



# **Cook Islands Audit Office**

## **Annual Report of the Audit Office**

**1 July 2006 – 30 June 2007**



**PARLIAMENT OF THE COOK ISLANDS**

**PARLIAMENT PAPER NO. 62**

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

Honourable Speaker,

I have the honour to present the Annual Report of the Cook Islands Audit Office for the year ended 30 June 2007.

Hon. Sir. Terepai Maoate, K.B.E.

**MINISTER RESPONSIBLE FOR THE  
OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT.**



# COOK ISLANDS AUDIT OFFICE

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30 May 2008

Hon Sir Terepai Maoate, KBE  
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 Annual Report on the operations of the Audit Office for the year ended 30 June 2007.

Following its delivery and presentation 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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# ***THE YEAR IN REVIEW – DIRECTOR’S REPORT***

Kia Orana,

I am pleased to present my Annual Report for the year ended 30 June 2007 to Parliament.

This report provides an overview of the Office, and our achievements during the year. It also provides for our stakeholders, our audited financial statements, which includes our external auditors audit opinion and explanatory notes to the accounts.

During 2006/07, the work of my Office has continued to focus on achieving our 5 outputs approved by Parliament. These include;

1. Crown Audit.
2. Ministries, Crown Agencies and SOE Financial Audits.
3. Performance Audits, Special Reviews and Investigations.
4. Audit Commission, the work of our independent external audit advisor, Ernst and Young, Chartered Accountants, based in Wellington, New Zealand.
5. Audit Awareness and Training.

Productivity levels in the Office have increased significantly throughout the year. These have been in the three following areas;

- a) Crown Audit – a significant milestone has been the completion and tabling in Parliament of 3 consecutive financial years Crown accounts; for 2002/03, 2003/04, 2004/05 during the period to 28 September 2007. Our aim is to complete and table the 2005/06 Crown accounts by 30 June 2008. Our arrears gap has decreased from 3-5 years to only one year.
- b) Financial Audit Division have completed 74 financial audit reports, with opinions and recommendations, an increase of 15 reports or 25% compared to the same period last year.
- c) Special Reviews and Investigations Division have completed 39 audit reports, an increase of 17 reports or 77% compared to the same period last year.

## **Major Achievements**

I am proud of the progress the office has made since 1<sup>st</sup> July 2006. Key areas have included:

- improving our services to our stakeholders, especially Parliament;
- up-skilling and training our staff to adapt to changing financial reporting and professional standards;
- responding to an increasing number of public complaints and therefore increasing the number of Special Reviews and performance audits we carry out;
- utilizing regional and international training, seminars and conferences as a way of adding value to our services;
- improving staff recruitment and retention strategies, through the NZICA Approved Training Organization Chartered Accountants program and the in-country USP Masters in Business Administration executive management program; and

- submitting four special review and investigation reports to Police and Crown Law which led to two successful prosecutions. Two cases are still pending and awaiting prosecution.

## **Major Concerns**

My concerns are not new and certainly have been prevalent in the Public Service for some time. These and other impediments can and will cause inefficiencies, ineffective work performances and gradually impair the overall economy for our taxpayers.

- The absence of a Code of Conduct for public servants and Leadership Code for Parliamentarians. Our special review reports indicate breaches of conflicts of interest and misconduct by senior public servants and Members of Parliament. Codes of conduct should be seen as a tool for encouraging good governance practices to ensure that:
  1. Governance structures and processes are effective and transparent; and
  2. They operate as a good employer.
- Appropriation overspending and poor management of public funds are a major area of concern. The Office of the Public Service Commissioner needs to critically analyze and monitor and report such occurrences, and if unjustified, carry out the appropriate measures under the HOM's employment contract.
- Failure to comply with the Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM) by Ministries and Crown Agencies. This seems to be a regular finding across the board in most of our special review audit reports.

The failure to comply is sometimes intentional but sometimes resulting from a lack of awareness of the CIGFPPM. Of concern is the lack of disciplinary measures and penalties provided against public officials who fail to comply with the CIGFPPM. The absence of proper disciplinary measures and penalties will only see the Special Reviews Division report on the same recurring issues. I think it is prudent that consideration be given as to what measures and actions can be taken to encourage full compliance of the CIGFPPM.

- The failure and delay by Ministries and Crown Agencies to action the recommendations arising from our audit reports. It is also evident that Ministries and Crown Agencies have failed to implement and enforce proper internal controls within their business operations which in some cases have lead to mismanagement of public resources. These ultimately lead to a general waste of public resources.
- Difficulties in attracting Cook Island accounting graduates home, making it very difficult for the public sector to fill financial positions with appropriately skilled staff to enable accurate accounting systems, controls and financial reporting to be maintained.

