized system does not pick up stock used.

Outgoing stock audit concludes that there is no proper system in place to monitor the stock going out.

Director of Water's response.

Audit discussed the above with the Director of Water Ben Parakoti and agrees with Audit's assessment of the system. Admits that there is a weakness in the stock management but advises that the Water Division simply does not have the man power to monitor the movement of the stock. This is an ongoing issue.

Costing and Valuation

The stock listing that was provided did not include the valuation of each stock item. As in prior year discussions with Ben Parakoti noted that the main issue faced by the division was fluctuations in the cost of stock for projects when purchased over the period. **As of the 07th July 2006 the Ministry was having problems with its computer and could not provide the**

Audit Office with the costing and valuation of the stock being held by the Water Works Division.

Physical Count

A random sample was selected from the stock listing provided and a physical verification of the stock balances were performed on 30 June 2006. Present from Audit were Tunoa Araitia and Maria Teaurima, and the Water Works Stock Controller Adrian Teotahi.

There were 30 items of inventory, Audit selected 19 items of inventory and found no anomalies in the physical count.

Sample result shown above indicate that reliance can be placed on the physical count.

Recommendations

Audit recommends the following adjustments:

- Audit's recommendations from prior year has not been actioned by the Ministry and is therefore being carried forward into current year.
- **Road Works**
Encourage personnel within the Road Works division to use stock order form and or the blackboard when stock is being taken from the division.
- **Water Works**
Encourage personnel on jobs to complete a job sheet form. This will ensure that all jobs are captured on the system.

To automatically link the 'Fittings Used' field on the Job Sheet to the stock card on the computerized system.

Follow up of Recommendations from Prior Period Audit

As stated earlier audit's prior year recommendations has not been actioned by the Ministry.

- Audit noted no copy of the purchase invoice of stock was given to the Store Manager of the Road Works Division. He was therefore unable to double check if all materials ordered had been received and to also record the cost of the inventory into his records.
- The documentation of stock movements within the Ministry was basically non-existent. Audit noted that all transactions are verbal and that no system is in place to record authorization and transfer of stocks. For example outgoing stock is heavily dependant on other workers informing the store manager that they have taken stock.
- The Ministry capitalized stock purchased against their respective "project in progress" account in the General ledgers. The Ministry was therefore unable to provide audit with a clear indication of how much stock was on hand as at 30 June 2006.
- The result of our sample tests of the stock counts performed by Works staff confirmed that these counts were reliable, these mean little however unless comparable with what stock should be there.

- Past reports have strongly recommended that the frequency of stock counting be increased. We again recommend this and suggest to Works management a cycle counting approach based on an ABC analysis of inventory as a cost effective method. Category A items of (high value and high usage items being frequently checked (monthly), Category B less frequently (quarterly or semi-annually), category C annually. In combination with orderly storage and bin cards Audit believes this will improve stock storage, movement and re-ordering. There are about 184 stock items in the Water Division stores, project and operations. A count of only 40 stock items would confirm 80% of the value of inventory.

Conclusion

As in prior year audit concludes that there is a major area of weakness of control over inventory within the Road Works and Water Works division. Namely the documentation for inventory movements is basically non-existent. Neither division was able to provide audit with a clear and reliable cost valuation of stock on hand as at 30 June 2006.

Audit is recommending that internal control standards should be in place and actioned. Failure to adopt minimum control standards is a breach of the Ministry of Finance and Economic Management act 1995-96 and Audit will be obliged to report that Ministry of Works' management has not met its recording responsibilities under that Act.

MOTOR VEHICLE AUDIT

In addition to attending MOW's stock take this year, Audit attempted to verify all motor vehicles and heavy equipment owned by the Ministry as at 30 June 2006. The key purpose of sighting the Ministry's motor vehicles was to ensure that their Fixed Asset Register accurately captures all existing MOW vehicles and heavy equipment and the assets are appropriately safeguarded.

Audit Findings

Audit compiled a list of motor vehicles owned by OMIA based on the following documents:

1. Listing provided by the Bank of the Cook Islands ('BCI')

The BCI is responsible for the 'Cook Islands Motor Vehicle Registration' database which records particulars of all motor vehicles registered in the Cook Islands. BCI generated a schedule listing all motor vehicles owned by MOW as at 26 June 2006.

2. Listing provided by the Ministry of Finance and Economic Management ('MFEM')

MFEM is responsible for insuring government owned vehicles. Accordingly, the Audit Office obtained a copy of the most recent listing provided to their insurers, this was dated August 2005.

3. MOW's Fixed Asset Register as at 30 June 2006

The Cook Islands Government Financial Policies and Procedures Manual specifies that all crown entities must maintain a Fixed Assets Register in line with Part B, Section 2 – 'Asset Management' of the Manual. The purpose of this policy is:

- To maintain complete and accurate accounting for fixed assets;
- To ensure that fixed assets are safeguarded; and
- To assign the physical control responsibility for fixed assets to the Head of Ministry.

Based on the information collated from the above three sources Audit requested to sight each of the recorded motor vehicles and heavy equipment items. The results of this review are summarized below:

Additional Vehicle

Audit noted the following vehicles that were in the Ministry's possession but not listed on the BCI Schedule.

Plate Number	Vehicle Type	Reason for not being on BCI Schedule
GA18	Rocky	Registered under Ministry of Energy
GA230	Toyota Surf	Registered under Ministry of Energy
GAA140	Honda Daelim	Ministry of Energy
VC291	Hanomag Loader	PBW (Aitutaki)
GA260	Double Cab	Waste Management

The Ministry to advise BCI of the change in ownership from Ministry of Energy to Ministry of Works.

Inappropriate use of Motor Vehicles and Heavy Equipment

Audit did not identify inappropriate use of Motor vehicles and heavy equipment since the Ministry has good control over the usage of the motor vehicles. For the heavy equipment the Director for the Road Works division at the end of the day makes sure that all are at the workshop. Motor vehicles are given to supervisors or directors to take home after hours. When Audit requested that all vehicles be brought in for sighting the Ministry responded to Audit's request accordingly.

Vehicle not brought in was GA297 a Quingy motorbike which was lost.

Vehicles included on BCI ownership schedule but NOT verified by Audit

The following was not verified by Audit that was on the BCI ownership schedule

Plate number	Reason for not being verified by Audit
GA87	With Ministry of Agriculture
VC289	Not Working
GA186	Non existent
1443	Non existent
5217	Non existent
4539	With Ministry of Internal Affairs
1939	Changed to GA12
1940	Changed to GA187
VL605	Non existent

Vehicles with other Ministries.

The Ministry should advise BCI that vehicles GA87 and 4539 are now with the Ministry of Agriculture and the Ministry of Internal Affairs respectively.

The Ministry should advise BCI that the following vehicles are no longer in existence. GA186, 1443, 5217 and VL605.

The Ministry should also advise BCI that VC289 is no longer working.

Advise BCI of the change in number plates from 1939 to GA12 and 1940 to GA187.

Motor Vehicles no longer in working order

The vehicle with plate number VC289 is no longer working. GA169 is currently waiting for parts to be brought in and is currently in the tendering process in line with the Cook Islands Government Financial Policies and Procedures.

Audit recommends that this vehicle be tendered and sold in line with Cook Islands Government Financial Policies and Procedures.

Vehicles included on MFEM's insurance schedule verified by Audit

Audit successfully sighted most of the motor vehicles and heavy equipment included on MFEM's insurance schedule except for the GA297 which was lost. According to the Finance Clerk they are still waiting for a report on how this motorbike was lost.

This vehicle is insured by MFEM. It is highly recommended that the Ministry obtain the lost report on the motorbike immediately and advise MFEM on the status of the motorbike so that appropriate changes can be made to the Insurance of the Motorbike.

