



# **Cook Islands Audit Office**

## **4<sup>th</sup> Quarter Report of the Audit Office**

**1 April 2008 – 30 June 2008**



**PARLIAMENT OF THE COOK ISLANDS**

PARLIAMENT PAPER NO. 109

Hon Mapu Taia, O.B.E.  
Speaker of Parliament  
Parliament of the Cook Islands  
Nikao, Rarotonga  
Cook Islands

Honourable Speaker,

I have the honour to present the 4<sup>th</sup> Quarter Report of the Audit Office for the period 1 April 2008 to 30 June 2008.

Hon Sir Terepai Maoate, K.B.E.  
**Deputy Prime Minister**  
**Minister Responsible for the**  
**Office of Public Expenditure Review Committee and Audit.**

COOK ISLANDS



GOVERNMENT

# COOK ISLANDS AUDIT OFFICE

P.O. Box 659  
Avarua, Rarotonga  
Cook Islands

Phone: (682) 21-231

Fax: (682) 25-231

Email: [perca@auditoffice.gov.ck](mailto:perca@auditoffice.gov.ck)  
<http://www.auditoffice.gov.ck/>



6 August 2008

Hon Sir Terepai Maoate, K.B.E.  
Deputy Prime Minister  
Minister Responsible for the  
Office of Public Expenditure Review Committee and Audit

Honourable Sir

Pursuant to Section 33 of the Public Expenditure Review Committee and Audit Act 1995-96, I have the honour to submit my 4<sup>th</sup> Quarter Report on the operations of the Audit Office for the period 1 April 2008 to 30 June 2008.

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



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## ***INTRODUCTION AND COMMENTARY***

This report is the Audit Office's fourth quarterly report to Parliament for the 2007/2008 financial year. It highlights and discloses for Parliament's attention audit work carried out for the period 1 April 2008 to 30 June 2008. 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 and accountability.

### ***1. FINANCIAL AUDITS***

During the period 1 April 2008 to 30 June 2008, a total of two financial audit reports were completed. This included:

- 1) Ports Authority 30 June 2007
- 2) Systems Review of the Cook Islands National Superannuation Fund (CINSF)

The Unqualified Audit Opinion for the Ports Authority Financial Statements to 30 June 2007 was issued on 30 November 2007, however due to an inadvertent oversight their financial audit report was not issued until 21 April 2008. Accordingly, this report has been included in our fourth quarter report to Parliament along with the Ports response.

### ***2. PERFORMANCE AUDITS AND SPECIAL REVIEWS***

During the period 1 April 2008 to 30 June 2008, a total of two special reviews and investigations were completed as a result of the identification of a high-risk area or genuine and valid complaints from a member of the public or initiated by the Director of Audit. The following lists the special reviews and investigations completed by the Office in the fourth quarter:

- 1) NEX Audit – United Nations Development Programme Funded e-Government Initiative in the Cook Islands Project
- 2) Review into allegations of mismanagement of public funds made against the Assistant Clerk of Parliament, Mr Puna Rakanui

### **3. CROWN AUDIT**

Monday, 30 June 2008 saw the DPM, Sir Terepai Maoate, Director of Audit, Paul Allsworth, and the Financial Secretary, Sholan Ivaiti, sign the Cook Islands Government Consolidated Financial Statements for the year ended 30 June 2006.

These Crown Accounts represent the consolidated financial results for the Government of the Cook Islands and combine the annual statutory accounts of Ministries(24), Island Administrations(11), Offices of Parliament(2), Corporations(16) and Other Entities(8).

This milestone represents a significant step in the combined efforts of the Audit Office and MFEM to bring the Crown Account preparation and audit up to date. This major achievement was the culmination of several months' hard work by the Crown Accounts Audit Team and the Director of Audit commends all staff involved in assisting to ensure this milestone was achieved, the result of hard work and determination.

The finalization of both the 2005 and 2006 Consolidated Financial Statements, during the nine month period to 30 June 2008, is a major achievement for the Audit Office and a reflection of our commitment to clearing the previous backlog and producing quality timely audits.

### **4. TRAINING INITIATIVES**

#### **AUDIT OFFICE WORKSHOP ON AUDIT PLANNING**

On Thursday 26 June 2008 the Audit Office held a "Audit Planning" workshop for all staff in MFEM's conference room. The workshop was facilitated by our Audit Commissioner, Marcus Henry, a Partner at Ernst Young, Chartered Accountants, Wellington.