## **The Year Ahead**

I am grateful for the feedback and support I received from Parliament, both from Government and the Opposition, and especially from the Minister of Finance and PERCA, Hon Sir Terepai Maoate, KBE.

I also appreciate the support of the Chairman of the Public Expenditure Review Committee, Mr Charles Little and his members on the Committee. Additionally I endorse the work of the Parliamentary Select Committee on Finance and Public Expenditure which we have assisted from time to time with regards to specific reviews of the Ministry of Health, OMIA and Outer Island infrastructure projects.

In 2007/08, the office will begin work on a new Strategic Plan, replacing the former 2004-2007 plan.

My priorities will cover:

- A review of the PERCA Act 1995/96, with appropriate amendments to be submitted for approval by the Minister and Cabinet early in 2008.
- Staging the SPASAI Congress in April 2008. This organization represents all Auditor – Generals from the South Pacific Region.
- Improving the governance structures of the Office, with our stakeholders and Parliament.
- Improving the general management of the Office, including the budget requirements, staffing resources and overall quality control systems.

## **Appreciation**

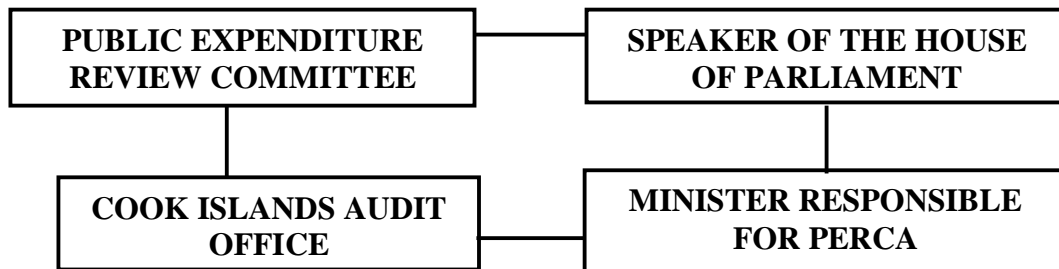
I would like to thank my Portfolio Minister; Hon Sir Terepai Maoate, KBE for his strong support of the Office and its endeavours to pursue financial management excellence in the Public Service. I would also like to thank all my staff for their hardwork and dedication during the year and look forward to their continuous support in achieving the goals of the Office.