Conclusion

In closing Audit notes that Paragraph 3.10, Section 2 Asset Management, Part B of the Cook Islands Government Financial Policies and Procedures ('CIGFPP) manual requires that every crown entity perform an annual fixed asset stocktake. The CIGFPP stipulates that the asset stocktake should then be reconciled to the fixed asset register and any proposed adjustments shall be referred to the Financial Secretary. This procedure specifies that the asset verification must be undertaken by more than one staff member, both of whom must sign the completed forms. A template 'Asset Stocktake Form' is included in the CIGFPP.

Audit recommends that MOW perform a full asset stocktake, in line with CIGFPP, to ensure all assets are properly captured in their fixed asset register and any discrepancies are promptly identified to ensure any matters of concern are rectified before finalization of the 30 June 2006 Financial Statements.

RESPONSE TO AUDIT REPORT

The Ministry of Works Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 13th July 2006 to the following individuals for comment:

- Ata Herman, Secretary of the Ministry of Works
- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of Finance and PERCA
- Hon Ngamau Munokoa, Minister of Works
- Kevin Carr, Financial Secretary of MFEM

Audit notes that as at the date of this report no response has been received by the Audit Office.

MFEM NUMISMATIC DIVISION STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

Please find attached the stock take and motor vehicle verification report for the MFEM Numismatic Division for the year ended 30 June 2006. The attached report documents the audit findings with recommendations that are summarized as follows:-

STOCK AUDIT

1. Audit recommends that the proper reconciliation be maintained between the MFEM Numismatic Division Inventory ledger, and the stock take balance. The stock take balance is to be the amount reflected in the Cook Islands Government Statement of Financial Position for year end reporting purposes. Any discrepancies for the year ended 30 June 2006 should be identified and rectified before the finalization of the 30 June 2006 Crown Financial Statements.
2. The MFEM Numismatic Officer maintains a constant update of the movements in the stock items on the stock cards to avoid future discrepancies.
3. All future sales to the Cook Islands Philatelic Bureau to be treated as cash sales and that all outstanding monies owing to be immediately collected.
4. The Cook Islands \$50.00 notes that are no longer in circulation and currently stored in the MFEM Safe to be sealed in boxes and transferred to the MFEM vault. The process should include the presence of Audit Office personnel.
5. The Notes and Coins that are no longer in circulation and the Specimen Notes that are currently stored in the MFEM Store Room to be sealed in boxes and transferred to the MFEM vault. The process should include the presence of Audit Office personnel.
6. The notes and coins in circulation contained at the MFEM Store Room to be transferred and combined with the notes and coins in circulation in the MFEM Safe. The MFEM Store room location should be used for the purpose of storing opened boxes only
7. The MFEM Numismatic Division transfer all opened boxes from the MFEM vault to the MFEM Store Room for storage purposes. Only sealed boxes should be kept in the MFEM vault.
8. The MFEM Numismatic Division advises the Audit Office on any future stock items to be destroyed.

The value of inventory items held by the MFEM Numismatic Division for the year ended 30 June 2006 is fairly stated at **\$10,588,169.69**.

This is represented by:

MFEM Safe	\$ 50,640.00
MFEM Storage Room	\$ 144,397.95
MFEM Vault	<u>\$10,393,131.74</u>
TOTAL	<u>\$10,588,169.69</u>

MOTOR VEHICLE AUDIT

1. Audit recommends that the Aid Management Division (AMD) with the MFEM Finance Division arrange for their new motor bike to be insured and properly documented onto the MFEM fixed asset register. The registration ownership for the motor bike needs to be confirmed with BCI, and attempts should be taken to obtain a GAA vehicle number plate.
2. Audit recommends that the AMD with MFEM Finance Division clarify and advise BCI on the registration ownership of the AMD motor vehicles that are registered under AMD. These vehicles should be registered under MFEM, since AMD is a division of MFEM.
3. Audit recommends that MFEM perform a full asset stock-take, in line with CIGFPP, to ensure all assets are properly captured in their fixed asset register and any discrepancies are promptly identified to ensure any matters of concern are rectified before finalization of the 30 June 2006 Financial Statements.

MANAGEMENT REPORT

1.0 Introduction

The stock take for the Ministry of Finance and Economic Management (MFEM) Numismatic Division for the year ended 30 June 2006 was carried out on 3 July 2006. The Audit Office had specifically requested the stock take to be undertaken on Friday 30 June 2006, but due to staff unavailability, MFEM Numismatic Office requested that it be deferred until Monday 3 July 2006.

The Motor Vehicle verification for MFEM was carried out on 30 June 2006. This was the first time the exercise was carried out by the Audit Office.

Mr. Terry Piri, Numismatic Officer of MFEM Numismatic Division, and Mataora Mataora, Auditor of the Cook Islands Audit Office undertook the stock take exercise, while Louisa Hosking undertook the motor vehicle verification.

2.0 Objectives

The objectives of this stock take were to:

- Determine whether stock on hand as at 30 June 2006 reconciles with the figures on the stock card reports provided
- Review the maintenance and adequacy of internal control procedures over the handling of stock items
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory
- Determine whether any stock was written off during the financial year and check that proper write off procedures were followed and adhered to
- Determine whether all motor vehicles were appropriately accounted for as at 30 June 2006

3.0 Audit Scope

- Physical stock count of the items disclosed on the stock listing
- Review of the stock cards to determine that they have been updated
- Inspection of environment in which the stock is kept
- Review of the financial statement disclosure of stock items
- Discussions with the Finance Manager and Numismatic Officer regarding the internal control procedures over stock.
- Sighting of motor vehicles

STOCK AUDIT

4.0 Stock Locations

The Numismatic stock items are stored at the following locations:

- Ø MFEM Safe, located next to the Numismatic Officer's desk, in the Treasury Division. The safe stores stock items for immediate sale purposes.
- Ø MFEM Store Room, located next to the MFEM Restrooms. The Storeroom supplements the safe supplies.
- Ø MFEM Vault, located at Old Justice Building. The vault stores the bulk supplies.

5.0 Background and Internal Control Process

The MFEM Numismatic Division's stock items include Cook Islands notes and coins, specimen notes and the Commemorative Coins or the Collectors Proof Set Coins. The Cook Islands notes and coins that are legal tender include \$1, \$2, \$5, 20c, 10c, and 5c coins, and the \$3 notes. These are mostly tendered, by a transfer arrangement, through the three commercial banks. The \$50, \$20 and \$10 notes are no longer in circulation.

The Numismatic Officer of MFEM Numismatic Division monitors the stock movements of all stock items, whether purchased, sold or transferred, on separate stock cards, for each stock location. The movements are manually recorded on a Microsoft excel spreadsheet.

The receipt and storage (in the MFEM vault) of newly purchased notes and coins are done in the presence of Police Officer's and a representative from another MFEM division. The notes and coins are sealed in boxes and labeled by quantity and currency type. The Audit Office previously recommended that an Audit Office representative should be included in the process to fast track the audit and stock take process.

The purchases of Cook Islands notes and coins are normally made from The Royal Australian Mint Company of Canberra, Australia while the purchases of New Zealand coins are made from the Reserve Bank of New Zealand. There are currently no New Zealand coins kept in stock. Copies of purchase invoices, freighting and levy documents are maintained and kept for internal control purposes. Payments of invoices are made by bank drafts.

Sale of currencies to the three commercial banks is processed once the banks order is received. An invoice is issued and delivered together with the quantities of stock items ordered. The BCI and Westpac Bank pay the invoices by cheque, while ANZ Bank deposits the funds directly into the ANZ Public Bank Account.