The focus of the morning's workshop was to improve the knowledge, understanding and application of audit planning for financial statement audits and other topics covered were Fraud Risk, Audit Highlight Memorandum, Contingencies, Commitments and Subsequent Events.

The session was beneficial to all Audit Office Staff for future planning and completing of audit reports.

#### **AUDIT OFFICE BRIEFING ON STOCKTAKE AUDITS**

On Friday 27 June 2008 the Audit Office held a stock take briefing for all staff in MFEM's conference room. The workshop was facilitated by Michael Innes-Jones, an external audit contractor.

The focus of the morning's briefing was to highlight changes in the stock take work program and improve the knowledge and understanding of the reporting requirements. Emphasis was placed on updating of stock cards, stock count testing and cut off of accountable documents.

The session was beneficial to all Audit Office staff before annual stock takes commenced in the first week of July.

### **TRAINING AND IMPLEMENTATION OF TEAMMATE**

The acquisition of TeamMate (electronic audit software) was made possible by the Cook Islands Audit Office's successful application for funding from the India Grant Fund. However, the funding received did not include the cost of training and implementation, and it was for this reason that funding was requested and approved by Public Sector Technical Assistance Fund (PSTAF).

From 12 – 15 May, the implementation and training for TeamMate was carried out by Mathew Oliver, Business Manager and Martin Angala, Trainer of CCH TeamMate. TeamMate is an electronic auditing software that was developed by PricewaterhouseCoopers and used by many audit offices including Audit New Zealand and the Australia National Audit Office.

A total of 10 audit staff and the Director of Audit were trained to use the software on 14-15 May 2008. The earlier part of the week was spent with the "champions" and the installation and customization of the software. Three "champions" were identified to work closely with the TeamMate consultants to become the trouble-shooters for the rest of the Office.

The benefits of this program are many but areas that will be significantly enhanced within our Office includes:

- **A faster audit process** – this is made possible with the less tedious planning and reporting stages of the audit where all planning documents are already loaded on each client file and only need tailoring for identified high risk areas. The software allows for the "tagging" of all audit finding and issues that are then collated electronically into the programmed report format. The software also allows for real time preparation and reviewing of audit work which enables completed work to be reviewed in sections rather than as a whole file.
- **A better succession planning tool** – given the unavoidable turn over of accounting staff, we are better able to retain audit knowledge of processes and procedures by documenting all audit steps through the TeamMate library that will give any (new) user the exact instructions on how to carry out audits and the steps involved.
- **Less storage space** – the physical storage of audit files will be significantly reduced as all audit information and findings is documented electronically and thus stored electronically. We have ensured that proper back ups are done to alleviate the permanent loss of audit historical (and current) data. Our audit files will be reduced as a result of less audit hard copy documents retained.
- **International standard** – annually we send one auditor to Audit NZ on a 3-4 month short term attachment program facilitated by HRD. TeamMate is the software program used by Audit NZ and many other audit offices making the learning curve less of a challenge to follow as now our auditors will have knowledge of software programs used by our overseas colleagues prior to their short term secondment.

**Cook Islands Accountants**  
**Special Interest Group**  
**New Zealand Institute of Chartered Accountants**

A number of Audit Office personnel attended the Cook Islands Accountants monthly presentations during the quarter ended 30 June 2008.

Kevin Brady, Auditor & Controller General, New Zealand

On Monday 14 April 2008, the Cook Islands Accountants Group were privileged to be addressed by Kevin Brady whilst he was in Rarotonga attending the 'South Pacific Association of Supreme Audit Institutions' Congress. The New Zealand Auditor and Controller General's presentation was based on 'The Standard Setting Process' with a focus on accounting standards for public sector organisations.

This one hour, very open and informative session, was held in MFEM's conference room and attended by Roberta Dashwood (Auditor), Ngatokorua Elikana (Senior Auditor) and Louise Wittwer (Audit Advisor) of this office.

A number of the points raised by Mr Brady were of particular relevance to issues currently facing MFEM and the Audit Office in respect to our move to full compliance with International Public Sector Accounting Standards.

Wayne Beckley, General Manager, Westpac Banking Corporation

Ngatokorua Elikana, Elizabeth Tommy and Louise Wittwer participated in the Cook Islands Accountants May presentation delivered by Wayne Beckley of Westpac on 12 May 2008 in MFEM's Conference Room.

Wayne's presentation reflected on what has happened globally in respect to the 'Credit Crunch' and how the banks today are trying to rectify the situation.