Kia Manuia

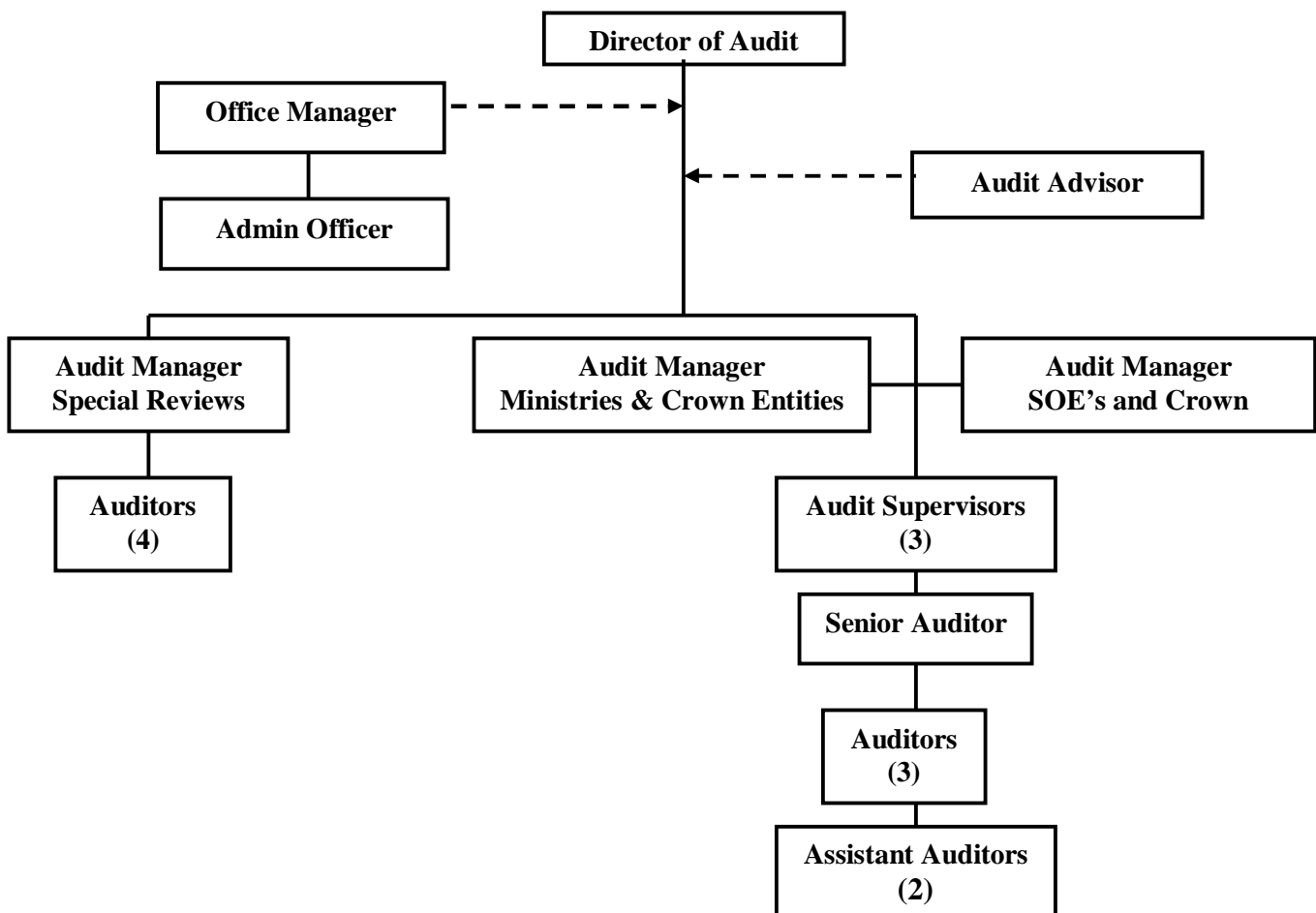
Paul Allsworth  
**DIRECTOR OF AUDIT**

# ***PART 1 - ABOUT THE COOK ISLANDS AUDIT OFFICE***

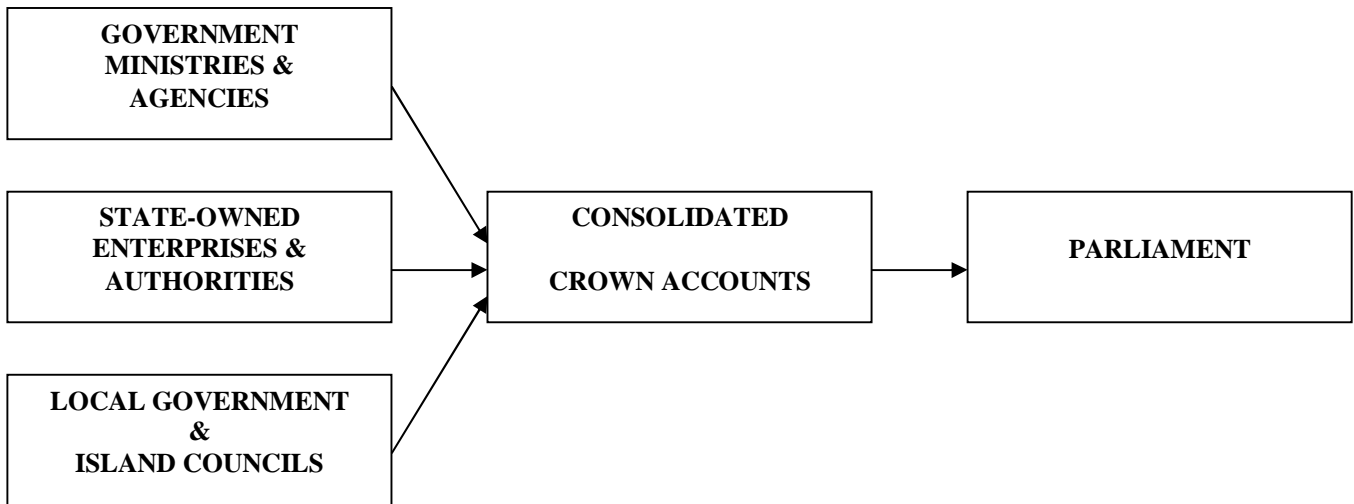
## **ORGANIZATION STRUCTURE OF THE COOK ISLANDS AUDIT OFFICE AS AT 30 JUNE 2007**



## **MANAGEMENT STRUCTURE OF THE COOK ISLANDS AUDIT OFFICE AS AT 30 JUNE 2007**



## FUNCTIONAL RESPONSIBILITIES OF THE COOK ISLANDS AUDIT OFFICE



### ***MISSION STATEMENT***

**“The audit office is to provide an independent assessment to Parliament on the Crown’s finances, resources and other interests of the Cook Islands.”**

### ***PURPOSE***

The Audit Office exists as a constitutional safeguard to maintain the financial integrity of the country’s parliamentary system of government, and to assist government in the effective, efficient and economic use of resources.

### ***ROLE***

The Audit Office’s role is to assist Parliament to strengthen the effectiveness, efficiency and accountability of the instruments of government.

The Audit Office is independent of the Executive branch of Government.