Currencies are also sold to the Cook Islands Philatelic Bureau, and to Coin Collectors. Invoices are issued on the notes and coins sold. The notes and coins are sold on a cash basis, except to the Cook Islands Philatelic Bureau. The MFEM Numismatic Division has a special currency loan arrangement with the Cook Islands Philatelic Bureau. The Cook Islands Philatelic Bureau purchases the currencies and on-sells it. Funds received from the sales are used to pay back the amount owing to MFEM Numismatic Division. Currently, the total amount owing by the Cook Islands Philatelic Bureau is \$13,047.50. It is recommended that all future sales to the Cook Islands Philatelic Bureau be treated on a cash sale basis, similar to other clients. Copies of the sales invoices and transfer documents are maintained and kept for internal control purposes. The Overseas Collectors pay by direct transfers into the Cook Islands Government Westpac bank account, while local Collectors pay by cash. Receipts are issued on all cash physically received, and AR journal entries are processed for all direct transfers of funds received

The MFEM Numismatic Division maintains a separate file for sales invoices issued, and a separate file for the purchases invoices and other purchase documents received, stock transfer orders received, and payment vouchers made.

The MFEM Numismatic Division only maintains electronic stock cards to record the movements of stock items. The stock cards are printed out for the stock take only. No stock cards were sighted on file to document the movements throughout the year.

6.0 Findings

6.0.1 Overview

The auditors had difficulty in verifying the information on the stock card reports provided by the MFEM Numismatic Officer. The title descriptions on the stock cards had different date references, incorrect location specifications, incorrect description of quantity movements, and incorrect opening and closing balances. For example, stock cards for the MFEM Store-room location had title descriptions “.....30 June 2004 Monetary Room”, “.....30 June 2006 Monetary Room” and “.....13 March 2003 MFEM Safe”. Stock cards for the MFEM Safe location had title descriptions “.....30 June 2004 Monetary Room”. Stock cards for the MFEM Vault location had title descriptions “.....30 June 2006 MFEM Safe”, and “.....13 March 2006 MFEM Safe”.

A couple of the stock card reports provided by the MFEM Numismatic Officer had stock quantity anomalies. The opening balance for 30 June 2006 stock take report was inconsistent with the audited closing stock balance from the 30 June 2005 stock take report.

For example, the opening balance for the 2003 Cook Islands \$5 coin on the stock take report for 30 June 2006 at the MFEM Safe location had 700 pieces, where it should have had 730 pieces. The stock card quantity for the \$3 notes in Box 27 and Box 33 at the MFEM vault location had 10,000 pieces in each box, where it should have had a nil balance. These notes were mutilated and damaged, and were eventually destroyed. The stock take quantity for the \$3 notes in Box 21 at the MFEM vault location had 2,000 pieces, but the stock card description for the box has description “10 bundles of \$3.00 x 1000”. It should read as “2 bundles of \$3.00 x 1000”. And, the stock card quantity for the \$10.00 note in Box 39 at the MFEM vault location had description “59 bundles of \$10.00 x 1000” where the stock take

quantity had 58,000 pieces and description should read “58 bundles of \$10.00 x 1000”. Also, the transfer of stock items from Box 10 and Box 21 at the MFEM vault location to the MFEM Storeroom was not recorded on the stock card report.

6.1 MFEM Safe

6.1.1 Security

The MFEM safe contains the Cook Islands notes and coins of \$1, \$2, \$3, \$5, 20c, 10, 5c still in circulation, and the \$50 Cook Islands notes that is no longer in circulation. The notes and coins are stored for immediate sale purposes. Sold items are replenished from the MFEM Store room location.

The Manager of Treasury keeps the key to the safe, and the safe is located next to the MFEM Numismatic Officer’s desk, in the Treasury Division.

6.1.2 Record Keeping

The Numismatic Officer updates the excel spreadsheet for the purchase and sale of currencies. Currencies are sold at face value. Proper invoicing, issue of receipts and banking procedures are being adhered to by the Numismatic Division.

All accounting records of invoices, receipts and deposits were audited and no anomalies were found.

6.1.3 Costing and Valuation

The notes and coins transferred into and out of the MFEM Safe are valued at face value.

6.1.4 Physical Count

Audit performed a 100% count of all currencies at this location. There was a minor discrepancy found between the items physically on hand and the item balances on the stock card listing provided. The discrepancy was the opening balance for the 2003 Cook Islands \$5.00 coins that were inconsistent to the audited stock take balance at 30 June 2005. Audited balance from 2005 stock take had 730 pieces and the 2006 stock card report had 700 pieces. The Numismatic Officer amended his records and re-printed the final copy.

The physical Stock Take Count consists of:-

Notes and Coins in circulation	\$ 5,640.00
\$50.00 Notes not in circulation	\$ 45,000.00

TOTAL	\$ 50,640.00
	=====

The total value of Cook Islands Notes and Coins on hand at the MFEM Safe location as at 30 June 2006 was **\$50,640.00**.

6.2 MFEM Store Room

6.2.1 Security

The MFEM Storeroom location contains Cook Islands \$3.00 notes and coins in circulation, specimen notes used for promotion purposes, and Cook Island Notes and coins no longer in circulation.

The notes and coins are packed as follows –

- The uncut sheets of the Cook Islands \$3, \$10, \$20 and \$50 notes are sealed in cardboard boxes stacked in the locked cabinet
- The various Cook Islands coins are sealed in plastic bags, placed in cardboard boxes then stacked in the locked cabinet
- The Specimen Cook Island Notes are packed in cardboard boxes stacked in the locked cabinet

Auditor is satisfied that the recommendation from the Stock Take Report for 2005 that the Commemorative Coins be sealed and transferred to the MFEM vault has been actioned accordingly. The report also highlighted that the cabinet was not locked. This report confirms that the cabinet is securely lockable now.

The key to the MFEM Store Room and the cabinet is held by the MFEM Numismatic Officer. In his absence, the keys are kept by the Treasury Manager or the Crown Senior Accountant.

6.2.2 Record Keeping

The Numismatic Officer updates the excel spreadsheet for the purchase, sale and transfers of currencies to and from the Storeroom. Currencies are sold at face value. Proper invoicing, issue of cash receipts and banking procedures are being adhered to by the Numismatic Division.

All accounting records of invoices, receipts and deposits were audited and no anomalies were found.

6.2.3 Costing and Valuation

The notes and coins transferred into and out of the MFEM Storeroom are valued at face value.

6.2.4 Physical Count

Audit performed a 100% count of all currencies at this location. There were minor discrepancies between the items physically on hand and the item balances on the stock card list provided for Audit. These item balances were amended on the stock card to reflect the physical count.

The physical stock count of the notes and coins in the MFEM Store Room consists of:-

Notes and Coins in circulation	\$ 9,155.95
Notes and Coins not in circulation	\$ 93,871.00
Specimens Notes	\$ 41,371.00

TOTAL \$	\$144,397.95
	=====

The total value of notes and coins on hand at the MFEM Store Room as at 30 June 2006 was **\$144,397.95**.

6.3 MFEM Vault

6.3.1 Security

The MFEM vault holds the bulk supply of the MFEM Numismatic Division stock items. It contains the Cook Islands Notes and Coins in circulation (\$1, \$2, \$5 coins and \$3.00 notes), the Cook Islands Notes and Coins that are no longer in circulation (\$3, \$10, \$20 notes, and \$1 coins), and Commemorative or Collectors Proof Set Coins. There were no purchases of new notes and coins for the financial year.

A set of two access codes are required to open the MFEM vault. The first set of access codes is only known and held by Terry Piri and Teu Teulilo and the second set is only known and held by David Lobb and Kath Hutson. Any one person of the two sets is required to access and open the MFEM vault.

6.3.2 Record Keeping

The Numismatic Officer updates the excel spreadsheet for the purchase, sale and transfers of notes and coins to and from the MFEM vault. Currencies are sold at face value. Proper invoicing, issue of cash receipts and banking procedures are being adhered to by the MFEM Numismatic Division. The minor discrepancy encountered by the auditor was the maintenance for the stock item movements on the stock card reports by the Numismatic Officer. These were amended and re-printed.

All accounting records of invoices, receipts and deposits were audited and no anomalies were found.

6.3.3 Costing and Valuation

The notes and coins transferred into and out of the MFEM vault are valued at face value.

6.3.4 Physical Count

A physical count on the stock items in the MFEM vault was performed on the opened boxes only. These boxes were previously sealed.