Wayne's presentation was of particular interest to the Audit Office's Crown Accounts audit team who are constantly monitoring the overall financial performance and position of the Crown and assisted them in considering revenue streams which may retract in pending financial periods.

Stephenie Knight, NZ Aid Manager, New Zealand High Commission

On Wednesday 11 June 2008 Stephenie Knight, NZ Aid Manager, addressed the Cook Islands Accountants Group. Her informal, round table, discussion focused on 'The Role of NZ Aid' in the Cook Islands.

This one hour, informative session, was held in MFEM's conference room and attended by Louise Wittwer, Audit Advisor of the Audit Office.

Stephenie provided a very useful insight in to the operations of the NZ Aid team here in the Cook Islands and how allocation of funding was determined in respect to their key target areas of education + health, infrastructure, governance and sustainability. The Audit Office attendee, involved in the annual 'Aid Management Division MFEM' audit, obtained a better understanding of how NZ Aid funding is administered.

## **AUDIT NEW ZEALAND**

Michael Ponga, Audit Supervisor, was seconded to Audit NZ for three months from 15 February 2008. This opportunity, facilitated by the National Human Resource Department, provided Mike with significant on the job audit training whilst working alongside audit NZ personnel. A summary from Mike Ponga follows:

### Use of many similar audit techniques and tools

I found in my first week of actual on-the-job training that many of the auditing techniques and tools used in our home office were exactly the same techniques used at Audit New Zealand. From system control documentation, transaction walk-throughs, analytical reviews and voucher testing to preparing arrangement and engagement letters and issuing qualified/unqualified audit opinions. The initial major difference I encountered however was that their audits were largely stored as electronic files on TeamMate (an audit software tool), whilst ours at that time were stored mainly as physical hardcopy files.

### New audit procedures and tools

Whilst many auditing techniques but for TeamMate were the same, there were a number of new and effective auditing techniques used by Audit New Zealand (ANZ) that I found very useful. These included, the use of computer assisted audit techniques (CAAT's) to analyse and assess the reliability of the data being audited; integration of information system controls into the control assessment forms (CAF) to identify key controls within the 'entire' process; and compliance testing to assess the effectiveness of these key controls. The audit techniques above are currently not considered in our normal audit procedure although its implementation would have significant benefits on our auditing process and accordingly will be considered this year.

### Ongoing personnel training and development

Ongoing training and development programmes continue to enhance and up-skill staff. For every year you spend with ANZ, you are required to participate in at least one training module that is tailored to employer/employee expectations, position and/or years of experience. From new graduates to managers and directors to training people on how to train in 'train-the-trainer' modules, this initiative is essential to personal development. Shared learning also assists in the development of existing employees' skill-base. For example, if an auditor encountered a serious/difficult or an unusual problem that was subsequently rectified, the findings and procedures used to solve the problem would be posted in the organization's electronic library for viewing by all employees. This is the same process for any other important or key documents and is vital in the sense that everyone can benefit and learn from problems previously encountered and resolved in the past.

## Global labour market

Competing in a highly competitive labour market was one important challenge faced by ANZ. Representing just one of the two thousand five hundred (2500) Public Sector audit service providers (ASP) here in New Zealand, ANZ continuously strives to recruit skilled and qualified individuals in what is a very competitive and global labour market. To achieve this, the new graduate recruitment process occurs three times a year with only the top students receiving call-backs and interviews. The salary on offer also rivals that of the 'Big Four' accounting firms. For existing employees, they are rewarded with higher salaries and long-term benefit plans like the three-year and twenty-year employment benefit scheme being implemented here in the Cook Islands. Realizing that we now live in highly mobile and global labour market is one difficulty that we continue to face here in the Cook Islands.

## **5. *AUDIT AWARENESS INITIATIVES***

### **CAREERS EXPO 2008**

On Wednesday 7 May, the Cook Islands Audit Office took part, for the first time, in the Careers Expo 2008. This was held at the National Auditorium and attended by over 800 students from Rarotonga and the Outer Islands. A total of 36 exhibitors from the private and public sector manned booths promoting their businesses as a career opportunity for young school leavers and other students considering their career options.

This was a team effort for the Office as 2-3 staff were assigned 2-3 hour shifts to represent the Audit Office and all it had to offer. Prizes were given out to students who completed our questionnaires correctly and there appeared to be a number of students genuinely interested in auditing.

The Office also took part in the work experience program where we offered Ake Mariri from Mauke general office and audit work experience from 29 April to 5 May.