### ***LEGISLATIVE FRAMEWORK***

The statutory mandate for the functions of the Audit Office is enshrined in the Constitution of the Cook Islands, under Article 71 and the Office of Public Expenditure Review Committee and Audit Act 1995/96, Part 3.

The Director of Audit performs the functions assigned to him by law, with the assistance of staff and of persons appointed by him in terms of Section 21 and 24 of the Office of Public Expenditure Review Committee and Audit Act 1995/96.

### ***HUMAN RESOURCE MANAGEMENT***

A vigorous staff recruitment strategy was implemented early in the year. The aim was to increase the Office’s capacity with recruiting graduates and experienced accountants with relevant tertiary qualifications and/or relevant work experience. This was required so that the Audit Office’s human resources capacity could meet its statutory audit responsibilities. New employees include:

	<b>Name</b>	<b>Position</b>	<b>Commencement Date</b>
1.	Charlie Va'ai	Auditor	3 <sup>rd</sup> July 2006
2.	William Numanga	Auditor	8 <sup>th</sup> January 2007
3.	Roberta Dashwood	Auditor	11 <sup>th</sup> June 2007

### ***SHORT TERM CONSULTANT – FINANCIAL AUDIT METHODOLOGY REVIEW***

The Audit Office engaged Neil French, previously of KPMG Rarotonga, on a consultancy basis to assist the office for four weeks commencing 1 March 2007. In summary Neil's 'Terms of Reference' was to review and make enhancement recommendations in respect to the financial audit procedures, team structure and audit positions, quality assurance controls, audit inefficiencies, compliance checklists and to provide financial audit training as determined necessary.

Neil undertook a thorough review of our current audit plans and assisted in the provision of amended prescriptive planning documents to help enhance our performance and assist in completing audits in a more efficient manner. Additionally, he spent significant time identifying areas where improvements could be made to the way in which our Financial Audits are planned and reviewed to reduce the time involved in finalising client's Financial Statements and our Audit Opinion.

During his last week with the Office Neil focused on provision of training to all Financial Audit Team members to ensure the introduction of our new prescriptive plans and finalisation processes are implemented in a timely and effective manner. The Director of Audit has agreed and undertaken to incorporate the recommended changes after training has been carried out.

The short term consultancy role performed by Neil has benefited the Office significantly especially in regard to the commencement of our 2006 Audits in June this year.

### ***STAFF TRAINING AND PROFESSIONAL DEVELOPMENT***

Staff training and professional development is an important element in which the Audit Office continues to support and embark on. The Audit Office has realized the short and long term benefits through ongoing staff training and professional enhancement. During the 2006/2007 financial period, staff participated in a number of training activities conducted at international and regional levels and in the Cook Islands.

### ***New Zealand Chartered Accountant Qualification***

The Audit Office is committed to assisting staff with their professional development and in this regard we have taken a number of steps to facilitate key personnel to obtain professional qualifications with the New Zealand Institute of Chartered Accountants.

On 8 July 2005 the Audit Office was awarded 'Approved Training Organisation' (ATO) status by the New Zealand Institute of Chartered Accountants and on 6 September 2005, Louise Wittwer 'Approved Mentor' was recruited to join the Audit Office. This means that the practical experience requirements of the Institute can be fulfilled whilst working at the Audit Office as we are an approved ATO and our Audit Advisor is an approved Mentor of the New Zealand Institute.

The 2006/2007 financial year saw our initial focus on obtaining approval of staff's academic requirements of becoming Associate Chartered Accountants met. We received confirmation from the Institute that Elizabeth Tommy (Audit Manager - Financial Audits), Daphne Ringi (Audit Supervisor) and Michael Ponga (Senior Auditor) all met the educational requirements and we

therefore now need to focus on assisting them to meet the practical requirements of the professional body.

Subsequently, in the first quarter of 2007/2008 application has been made for the above three local staff members to become 'provisional' ACA (Associate Chartered Accountant) members of the Institute. We are currently awaiting the outcome of these applications.

The Audit Office is proud to be able to offer local staff the opportunity to become NZ Qualified Chartered Accountants whilst working at the Audit Office and we will continue in our efforts to enable additional staff members the chance to become qualified members of the Institute.

### **Audit Workshop on International Financial Reporting Standards (IFRS), Audit Risk and Control Based Auditing**

On the 8<sup>th</sup> of September 2006 the Cook Islands Audit Office held a one-day workshop for all staff at the Edgewater Resort conference room. The workshop was administered by our Audit Commissioner, Mr. Marcus Henry a Partner of Ernst Young Chartered Accountants, New Zealand.

The rationale of this workshop was to improve the knowledge and understanding of CIAO staff with regards to International Financial Reporting Standards (IFRS) and how its implementation will affect how we conduct our audits. The workshop also covered basic introduction of Audit Risks and Control Based Auditing and how it differs from the style of Auditing currently used by CIAO.