The Commemorative and Collectors Coin Proof Sets that were transferred from the MFEM Store Room were not physically counted by the auditor. These coins were already sealed in wooden boxes. The MFEM Numismatic Officer advised that the items transferred were not sorted due to some being mutilated and damaged.

The physical stock count of the Cook Islands Notes and Coins in the MFEM vault consists of:-

Cook Islands Notes and Coins in circulation	\$ 4,707,500.00
Cook Islands Notes no longer in Circulation	\$ 5,127,566.80
Commemorative and Collectors Coin Proof Sets	\$ 558,064.94

TOTAL	\$10,393,131.74
	=====

Auditor confirms that an opened wooden box of damaged specimen notes is located in the MFEM vault. These specimen notes are used for promotion purposes only, and have no

dollar values. The specimen notes were not recorded as part of the MFEM Numismatic stock items.

There was \$60,000.00 worth of Cook Islands \$3.00 notes that was destroyed by the MFEM Numismatic Division from the MFEM vault location. The exercise was based on the prior year audit recommendation for the damaged and mutilated stock items to be sorted and destroyed. The contents of the stock items destroyed were

Box 27 – 10 bundles of \$3.00 x 1000 damaged	\$30,000.00
Box 33 – 10 bundles of \$3.00 x 1000 damaged	\$30,000.00

TOTAL	\$60,000.00
	=====

The MFEM Numismatic Officer advised that around October 2005, the balance of the damaged stock items written off prior to the 1995 audited stock take report were destroyed together with the \$60,000.00 \$3.00 notes. These were destroyed by the MFEM Numismatic Officer with the presence of MFEM Finance Officer Peerui Tumii, and the MFEM Cleaner Vaka Teroi. The prior year stock items were not on the 2005 and 2006 stock take reports.

The notes were destroyed by shredding them first, then burning it at the Ministry of Agriculture's incinerator at the airport. The Audit Office was not informed of the process. There was no report that the auditors could obtain on the content of the stock items destroyed. The Treasury Finance Manager advised there was no need to document a report on the destruction process since the stock items were already damaged and written off, and had no value.

The total value of currencies on hand held at the MFEM vault location as at 30 June 2006 was **\$10,393,131.74**.

7.0 Recommendations

The Audit recommendations were instigated to reflect a much more effective system and practical approach for the handling of the stock items by the MFEM Numismatic Division

A summary of the recommendations suggested are:-

7.1 Overview

7.1.1 General Ledger Reconciliation

The general ledger balance of the Coins Inventory in the Solomon's system as at 30 June 2006 was \$417,361.78. According to the Finance Manager of MFEM Treasury Division, the inventory items maintained in the general ledger are the \$1, \$2 and \$5 Cook Islands Coins in circulation only. Effectively this should match with the physical stock items held in all the stock locations. But at this stage Audit is not able to obtain the breakdown of the physical stock item listings from MFEM's Numismatic Division.

The Finance Manager of Treasury also provided an excel document which shows the movements between the stock items that are contained in the ledger. The spreadsheet should reconcile with the ledger and the stock take count, but the balances do not match. The balance for the Cook Islands coins found on the database at 30 June 2006 is \$231,306.76.

The reconciliation between the general ledger, stock take count and the excel spreadsheet did not form as part of prior years audited stock take reports.

Audit recommends that the proper reconciliation be maintained between the MFEM Numismatic Division Inventory ledger, and the stock take balance. The stock take balance is to be the amount reflected in the Cook Islands Government Statement of Financial Position for year end reporting purposes. Any discrepancies for the year ended 30 June 2006 are to be identified and rectified before the finalization of the 30 June 2006 Crown Financial Statements.

7.1.2 *It is recommended that MFEM Numismatic Officer maintain a constant update of the movements in the stock items on the stock cards to avoid future discrepancies.*

7.1.3 *It is recommended that all future sales to the Cook Islands Philatelic Bureau be treated as cash sales, similar to other clients, and that all outstanding monies owing be immediately collected by arrangement.*

7.2 MFEM Safe

It is recommended that the Cook Islands \$50.00 notes that are no longer in circulation and currently stored in the MFEM Safe be sealed in boxes and to be transferred to the MFEM vault.. A representative from the Audit Office should be present to witness the sealing of the boxes to fast track the next stock take process. The Stock items for immediate sale purposes should be kept in the MFEM Safe only.

7.3 MFEM Storage Room

It is recommended that:-

- Ø *The Notes and Coins that are no longer in circulation and the Specimen Notes contained in the MFEM Store Room be sealed in boxes and transferred to the MFEM vault. A representative from the Audit Office should be present to witness the sealing of the boxes to fast track the next stock take process.*
- Ø *The notes and coins in circulation contained at the MFEM Store Room be transferred and combined with the notes and coins in circulation at the MFEM Safe location. The MFEM Store room location should be used for the purpose of storing opened boxes from the MFEM vault.*

7.4 MFEM Vault

It is recommended that:-

- Ø *The damaged samples of specimen notes in the MFEM vault to be destroyed with an Auditor present.*

- Ø *MFEM Numismatic Division advises the Audit Office on any future stock items to be destroyed regardless.*
- Ø *MFEM Numismatic Division transfer all opened boxes from the MFEM vault to the MFEM Store Room for storage purposes. Sealed boxes should be kept in the MFEM vault at all times.*

8.0 Follow up of Recommendations from Prior Year Audit

The 30 June 2005 stock take report recommended that:

- 8.0.1 The Stock Controller with the assistance of the Manager of Treasury devise a system for the storage of currencies. – The Auditor reports that stock card reports for each stock item were maintained in each location, and movements during the year have been recorded.

But it is highlighted that the process currently in place is ineffective and inaccurate. The stock cards are not managed efficiently to reflect the correct audited opening balance plus any movements during the year. This issue has been reviewed in the above recommendations

- 8.0.2 Boxes of commemorative coins be sealed and transferred from the MFEM Store Room to the MFEM vault - This was implemented and the items were transferred in sealed boxes to the MFEM vault. But the contents in the boxes were not sorted. The damaged notes and coins need to be removed and boxed separately to be eventually destroyed. The MFEM Numismatic Officer explained that due to time constraints and staff unavailability, this was not possible. It is the Numismatic Divisions intention to do this in the near future, and that the Audit Office will be advised.

- 8.0.3 The department to actively market and sell the oversized \$0.05 cent coins – Audit reports that 40,400 coins were sold out to Collectors during the year. The balance of items on hand now is 41,600 pieces @\$0.05 = \$2,080.00. The MFEM Numismatic Officer is highly commended for the huge effort made in the marketing and sales of the coins.

- 8.0.4 All Cook Islands notes should be stored in storage bins safe from the elements of weather and mutilation – Audit reports that the practical approach implemented by the MFEM Numismatic Officer was the stacking of the sealed boxes of notes on a higher level – on top of the sealed boxes of coins. Accordingly, the MFEM Numismatic Officer is highly commended for taking this initiative.

9.0 Conclusion

In conclusion, the total value of inventory items held by the MFEM Numismatic Division as at 30 June 2003 is fairly stated at **\$10,588,169.69**.

This is represented by:

MFEM Safe	\$ 50,640.00
MFEM Storage Room	\$ 144,397.95
MFEM Vault	<u>\$10,393,131.74</u>
<i>TOTAL</i>	<u><i>\$10,588,169.69</i></u>

MOTOR VEHICLE AUDIT

In addition to attending MFEM Numismatic Division's stock take this year, Audit attempted to verify all motor vehicles owned by the Ministry as at 30 June 2006. The key purpose of sighting the Ministry's motor vehicles was to ensure that their Fixed Asset Register accurately captures all existing MFEM vehicles and the assets are appropriately safeguarded.

10.0 Audit Findings

Audit compiled a list of motor vehicles owned by MFEM based on the following documents:

1. Listing provided by the Bank of the Cook Islands ('BCI')

The BCI is responsible for the 'Cook Islands Motor Vehicle Registration' database which records particulars of all motor vehicles registered in the Cook Islands. BCI generated a schedule listing all motor vehicles owned by MFEM as at 26 June 2006.