This was an excellent opportunity for the Office to make its presence known in the community and also encourage young, ambitious Cook Islanders to consider a career in auditing.

### **AUDIT PROCESS AND REQUIREMENTS WORKSHOP**

Explaining what the Audit Office actually do when they audit a client and all the requirements needed by the Office to conduct the audit efficiently, was the basis for a workshop held on 29 April 2008, by the Audit Office.

The half-day workshop for Finance Managers and Finance Officers of all Government ministries and agencies was held at the Edgewater conference room. There was a very good turnout with 65 people attending the workshop.

The need for such a workshop was identified after the completion of all the 30 June 2006 financial audits. It was found that;

- Annual audits were taking longer to conduct due to delays in getting source documents, from clients, to conduct audit tests.
- 62% of audit opinions issued for 2006 were Qualified.

The workshop was facilitated and presented by Audit Supervisor, Alouise Kado-Rakanui. Assisting her with presentations were fellow Supervisors, Margret Numanga and Daphne Ringi.

The presentations covered the following:

- The need for an audit
- The benefits of an audit
- The audit process, from start to the completion of an audit
- Types of Audit Opinions that could be issued and how to get a clear opinion
- The audit requirements needed from the client in order to conduct audits in a timely, efficient manner.

In a bid to further improve on service delivery, new initiatives by the Audit Office were also explained to the attendees of the workshop. These included the introduction of:

1. Audit Requirements Booklet – list of all requirements needed from the client in order to conduct their audit in a timely, efficient manner. All requirements should be ready before the commencement of an audit. Booklets have been issued to all government ministries and agencies.
2. Audit file – all ministries/agencies will be required to have an audit file, for each financial year. All reconciliations and other audit requirements should be kept in this file, in preparation for audit visits. This will assist Audit and their clients by having all relevant requirements in one place.
3. Client survey – At the start of audits, the client will be given a survey to complete. This is to obtain feedback from the Head of Ministry or CEO on the audit service delivery and assist us to identify where further enhancements may be made.

The material presented was well received by the attendees of the workshop. Audit hopes this translates to a reduction in the number of Qualified Opinions it will issue in the future and looks forward to being able to provide more efficient service through cooperation with its clients.

## 6. 11<sup>th</sup> SPASAI AUDITOR GENERAL'S CONGRESS

The 11<sup>th</sup> SPASAI Auditor General Congress was hosted by the Cook Islands Audit Office in Rarotonga. The Congress was held at the Rarotongan Beach Resort and Spa from 14 to 18 April 2008. The Congress theme “Improving Accountability and Transparency” in public sector auditing was an appropriate theme as it is most relevant in our changing environment as

we strive to measure and report our respective Government's performance through better results and outcomes - using taxpayer's funds.

The Congress was attended by Auditor Generals and their representatives from 21 Countries and States within the Pacific Region. In addition, a number of regional bodies were represented such as the Asian Development Bank (ADB), INTOSAI Development Initiative (IDI), Pacific Islands Forum, Pacific Financial Technical Assistance Centre (PFTAC), Pacific Regional Audit Initiative (PRAI) and AusAID.

The Congress was officially opened by the Deputy Prime Minister and Minister responsible for Finance and Audit, Hon. Sir Terepai Maoate, KBE. The week long programme commenced with a presentation by the Australian National Audit Office (ANAO) on the "Role of the Public Accounts Committee". This presentation focused on ensuring recommendations from audit reports is implemented. The New South Wales Audit Office also made a presentation on "Strategic Planning Model" used by their Office. Both presentations addressed key issues central to auditing and stimulated positive discussions which were found to be useful and fruitful for all participating member countries. This was followed by the SPASAI Business which approved the 12<sup>th</sup> SPASAI Congress to be held in Palau in 2009.

The Pacific Regional Audit Initiative (PRAI) Report was also deliberated and finalized during the Congress. The PRAI Report was prepared by members of the Regional Institutional Strengthening Committee (RISC) of SPASAI, ADB and the financial and consultancy firm, Stanton and Partners. The objective of the PRAI report is to target capacity building and institutional development amongst public audit offices in the region. The establishment of a permanent full time Secretariat Office for SPASAI was also discussed. The Congress agreed that Fiji was the most appropriate Country to house the Secretariat Office for SPASAI. The final report will be tabled at the Pacific Forum Leaders Summit in Niue this August.