### **Inaugural New Zealand Fraud Summit**

Louise Wittwer, Audit Advisor, attended the Inaugural New Zealand Fraud Summit from the 28<sup>th</sup> to the 29<sup>th</sup> of August 2006. This 2 day conference in Auckland focused on addressing the 'Fight against new crime'. It was an exceptional conference attracting attendees from throughout the South Pacific.

Special attention was given to growing crimes including: Identity Fraud, Electronic Crime, Credit Card and ATM fraud along with a general overview on the steps New Zealand is taking to combat such crime, namely through the growing use of information matching between organizations.

### **New Zealand Institute of Internal Auditors Conference**

The Director of Audit, Paul Allsworth and the Audit Advisor, Louise Wittwer attended the New Zealand Institute of Internal Auditors 'Raise the Bar' Conference late November 2006. This conference, spanning three days in Wellington, was opened by the Minister of Finance and Deputy Prime Minister the Hon Dr Michael Cullen. The conference primarily addressed the critical importance and need for 'Good Governance and Risk Management' throughout the public and private sectors.

Of particular interest to the Cook Islands Audit Office attendees were a number of guest speakers from prominent public sector entities in New Zealand. Representatives of the Inland Revenue Department, Ministry of Agriculture and Fisheries, Ministry of Social Development, Department of Corrections and the Office of the Auditor and Controller General provided useful insights and practical examples of the best methodologies available to encourage good governance and optimal risk management within the public sector.

## **Microsoft EXCEL Training**

All Audit Office staff took part in a one day Microsoft Excel training programme coordinated through local information technology business, On-2-It. The training was provided once a week over a three week period in October 2006.

The objective of the training was to learn, develop and apply skills associated with the Excel software. Given that a majority of the Office's Audit plans and procedures are presented in an Excel Format, this training was very beneficial for all staff and the Office as a whole.

## **Application of Specific Internal Controls**

On the 8 November 2006 the Cook Islands Audit Office held a morning workshop for all financial auditors in the MFEM conference room focusing on internal controls in the Primary Accounting Systems in all Organisations. The workshop was administered by Catherine Trussler, ex National Audit Office (United Kingdom). Catherine kindly donated her time to the office on a part time basis for a period of 4 weeks reviewing the current structure in place.

The objective of this workshop was to improve the knowledge and understanding of internal control auditing tools applied to the different Financial Sections across all organisations.

## **Team Leader Training Program**

In February 2007, Audit Managers Elizabeth Tommy and Allen Parker as well as Audit Supervisors Margret Numanga, Alouise Kado and Tunoa Araitia attended a two-day "Team Leader" training workshop that was held at the Edgewater Resort. The training workshop was presented by David Henton on behalf of Management Learning Associates Ltd. Participants at the workshop included Managers and Supervisors from the public and private sector.

The training workshop covered topics such as:

- Qualities of a Team Leader
- Team Performance Potential Profile and Action Planning
- Practical Feedback and Coaching
- Conflict
- Effective Delegation
- Practical Performance Management
- How Teams Evolve
- Motivation and Rewards

The participants went through a series of team and peer discussions, along with role-plays and other hands on learning activities. David Henton created a rich learning and fun atmosphere where all participants involved learnt valuable skills that can be applied not only in the work place but also in the home.

The training workshop was an excellent professional development exercise and it gave our managers and supervisors the opportunity to acquire necessary leadership and management skills which has added value to the overall management of our office. Our office also adopted a set of "Ground Rules", a new initiative learnt from the training workshop.

Our managers and supervisors commented that the training workshop was well worth it. They have learnt so much in a short period of time and they are more confident in their ability to identify and resolve some of the issues experienced in the work and home environment. Overall, the training workshop was a success and it was a fantastic learning experience.

### **Public Speaking and Presentation Workshop**

Our Audit Advisor, Louise Wittwer, attended the Cook Islands Business Professional Women's Association 'Public Speaking and Presentation Skills Workshop' in February 2007. This workshop, spanning two days at the CITV conference centre, was presented by Brett Oetgen of Presentation Success Series, a New Zealand company.

The workshop primarily addressed the fundamentals of enhancing individuals' public speaking skills and determining the best way to deal with nerves. It was a very interactive workshop with attendees presenting on several occasions during the two days training. Given the level of public speaking required of Audit Office management, particularly in respect to training and educating Finance Managers, HOM's and MP's, the skills gained by attendance at this course will be fully utilised.

### **NZ Institute of Management – Interpersonal Communications Skills**

The Director, P. Allsworth as a member of NZIM, attended a two day course on, Interpersonal Communication Skills in Auckland from 22-23 February 2007. The Course was presented by Ms Robyn Walshe.