2. Listing provided by the Ministry of Finance and Economic Management ('MFEM')

MFEM is responsible for insuring government owned vehicles. Accordingly, the Audit Office obtained a copy of the most recent listing provided to their insurers, this was dated August 2005.

3. Sighting of the motor vehicle annual licenses and Warrant of Fitness as at 30 June 2006

Audit sighted the motor vehicles listed under the BCI listing and the MFEM insurance listing to confirm the validity of the registration status of the vehicles.

Based on the information collated from the above three sources Audit requested to sight each of the recorded motor vehicles. The results of this review are summarized below:

10.1 Additional Vehicle

The Auditor knows that the Aid Management Division (AMD) has a new motor bike in its possession. It is a red Suzuki YBR125 4-stroke clutch 125CC engine motor bike which was purchased in May 2006. The motor bike is for office use and is normally taken home by the Director of AMD. Audit was not able to sight the motor bike. The Director of AMD had gone overseas and had the motor bike at his residence. The Auditor was advised that this was necessary for security reasons. The Auditor has sighted the motor vehicle license and the Warrant of Fitness stickers which are currently held with the AMD Secretary. Audit has advised the Secretary to stick them onto the motor bike as soon as appropriate.

After discussion with John Pareanga of BCI the motor bike is registered as AAJ 950 under the AMD. The bike does not have a “GAAXX” number plate as BCI had run out of government number plates.

Audit recommends that the AMD with the MFEM Finance Division arrange for the motor bike to be insured and properly documented onto the MFEM fixed asset register. The registration ownership for the motor bike needs to be confirmed with BCI, and attempts should be taken to obtain a GAA vehicle number plate.

10.2 Motor Vehicle not sighted

Audit could not sight the 2003 Honda Jazz GA156 held by the Financial Secretary. The Financial Secretary had gone overseas and had the vehicle parked at his residence. Audit is aware the vehicle has always been in the Financial Secretary’s possession, and is in good working condition.

10.3 Vehicles included on MFEM Insurance Listing but not on the BCI Listing

The motor vehicles GA162 and GA299 are in the possession of AMD. The motor vehicles are included on the MFEM insurance listing, but could not be found on the BCI listing. Audit had discussion with John Pareanga of BCI and confirmed the vehicles are both registered under AMD.

Audit recommends that the AMD with MFEM Finance Division clarify and advise BCI on the registration ownership of the motor vehicles. These vehicles should be registered under MFEM, since AMD is a division within the Ministry.

10.4 Cook Islands National Superannuation Fund (CINSF) Motor Vehicles

The Auditor has noted that the motor vehicle GA211 is held by the CEO of the CINSF and it is currently registered under CINSF possession.

CINSF also has a new motor bike in its possession. It is a blue-yellow Honda Wave 100CC engine motor bike which was purchased in May 2006. The motor bike is for office use and is normally taken home by one of its Managers. The Auditor has sighted the motor bike and noted that it has a current motor vehicle license and Warrant of Fitness stickers. The motor bike has vehicle registration plate number GAA188.

11.0 Conclusion

The motor vehicle verification audit identified a number of concerns requiring immediate attention by the MFEM. Audit has made recommendations to enhance the accuracy of reporting by MFEM along with suggestions to improve the safeguarding of the Ministry assets.

In closing Audit notes that Paragraph 3.10, Section 2 Asset Management, Part B of the Cook Islands Government Financial Policies and Procedures (‘CIGFPP’) manual requires that every crown entity perform an annual fixed asset stock-take. The CIGFPP stipulates that the asset stock-take should then be reconciled to the fixed asset register and any proposed adjustments shall be referred to the Financial Secretary. This procedure specifies that the asset

verification must be undertaken by more than one staff member, both of whom must sign the completed forms. A template 'Asset Stock-take Form' is included in the CIGFPP.

Audit recommends that MFEM perform a full asset stock-take, in line with CIGFPP, to ensure all assets are properly captured in their fixed asset register and any discrepancies are promptly identified to ensure any matters of concern are rectified before finalization of the 30 June 2006 Financial Statements.

RESPONSE TO AUDIT REPORT

The Ministry of Finance and Economic Management Numismatic Division Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 12th July 2006 to the following individuals for comment:

- Terry Piri, Stock Controller, MFEM
- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of Finance and PERCA
- Kevin Carr, Financial Secretary of MFEM

Audit notes that as at the date of this report no response has been received by the Audit Office.

OFFICE OF THE MINISTER FOR ISLAND ADMINISTRATION STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

A stocktake and motor vehicle verification was conducted by Audit for the year ending 30 June 2006. The stocktake was primarily attended by Mathalina Thompson and Takave Manea from the Office of the Minister of Island Administrations ('OMIA') and Tai Roberts, Mataora Mataora and Louise Wittwer of the Cook Islands Audit Office.

The objectives of the review were to:

- Determine whether stock on hand as at 30 June 2006 reconciles with the figures on the stock card and stock listing provided.
- Review the maintenance and adequacy of internal controls over stock
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory.
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.
- Determine whether all OMIA motor vehicles and heavy equipment were appropriately accounted for as at 30 June 2006.

The attached report details our findings and recommendations of the inventory stocktake and the motor vehicle verification.

Audit is particularly concerned to note **stock missing** to the value of **\$39,534** and in line with your earlier advice we look forward to receiving additional information as to how this arose as soon as possible, and not later than 14 days from the date of this report. Stock discrepancies of this level simply cannot be tolerated and evidences a general lack of controls surrounding OMIA stock.

Additionally, our review identified an **Excavator** off site being **used for personal reasons** by the Workshop Supervisor. Audit recommends that under no circumstances should employees be permitted to remove heavy equipment from OMIA for personal use. This is unacceptable behaviour, an abuse of government property and Audit emphasis's procedures must be implemented immediately to ensure there is no recurrence of this improper use of a public asset.

The recommendations of this report will be addressed, if not before, at the 30 June 2006 year-end financial audit.

MANAGEMENT REPORT

Introduction

A stocktake and motor vehicle verification of the Office of the Minister of Island Affairs (OMIA) for the financial year ending 30 June 2006 was carried out on Friday 30 June 2006.

OMIA holds stock in Rarotonga only. That is, no OMIA stock is held on the outer islands though some of OMIA's motor vehicles and heavy equipment items are based in Mangaia, Manihiki and Mitiaro. Stock is held at two sites in Rarotonga. Both of these sites were visited on 30 June 2006. Visits were not made to the outer islands and therefore those assets located at Mangaia, Manihiki and Mitiaro have not been physically verified, although written confirmation from the outer Island Administration's has been forthcoming.

Objectives

The objectives of this review were to:

- Determine whether stock on hand as at the 30 June 2006 reconciles with the figures on the stock card and the stock listing provided.
- Review the maintenance and adequacy of internal controls over stock.
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory.
- Determine whether any stock was written off during the financial year and if so that proper approval for the write offs was received.
- Determine whether all OMIA motor vehicles and heavy equipment are appropriately accounted for as at 30 June 2006.

Audit Scope

- Physical stock count of the items disclosed on the stock listing.
- Review of the stock cards to determine that they have been updated.
- Inspection of environment in which the stock is kept.
- Review of the proposed financial statement disclosure of stock.
- Discussions with the Finance Manager and Stock Controller regarding the internal controls over stock.
- Sighting of motor vehicles and heavy equipment.

STOCK AUDIT

Audit Findings

The Office of the Minister of Island Affairs (OMIA) stock on hand consists of:

- Ø Stock (bolts, nuts, washers, etc)
- Ø Machinery Spare Parts (assorted parts, deutz parts, lister parts, diesel oil, etc)
- Ø Tools/Construction Equipment (grinder, skill saw, air compressor, etc)

OMIA stock is stored at two separate sites, one caged area in the Arorangi Workshop and the second site is at a property owned by the workshop supervisor in Tereora, Rarotonga.