The weeks programme ended with a presentation on Waste Management in the Cook Islands from Mr. Tekao Herman of the Ministry of Works and a field trip to the Waste Management Site and Recycle Cook Islands Centre in Ngatangia.

During the Congress, the participants also had the opportunity to enjoy the Cook Islands hospitality through the various official functions hosted by the Cook Islands Audit Office and the Ministerial Support Office of the Deputy Prime Minister. All the participants and representatives conveyed their appreciation to the Cook Islands Government and the Director of Audit for hosting a successful Congress in the Cook Islands.

## ***7. DIRECTOR OF AUDIT EARNS CFE DESIGNATION***

On 5<sup>th</sup> May 2008, The Association of Certified Fraud Examiners, the world's leading provider of anti- fraud training and education, was pleased to award Mr. Paul R.S.Allsworth, CFE the globally preferred "Certified Fraud Examiner" (CFE) designation. CFEs have knowledge in four areas critical to fight against fraud: Fraudulent Financial Transactions, Criminology & Ethics, Legal Elements of Fraud and Fraud Investigation.

The AFCE's Board of Regents awards this designation only to select professionals who meet a stringent set criteria, including character, experience, and education. Mr. Allsworth has successfully met these criteria and now joins the ranks of over 19,000 business and government professionals worldwide who have also earned the CFE certification.

CFEs have the ability to: Examine data and records to detect and trace fraudulent transactions; interview suspects to obtain information and confessions, write investigation reports, advise clients as to their findings and testify at trial; be well –versed in the law as it relates to fraud and fraud investigations; and understand the underlying factors that motivate individuals to commit fraud.

Certified Fraud Examiners (CFE's) on six continents have investigated more than 1 million suspected cases of civil and criminal fraud.

The ACFE, the world's premier of training and education for fraud detection and deterrence, has nearly 45,000 members, sponsors more than 115 chapters worldwide and provides anti-fraud educational materials to over 100 universities. Identified as "the premier financial sleuthing organization" by The Wall Street Journal, the ACFE has captured national and international media attention. For more information about the ACFE visit [www.ACFE.com](http://www.ACFE.com).

## 8. RESPONSES TO FINANCIAL AUDITS ISSUED IN AUDIT OFFICE 3<sup>RD</sup> QUARTER REPORT TO PARLIAMENT

At the time of printing the 3<sup>rd</sup> Quarter Report a number of entities had not responded to our Audit Reports. Accordingly, these responses are now captured here in our 4<sup>th</sup> Quarter Report.

1. Aid Management Division 30 June 2006
2. Aitu Island Administration 30 June 2006
3. Cook Islands Tourism Corporation 30 June 2006
4. Ministry of Foreign Affairs 30 June 2006
5. Manihiki Island Administration 30 June 2006
6. Penrhyn Island Administration 30 June 2006
7. Pukapuka Island Administration 30 June 2006
8. Mangaia Island Administration 30 June 2006
9. Ministry of Internal Affairs 30 June 2006
10. Ministry of Health 30 June 2006
11. Mitiaro Island Administration 30 June 2006
12. Nassau Island Administration 30 June 2006
13. Palmerston Island Administration 30 June 2006
14. Civil List 30 June 2005 & 30 June 2006
15. Development Investment Board 30 June 2006

## 9. STOCK TAKE & FIXED ASSET REPORTS 30 JUNE 2008

During July 2008 a total of 11 Stock Take & Fixed Asset reports were completed and issued by the Audit Office. The purpose of the reports was to verify total inventory held by the Ministries and Crown Agencies as well as selected State Owned Enterprises as at 30 June 2008.

It is intended that such reports will help management of these entities to better safeguard these public assets as well as assist in the up and coming financial audit for the year ended 30 June 2008.

The following lists the Reports conducted by the Audit Office:

1. Airport Authority Stock Take & Fixed Asset Report 30 June 2008
2. Aitutaki Ports Authority Fixed Asset Report 30 June 2008
3. Aitutaki Power Supply Stock Take Report 30 June 2008
4. Ministry of Cultural Development Stock Take Report 30 June 2008
5. Ministry of Education Stock Take Report 30 June 2008
6. Ministry of Health Stock Take Report 30 June 2008
7. Numismatics Division Stock Take Report 30 June 2008
8. OMIA Stock Take Report 30 June 2008
9. Parliamentary Services Stock Take Report 30 June 2008
10. Ministry of Works Stock Take Report 30 June 2008
11. Mauke Power Supply Stock Take Report 30 June 2008

## **READER'S PLEASE NOTE:**

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