The core course subjects were centred on:

- Building the Essential Skills
- Behaviour and Communication
- Building Understanding
- Resolving Conflict
- Workplace Tools and Realities

The Course delivery and presentation was excellent. This was notably due to the close interaction and feedback from a class of only 4. There was a lot of one on one individual training situation. The Course covered a key range of topics that extend one's skills, understanding and experience in this area – a foundation to success in both public and private sector.

Building one's communication tools and techniques, exploring different approaches, experimenting with new ways of behaving in various situations, and enhancing confidence in handling challenging situations.

### **Weekly In-house Training for Special Review Team**

The first quarter of the 2006/2007 financial year saw the implementation of a Weekly in-house training session for the Special Reviews Investigation Team. The aim of the session is to help better equip staff within the Special Reviews Investigative team with useful investigative techniques to ensure the timely and efficient completion of Special Investigations undertaken by the Cook Islands Audit Office. The sessions are held every Thursdays with the first session conducted by Louise Wittwer on Internal Controls. Other topics covered included Audit Clearances, Audit Tools, Red Flags, File Structure, Interviewing skills, etc.

## **In-House Training for Auditors and Assistant Auditors**

On 1 March 2007, training on auditing client's Cash Flow Statements was conducted in-house by Rosalie Fiel, Acting Audit Manager. The training, held at MFEM's Board Room, was attended by 13 members of the Financial Audit team. The 2 hour session focused on:

1. The importance of the Cash Flow Statement, as part of Crown Entities Financial Statements;
2. How it can be used as a tool in gauging the financial performance of Crown Entities; and
3. How to correctly utilize Audit's Cash Flow template.

The training included a number of practical exercises to ensure that the participants fully comprehended the various issues discussed.

## ***INTERNATIONAL AND REGIONAL CONFERENCE REPRESENTATION***

The Cook Islands Audit Office was also represented on several international boards by the Director of Audit and members of staff as part of its membership and affiliations with International Accounting Bodies and Professional Institutes.

## **South Pacific Regional Working Group on Environmental and Sustainability Auditing**

The Director of Audit, Paul Allsworth and Audit Manager of the Special Reviews Division, Allen Parker attended the South Pacific Regional Working Group on Environmental and Sustainability Auditing workshop held in Canberra from the 18 to 20 October 2006. The conference was attended by 11 member countries in the South Pacific Region.

The purpose of the workshop was to discuss and address emerging issues, challenges and initiatives relating to environmental issues in each respective country. The conference also served as a platform for sharing knowledge and experiences on audit tools and audit methodologies for conducting environmental audits.

The Cook Islands Audit Office was also privileged to present a country paper on the Waste Management Facility on Rarotonga and the DVD presentation by Recycle Cook Islands Ltd. The Member Countries were impressed with the work undertaken by Recycle Cook Islands Ltd in addressing environmental issues through processing, sorting and exporting variety of wastes out of the Cook Islands. They were also overwhelmed to know that Cook Islands Recycle Ltd is a private company and a private sector initiative that was able to assist Government extend the life of the waste management facility and landfill through the exportation of waste outside of the Cook Islands.

It is planned that a government and private sector working group committee will be formed comprising of agencies that have a core service for environmental concerns such as legislation, (Environment Services and Public Health) implementation, (Ministry of Works), compliance (Audit), Recycle Cook Islands Ltd and others (private sector).

## **55<sup>th</sup> INTOSAI Governing Board Meeting**

The Director of Audit, Paul Allsworth as a Governing Board Member of INTOSAI, representing the South Pacific Association of Supreme Audit Institutions (SPASAI) attended the 55<sup>th</sup> Governing Board meeting in Mexico from 2 – 3 November 2006. INTOSAI is the International Organisation of

Supreme Audit Institutions, a United Nations affiliated body representing all democratic public sector audit organizations world – wide.

Audit items discussed were:

1. Report by the General Secretary, Dr Josef Moser, Austria.
2. INTOSAI Strategic Plan 2007 – 2011.
3. Report by the Chairman of Finance and Administration Committee – Saudi Arabia
4. Report by the Professional Standards Committee – Denmark
5. Report by the Financial Audit Guidelines Committee – Sweden
6. Report by the Compliance Audit Committee – Norway
7. Report by the Committee on Audit Independence – Canada
8. Accounting and Reporting Standards – United States
9. Internal Control Standards – Belgium
10. Performance Audit – Brazil
11. Capacity Building Committee and the International Journal of Government Auditing – Morocco and United States.
12. INTOSAI Development Initiative (IDI).

### **Commonwealth Advanced Seminar for Internal Auditors - London, United Kingdom**

Audit Supervisor, Daphne Ringi from the Cook Islands Audit Office attended the Commonwealth Advanced Seminar for Internal Auditors in London from the 9<sup>th</sup> to 13<sup>th</sup> October 2006. The Commonwealth Secretariat together with a UK based training firm Global Training Consulting (GTC), facilitated the seminar. Nineteen participants from various countries in the Commonwealth attended the training.