The stock stored in Arorangi, at OMIA's workshop, includes alternators, tools, generators, machinery spare parts and various other assorted stocks. The stock kept in the three 20ft shipping containers located in Tereora is comprised of alternators, generators, a job engine motor, etc. Additionally, Audit notes concrete L-beam's stock is kept outside next to the containers. Audit observes that the alternators and generator engines require repair or are no longer in use and have been transferred from the outer islands.

On the 1st July 2005, OMIA introduced a stock card system as recommended in last years audit report. A stock card has been issued for every stock line and an individual identification number is assigned to each stock type.

Along with identification details, it was intended for the card to record:

- Ø The opening balance as at 1 July 2005
- Ø Stock movements ie, stock in/stock out
- Ø Value of the stock

Audit was advised that the entries on the stock cards are completed by the Workshop Supervisor on a six monthly basis with OMIA's Finance Officer checking if cards have been correctly updated. However Audit sighted no evidence that this was happening. All cards sighted by Audit only recorded the opening stock balance. i.e. no transfers, purchases, etc were captured.

The stock cards are kept at the workshop in a wooden box and are filed in alphabetical make order.

During the process of our physical stocktake Audit found stock cards with no physical inventory on hand, despite the card recording a number of units held. According to staff they cannot locate the missing stock. Audit calculated missing inventory based on the stock cards and identified total missing stock to the value of **\$39,534**.

Security

The Workshop in Arorangi is based next to the Ministry of Works. Most of the stocks are stored in an enclosed one-door storage area which is locked after hours. Other heavy equipment is kept inside the workshop. The only staff with keys to the workshop is Takave Manea, Workshop Supervisor and Teina Nootai, Electrical/Store Coordinator.

The three 20ft shipping containers and the concrete L-beams, are stationed on a piece of land belonging to Takave Manea, the Workshop Supervisor for OMIA. Audit finds this very unusual and is uncertain why OMIA would choose to locate stock offsite on an employee's property. The three containers are kept locked and Takave Manea, Workshop Supervisor, holds the only key.

Record Keeping

The Finance Officer purchases stock from four main suppliers in New Zealand. The Workshop Supervisor and the HOM approve all purchases. Audit is advised that the invoice

cost price and quantity are supposed to be entered onto the stock cards however this is not occurring.

The stock cards are used in a systematic system where each stock has an ID code. Most stocks purchased or ordered during the period were for the maintenance of outer island generators, parts for the alternators and were expensed by OMIA.

Costing and Valuation

All stock values are estimates based on their estimated replacement cost. This is determined by considering the cost of the last items purchased.

A total valuation of the inventory confirmed by Audit is \$91,407. This includes stock, machinery spare parts, etc. Audit found a major variance in the total level of stock recorded on the stock cards and that available for physical verification on 30 June 2006. A summary of the missing stock follows.

Item	Quantity	Amount
		\$
Starter Engine	16	16,000
Piston Hr Series Std	16	8,000
Air Cleaner Filter	20	1,000
Various Other Items		<u>14,534</u>
Total Value of Missing Stock		<u>\$39,534</u>

Audit was extremely concerned about this material discrepancy and has raised the matter with the HOM who is currently investigating the matter further.

Physical Count

Audit performed a physical stock count on Friday, 30 June 2006 with the assistance of the following OMIA Staff:

- Ø Marthalina Thompson – Finance Officer
- Ø Takave Manea – Workshop Supervisor
- Ø John Noovao – Workshop Mechanic
- Ø Teina Frank – Finance Administration Manager

There were 421 inventory lines of which Audit selected 345 (i.e. 82%) to physically verify. Audit noted minor discrepancies in respect to the actual number of items physically counted for some stock codes. These differences all related to low value items. There were some unders and some overs, but these were insufficient to cause concern to Audit.

Recommendations

Audit recommends the following:

- Ø The stock cards should be properly updated on a regular basis, preferably monthly, to accurately reflect all acquisitions. Audit notes all usage should be immediately

recorded on each card. That is, as soon as stock is taken from the storage area, the appropriate stock card should be updated to reflect on that usage. It is important that this is also done for all stock transfers to the outer islands. This will clearly record all transactions during the financial year.

- Ø All obsolete and damaged stock should be identified and application should be made to the Financial Secretary for approval to write the obsolete and damaged stock off.
- Ø Audit recommends the OMIA Head of Ministry undertake a review of the appropriateness of the current arrangement of storing inventory at an employee's property. The HOM needs to satisfy himself that the OMIA resources are safeguarded and only used for Ministry purposes at all times.
- Ø The Finance Manager, or an appropriate person in the main office, should have a spare key for all stock sites, including the containers held on the Workshop Supervisors property in Tereora.

Follow up of Recommendations from Prior Period Audit

The following items were recommended by the Audit Office following the 30 June 2005 stock review:

- Ø Firstly, that all machinery is excluded from the estimate stock value as at year end. *Audit notes this has been actioned.*
- Ø Secondly, the Office implements the use of stock cards for each item. This will clearly record all stock purchases and issues during the financial year. *We commend OMIA for the introduction of their stock card system and look forward to seeing further enhancements to the recording of inventory movements.*
- Ø Nominate or recruit an employee to be in charge of the administration and security of all stock. *Audit is satisfied that the current staff are attempting to properly administer stock and recommend system enhancements be focused on during the 2006/2007 financial year.*
- Ø All obsolete and damage stock are identified and written off subsequent to the approval from the Financial Secretary. *Not actioned, therefore this recommendation has been reiterated above.*

Conclusion

In conclusion, inventory is unfairly disclosed at \$130,941.50 and should be written down to \$91,407.50 as scheduled below:

	Amount Per OMIA	Amount Per Audit	Discrepancy
Ø Stock (bolts, washers, nuts, etc)	\$ 962.00	\$ 962.00	-
Ø Machinery Parts (AP,DP,LP,DO)	\$ 98,232.50	\$ 59,788.50	\$ 38,444.00
Ø Tools/Construction Equipment	\$ 31,747.00	\$ 30,657.00	\$ 1090.00
<u>Total Stock Value</u>	<u>\$130,941.50</u>	<u>\$ 91,407.50</u>	<u>\$ 39,534.00</u>

It is imperative that the Head of Ministry ascertain exactly how this large discrepancy arose and take immediate action to prevent such an occurrence happening again. Audit is currently awaiting further information from the HOM which will be assessed to determine whether a further Special Review is required to be undertaken by the Audit Office in this regard.

MOTOR VEHICLE AUDIT

In addition to attending OMIA's stocktake this year, Audit attempted to verify all motor vehicles and heavy equipment owned by the Ministry as at 30 June 2006. The key purpose of sighting the Ministry's motor vehicles was to ensure that their Fixed Asset Register accurately captures all existing OMIA vehicles and heavy equipment and the assets are appropriately safeguarded.

Audit Findings

Audit compiled a list of motor vehicles owned by OMIA based on the following documents:

1. Listing provided by the Bank of the Cook Islands ('BCI')

The BCI is responsible for the 'Cook Islands Motor Vehicle Registration' database which records particulars of all motor vehicles registered in the Cook Islands. BCI generated a schedule listing all motor vehicles owned by OMIA as at 26 June 2006.

2. Listing provided by the Ministry of Finance and Economic Management ('MFEM')

MFEM is responsible for insuring government owned vehicles. Accordingly, the Audit Office obtained a copy of the most recent listing provided to their insurers, this was dated August 2005.

3. OMIA's Fixed Asset Register as at 30 June 2006

The Cook Islands Government Financial Policies and Procedures Manual specifies that all Crown entities must maintain a Fixed Assets Register in line with Part B, Section 2 – 'Asset Management' of the Manual. The purpose of this policy is:

- To maintain complete and accurate accounting for fixed assets;
- To ensure that fixed assets are safeguarded; and
- To assign the physical control responsibility for fixed assets to the Head of Ministry.