The main theme of the seminar was strengthening internal control in Public Expenditure Management. The course content covered various audit tools and techniques and highlighted the importance of internal auditors in the Public Financial Management reform process. The training was complimented by a visit to the Borough of Hounslow (1 of 32 Boroughs in London) for an overview of the practical application of these audit tools in the public sector. Legislation, internal audit manuals and other local government bodies strengthened the role of internal auditors in this setting.

Also covered in the seminar was an oversight of the budgetary process for each country, stressing the need for internal controls to promote transparency and accountability in the expenditure of Public money.

### **Seminar for Auditing Officials for Pacific Island Countries – Beijing, China**

From the 6<sup>th</sup> to the 20<sup>th</sup> of November 2006 Audit Supervisor Alouise Kado and Auditors Mataora Mataora and Ngatokorua Elikana attended a Seminar for Auditing Officials for the Pacific Island Countries in Beijing. The seminar was funded by the Chinese Government and participants were hosted by the Central University of Finance and Economics in Beijing.

The aim of the seminar was to expose and introduce participants to the development of Auditing and Accounting in China, particularly the challenges faced by certain professional accounting bodies in an ever growing Chinese economy. Presenters included representatives from the Chinese National Audit Office, Institute of Internal Auditors and the Institute of Certified Public Accountants for China.

The participants found the seminar to be very informative and educational as some of the audit work done in China is different from work done in the Pacific region. It was agreed that the most useful part of the seminar for both presenters and participants were the open discussions that followed each presentation. In these discussions an atmosphere of exchange was created between auditors of China and the Pacific region which benefited all present.

Following their return from the seminar all three auditors made individual presentations to the rest of the Cook Islands Audit staff on what they had learnt on their trip.

### **19<sup>th</sup> UN/INTOSAI Symposium, Vienna, Austria, 28 – 30 March 2007**

The Cook Islands Audit Office (CIAO) was invited by the International Organisation of Supreme Audit Institutions (INTOSAI). The Director of Audit selected Allen Parker, Audit Manager, Special Reviews Division to represent the CIAO at the 19<sup>th</sup> UN/INTOSAI Symposium held in Vienna, Austria. The symposium was funded and organised by the United Nations and INTOSAI and was attended by 95 SAIs. The theme of the symposium was “Value and Benefits of Government Audit in a Globalised Environment.

The content of the two-day symposium covered a wide range of audit topics, which centred on the key theme “Values and Benefits of Government Audit in a Globalise Environment”. These topics include the following:

- Auditing for social impact
- Key performance indicators (KPI) to measure input, products and impacts of Supreme Audit Institutions (SAIs)
- Recording the performance and the impact of SAIs.
- Measuring the performance of audit organizations.
- Measuring audit success (costs versus benefits)
- Recording the public value-adding of SAIs and its effect on society
- SAIs audit in a globalised environment (multilateral audits and coordinated audits).

The topics presented were found to be very useful and the group discussions gave individual SAI’s the opportunity to learn and share audit methodologies, audit tools in adding value to its products and services. This symposium was also fitting for SAIs to network and share their experiences in dealing with problems and future challenges arising from their annual audit work program.

## ***PART 2 – ACHIEVEMENT OF GOALS***

### ***OFFICE OBJECTIVES AND OUTPUTS***

The Audit Office's Strategic Result Area as approved by Cabinet through Government policy is Good Governance and Public Accountability.

Parliament approves the Office of Public Expenditure Review Committee and Audit Vote Item, through appropriation, for the 2006/2007 financial year. This comprised of five outputs:

#### **Output 1      Crown Accounts**

To ensure that the Crown consolidated financial statements for the years ended 30 June 2003 and 30 June 2004 are audited and tabled in Parliament and future crown consolidation is completed in a timely manner.

#### **Output 2      Ministries, Crown Agencies and State Owned Enterprises Audit**

This class of output relates to the provision of financial audit services to public sector organisations, which includes all Ministries, Offices of the Minister, Crown Funded Agencies, Island Administrations and State Owned Enterprises. The work is carried out by the Audit Office and chartered accounting firms on behalf of the Director of Audit.

In conjunction with audit reports issued as a result of the audits, the Audit Office also issues Management Reports containing findings and recommendations in relation to primary accounting systems, internal controls and disclosures in their Financial Statements.

#### **Output 3      Performance Audits and Special Reviews**

To complete special reviews and investigations: prioritised value for money (VFM) reviews in high-risk areas and forensic and fraud investigations in areas of waste, misappropriation and mismanagement.