Based on the information collated from the above three sources Audit requested to sight each of the recorded motor vehicles and heavy equipment items. The results of this review are summarized below:

Additional Vehicle

Motor vehicle GA213, a 2001 Mazda Double Cab, was noted to be in OMIA's possession but it is not captured on the Ministry's fixed asset register. This pick up is driven by the Head of Ministry, Mr Othaniel Tangianau. Audit observes the motor vehicle is currently recorded on MFEM's insurance listing as being owned by the Prime Minister's Support

Office. Audit notes it is inappropriate for OMIA to be in possession of an asset which they claim is theirs but have failed to recognise within their accounting records.

Audit recommends that OMIA, with the consent of the Prime Minister's Support Office, arrange for ownership of GA213 to be properly transferred to OMIA and ownership accurately reflected in their fixed asset register.

Inappropriate use of Motor Vehicles and Heavy Equipment

Audit requested to sight GA308 a 1995 Hitachi Excavator. The workshop supervisor, Mr Takave Manea, initially advised this was being stored at his home. The auditor subsequently requested to be taken to Mr Manea's home to sight the vehicle, however in transit to the property the workshop supervisor advised that the Excavator was actually in another location in Ruauu. He went on to explain he was using this after hours.

Audit subsequently wrote to the Head of Ministry in an attempt to ascertain how the situation had arisen that an employee was using OMIA heavy equipment for personal reasons. A copy of the Audit Office fax of enquiry, along with a copy of the response received from Otheniel Tangianau is attached to this report.

Audit is very concerned to read that the personal usage of the Excavator had been approved by the HOM, effectively in exchange for the Workshop Supervisor allowing three OMIA containers to be kept on his land. This is an inappropriate arrangement for the HOM to have entered into and should be immediately addressed. Audit observes, as per his advice of 6 July 2006, the HOM has requested the Excavator be returned to the OMIA compound.

Audit recommends that under no circumstances are employees permitted to remove heavy equipment from OMIA for personal use. This is unacceptable behaviour, an abuse of government property and Audit emphasis's procedures must be implemented immediately to ensure there is no recurrence of this improper use of a public asset.

Vehicles included on BCI ownership schedule but NOT verified by Audit

The following seven vehicles were included on the summary of OMIA vehicle registrations provided by BCI but could not be sighted by the auditor:

- GA212
- GA221
- GA223
- GA224
- GA306
- GA662
- VC360

Audit notes none of the above registrations appear on OMIA's fixed assets register or are insured by MFEM.

Accordingly, Audit recommends that OMIA request further details regarding the scheduled items from BCI to ascertain whether these vehicles:

- *have been sold but registration details have not been updated with the BCI,*

- *the vehicles are no longer in working order and should be de-registered and any usable parts salvaged, or*
- *the vehicles have been incorrectly omitted from OMIA's fixed asset register and therefore this needs to be rectified.*

Motor Vehicles no longer in working order

Audit sighted one car (GA22), and was advised about one motor bike (GA270), which are no longer in running order. Both of these vehicles remain insured by MFEM. This reflects a waste of public funds insuring vehicles which are non-operational and have not been used for an extensive period. Audit was advised a replacement engine is required for GA22 and quotations sought two years ago suggested a cost of approximately \$5,000 to replace the engine. Due to lack of funds the engine has never been purchased so the damaged vehicle remains taking up space in the small workshop some two years later. This reflects inefficient use of public resources.

As discussed with the Head of Ministry, Audit supports his recommendation that the car in Rarotonga (and the motorbike in Mitiaro) be tendered and sold in line with Cook Islands Government Financial Policies and Procedures.

Vehicles included on MFEM's insurance schedule verified by Audit

Audit successfully sighted all Rarotongan based OMIA motor vehicles and heavy equipment included on MFEM's insurance schedule.

Audit did not identify any motor vehicles missing from MFEM's insurance schedule for OMIA.

Conclusion

The motor vehicle and heavy equipment verification audit identified a number of concerns requiring immediate attention by OMIA. Audit has made recommendations to enhance the accuracy of reporting by OMIA along with suggestions to improve the safeguarding of high value Ministry assets.

In closing Audit notes that Paragraph 3.10, Section 2 Asset Management, Part B of the Cook Islands Government Financial Policies and Procedures ('CIGFPP) manual requires that every crown entity perform an annual fixed asset stocktake. The CIGFPP stipulates that the asset stocktake should then be reconciled to the fixed asset register and any proposed adjustments shall be referred to the Financial Secretary. This procedure specifies that the asset verification must be undertaken by more than one staff member, both of whom must sign the completed forms. A template 'Asset Stocktake Form' is included in the CIGFPP.

Audit recommends that OMIA perform a full asset stocktake, in line with CIGFPP, to ensure all assets are properly captured in their fixed asset register and any discrepancies are promptly identified to ensure any matters of concern are rectified before finalization of the 30 June 2006 Financial Statements.

RESPONSE TO AUDIT REPORT

The Office for the Minister of Island Administrations (OMIA) Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 20th July 2006 to the following individuals for comment:

- Otheniel Tangianau, Chief Executive Officer, OMIA
- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of Finance and PERCA
- Kevin Carr, Financial Secretary of MFEM

Audit notes that as at the date of this report no response has been received by the Audit Office.

PARLIAMENT STOCK TAKE AND FIXED ASSET VERIFICATION 30 JUNE 2006

EXECUTIVE SUMMARY

Please find attached the stock take and motor vehicle verification report for Parliamentary Services for the year ended 30 June 2006.

The attached report details our audit findings and recommendations that are summarised below:

1. Emphasis should be given to secondary checks and supervisory mechanisms which are not strongly endorsed.
2. The Quickbooks system should be adjusted to reflect Audits physical count of \$52,425.50
3. An approval from the Financial Secretary is sought to dispose of obsolete and damaged stock valued at \$15,545.60.

A follow up of the 30 June 2005 stock take recommendations was also conducted and our report details these findings. The recommendations of this report will need to be addressed immediately and will be followed up as part of the year-end audit for year ended 30 June 2006.

Inventory as at 30 June 2006 is fairly disclosed at **\$52,425.50**. This is represented by:

Laws of the Cook Islands – Blue Volume	\$ 5,400.00
Laws of the Cook Islands – Green Volume	\$45,600.00
Ordinance by Law	\$ 1,425.50
	—————
TOTAL	\$52,425.50
	=====

In addition, Audit verified all motor vehicles registered by Parliamentary Services. Our findings and recommendations are detailed in the attached report.

MANAGEMENT REPORT

1.0 Introduction

A stock take and motor vehicle verification of the Parliamentary Services for the financial year ending 30 June 2006 was carried out on the 4th July 2006.

2.0 Objectives

The objectives of this review were to:

- Determine whether stock on hand as at 30th June 2006 reconciles with the figures on the stock card and the stock listing provided
- Review the maintenance and adequacy of internal controls over stock
- Determine the valuation of inventory and the cost formula used to assign costs to items of inventory
- Determine whether any stock was written off during the financial year and that proper approval for the write offs was received.
- Determine whether all motor vehicles were appropriately accounted for as at 30 June 2006.

3.0 Audit Scope

- Physical stock count of the items disclosed on the stock listing
- Review of the stock cards to determine that they have been updated
- Inspection of environment in which the stock is kept
- Review of the financial statement disclosure of stock
- Discussions with the Finance Manager and Stock Controller regarding the internal controls over stock.
- Sighting of motor vehicles

4.0 STOCK AUDIT

4.1 Audit Findings

The Parliamentary Services stock on hand consists of:

- Ø Laws of the Cook Islands – Green Volume
- Ø Laws of the Cook Islands – Blue Volume
- Ø Island Council Ordinance and By-Laws

Parliamentary Services uses a manual system for the administration of stock. In the case of a credit sale, a debit note is issued and upon the receipt of the payment, a receipt is raised with reference to the debit note issued. The Stock Controller holds all cash takings in a small money box in her office until it is banked, usually on a weekly basis. Audit is concerned that there is likelihood that the cash is stolen or misused. This was an issue in the prior year and remains unchanged to date.

4.1.1 Security

The storage of the above stock is located in the Stock Controller's Office. These stock are kept on open shelves with the Stock Controller having one key and one other held in the Administration Office.

4.1.2 Record Keeping

Audit checked the stock listing supplied with the stock cards and a physical verification of the stock on the shelves. Stock cards are used, and updated appropriately by the Stock Controller. At the end of each month, the Finance Officer updates the Quickbooks system for that month's issues. There were no discrepancies between the stock cards and Audits physical count.

4.1.3 Costing and Valuation

The Volumes and Ordinance are valued at cost price.

4.1.4 Physical Count

Audit performed a 100% count on the above stock on hand at 30 June 2006. There were no discrepancies between the items physically on hand and the item balances on the stock listing provided for Audit.

Audit verified a total of \$15,545.60 worth of acts and legislations that were damaged and obsolete. These acts and legislations do not form part of the inventory balance that is capitalized at 30 June 2006 as they are expensed when produced.

These are represented as follows:

Title	Amount (\$)
Papers	577.00
Hansard	9,739.60
Bills (Bound Vol./Loose copies)	2,505.00
Acts	1,370.00
Others	1,354.00
Total	15,545.60

Appendix A shows the sample selected with no anomalies found and the Parliament's Quickbooks balance which varies due to one Blue Volume given to the Speaker as requested.

Total stock on hand at 30 June 2006 was **\$52,375.50**.

4.2 Recommendations

Audit recommends the following adjustments:

- Emphasis should be given to secondary checks and supervisory mechanisms which are not strongly endorsed.
- That the Quickbooks system is adjusted to reflect Audits physical count of \$52,375.50
- An approval from the Financial Secretary is sought to dispose of obsolete and damaged stock valued at \$15,545.60.

4.3 Follow up of Recommendations from Prior Period Audit

- Although there is improvement in the monthly reconciliation stock take report, this should include the reporting of any damaged or reduction in value of stock. Emphasis should also be given to secondary checks and supervisory mechanisms which are not strongly endorsed.
This has been implemented although minor issues are still evident for example, in the absence of the Stock Controller, other staffs attend to the sale of documents but do not record these movements, until the Stock Controller enquires upon her return.
- There is a need for management to formulize and implement a set of written policies and procedures over stock management, which will assist staff when administering and managing stock and to ensure proper accounting treatment of stock is followed and reported on a regular and timely basis.
This has been actioned.
- That payment of sale segregated to the Administration Division prior to the release of stock (i.e. the Stock Controller issues the stock only on the presentation of receipts from Administration). This will ensure complete and accurate recording of derived revenue is captured and minimizes the risk of loss stock and unrecorded sales.
This has been actioned.
- That the Quickbooks system is adjusted to reflect Audits physical count of \$59,592.50.
This has been actioned.
- An approval from the Financial Secretary is sought to dispose of obsolete and damaged stock valued at \$92,281.00.
Approval received from Financial Secretary for the write off.
- There are no disaster management plans in place. This is still in the process, but Management has partly addressed this in the event of high sea surges. This is evident with the purchase of two containers. Fire extinguishers on the premises should be regularly checked to ensure it is functional, copies of all stock should be held offsite as a precautionary measure and insurance coverage for stock on hand should be considered as a means to recover any stock losses.

Still in the process.

- The department does not operate a register for all source documents. *It is now in operation.*

4.4 Conclusion

In conclusion, inventory is fairly disclosed at **\$52,425.50**. This is represented by:

Laws of the Cook Islands – Blue Volume	\$ 5,400.00
Laws of the Cook Islands – Green Volume	\$45,600.00
Ordinance by Law	\$ 1,425.50

TOTAL	\$52,425.50
	=====

5.0 MOTOR VEHICLE AUDIT

In addition to attending Parliamentary Service’s stock take this year, Audit attempted to verify all motor vehicles and heavy equipment owned by the Parliamentary Services as at 30 June 2006. The key purpose of sighting the Ministry’s motor vehicles was to ensure that their Fixed Assets Register accurately captures all existing Parliamentary Services vehicles and the assets are appropriately safeguarded.

5.1 Audit Findings

Audit compiled a list of motor vehicles owned by Parliamentary Services based on the following documents:

1. Listing provided by the Bank of the Cook Islands (BCI)

The BCI is responsible for the “Cook Islands Motor Vehicle Registration” database which records particulars of all motor vehicles registered in the Cook Islands. BCI generated a schedule listing all motor vehicles owned by Parliamentary Services as at 30 June 2006.

2. Listing provided by the Ministry of Finance and Economic Management (MFEM)

MFEM is responsible for insuring government owned vehicles. Accordingly, the Audit Office obtained a copy of the most recent listing provided to their insurers, this was dated August 2005.

3. Parliamentary Services Fixed Assets Register as at 30 June 2006.

The Cook Islands Government Financial Policies and Procedures Manual specifies that all crown entities must maintain a Fixed Assets in line with Part B, Section 2 – “Asset Management” of the Manual. The purpose of this policy is:

- ◇ To maintain complete and accurate accounting for fixed assets
- ◇ To ensure that fixed assets are safeguarded; and

- ◇ To assign the physical control responsibility for fixed assets to the Clerk of Parliament.

Based on the information collated from the above three sources Audit requested to sight each of the recorded motor vehicles. The results of this review are summarized below:

The Parliamentary Services has the following vehicles:

Plate No.	Year & Make Model	Type	Person responsible	Condition
GA 79	1998 – Daihatsu Charade	Sedan	Vehicle parked at office	Good
GA155	1999 – Suzuki	Van	As above	Good
GA239	2001 – Hyundai 2.6 diesel	Truck	As above	Good
GA 91	1997 – Ford Taurus	Sedan	House of Ariki President	Good
GA 90	1997 – Ford Futura	Sedan	Sold	

Vehicles included on MFEM’s insurance schedule verified by Audit

With the exception of GA90, Audit successfully sighted all motor vehicles included in the schedule.

Audit recommends that MFEM removes GA90 from its schedule as this reflects a waste of public funds insuring vehicles that are no longer owned by the Ministry. Since 5 October 2002 this vehicle has been registered to one Metua Napa. Audit also notes that explanations received from Parliamentary Services is that GA90 has never been part of their vehicle – this vehicle was made available from Protocol Services, Foreign Affairs to the former President of the House of Ariki (Pa) when she was in Office, and only when GA91 breaks down.

Security

Except for GA91 being used and garaged by the House of Ariki President, all Parliamentary Services vehicles are garaged at the Parliament House. Security services are available from 6.00pm to 7.00am daily. There is no possible threat to the parked vehicles.

5.2 Conclusion

In conclusion, the motor vehicle verification that Audit performed agrees to the schedule provided and are all in good working condition.

In closing, Audit notes that Paragraph 3.10, Section 2 Asset Management, Part B of the Cook Islands Government Financial Policies and Procedures (‘CIGFPP’) manual requires that every crown entity perform an annual fixed asset stocktake. The CIGFPP stipulates that the asset stocktake should then be reconciled to the fixed asset register and any proposed adjustments shall be referred to the Financial Secretary. This procedure specifies that the asset verification must be undertaken by more than one staff member, both of whom must sign the completed forms. A template ‘Asset Stocktake Form’ is included in the CIGFPP.

RESPONSE TO AUDIT REPORT

The Parliamentary Services Stocktake and Vehicle Verification Report as at 30 June 2006 was issued on the 11th July 2006 to the following individuals for comment:

- Nga Valoa, Clerk, Parliamentary Services
- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of Finance and PERCA
- Kevin Carr, Financial Secretary of MFEM

Attached is a copy of the responses received by the Audit Office from:

- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.