This output also includes the audits of donor aid funds and projects.

#### **Output 4      Audit Commission**

To provide quality assurance to ensure that audits and special reviews are carried out in accordance with accepted auditing standards.

#### **Output 5      Audit Awareness**

To raise awareness and provide training to key stakeholders on good governance, transparency and accountability.

## **AUDITING AND REPORTING**

The Ministry of Finance and Economic Management Act 1995-96 (the Act) specifies Departments' responsibilities in fulfilling the requirements for financial reporting.

Section 26 of the Act sets out the responsibility of the Financial Secretary that relates to the preparation of the Crown Consolidated Financial Statements, inter alia ... it states, "The Financial Secretary shall as soon as practicable after the end of each financial year, (30 June) but not later than the end of the third month of the next succeeding year (30 September), prepare and send to the Government Auditors a financial statement (of transactions affecting the Public Account) covering all the information required under Section 25 (reporting requirements).

To form an opinion on financial statements, our audits are conducted in accordance with Generally Accepted Auditing Standards appropriate to public sector audits. The audits are planned and performed so as to obtain all the information and explanations considered necessary in order to provide sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinions, we also evaluate the overall adequacy of the presentation of information in the financial statements.

### **Output 1 Crown Accounts**

2006 was a particularly successful year for the Crown Accounts audit team seeing the completion and signing of both the 30 June 2003 and 30 June 2004 Cook Islands Government Consolidated Financial Statements.

On Friday 8 September 2006 the Director of Audit, Paul Allsworth issued the Audit Opinion on the Crown Accounts for the year ended 30 June 2003 and two months later, on Thursday 9 November 2006 our Audit Opinion for the 30 June 2004 Consolidated Crown Accounts was issued.

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 is a result this office is very proud of.

Subsequently, early May 2007 saw the finalisation of all Ministry, Crown Entity and Outer Island audits for the year ended 30 June 2005 allowing compilation of the Crown Consolidated Financial Statements to 30 June 2005 to commence this financial year. It is anticipated that the Audit Office will be in a position to issue our opinion on the Crown 2005 Accounts by the end of the first quarter of 2007/2008, meaning that three Crown Audits would have been completed in the year to September 2007.

The Audit Office is very appreciative of the financial assistance which was provided by NZ Aid, via the Aid Management Division of MFEM, to 31 December 2006 ensuring the resources required to complete this mammoth task were available.

### **Output 2 Ministries, Crown Agencies and State Owned Enterprises Audit**

During the period 1 July 2006 to 30 June 2007, we issued a total of 74 financial audit opinions, an increase of 15(25%) as compared to the same period last year which had 59 audit opinions issued. Of the 74 audit opinions issued during the year 30 June 2007,

- Ø 21 related to the 2003/2004 financial year;
- Ø 46 to 2004/2005 financial year; and
- Ø 7 to the 2005/2006 financial year.

This is a remarkable achievement for this Office and was made possible through:

- Ø providing a number of in-house training workshops to up skill our auditors on changing audit programs and techniques;
- Ø providing our auditors with the necessary audit tools (laptops and portable printers) to get the job done on a timely manner;
- Ø the hard work and dedication of our staff and management team;
- Ø providing incentives for staff to work towards deadlines and goals – employee of the month awards, performance bonuses;
- Ø contracting an external chartered accountant on a short term basis to conduct a review of the current procedures, offer recommendations on areas to improve and develop standard audit work programs to guide auditors through their audit testing;
- Ø the improvements in the financial reporting of some ministries, outer islands and support offices; and
- Ø closer working relationships with the MFEM team.

The financial audit management team goals and objectives for next financial year are:

1. To endeavor to complete all 30 June 2006 financial audits by 31 March 2008 to enable the consolidation and audit of the Cook Islands Government consolidated accounts to be signed off by 30 June 2008;
2. To support & assist those staff eligible to obtain their provisional membership to the New Zealand Institute of Chartered Accountants by 30 June 2008;
3. To implement the recommendations provided by external contractors and our audit commissioner Marcus Henry, of Ernst & Young to enhance current audit procedures and further develop other areas of our current methodologies;
4. To continue to empower staff to achieve a high standard of auditing and assist with their on going professional development; and

To issue a very high standard of audit reports to assist our clients to improve their accounting and management systems as well as keeping stakeholders aware of significant audit issues and findings.

### **Output 3 Performance Audits and Special Reviews**

The Special Reviews and Investigation Division (SRID) are responsible for conducting any audit review or investigation with regards to the economical, efficient and effective use of public resources. The reports produced by the SRID are a result of:

- Complaints received by the Audit Office
- An initiative taken by Audit to address areas of concern with regard to the management of public funds or resources.
- Statutory obligation

During the period 1 July 2006 to 30 June 2007, the SRID completed a total of 39 audit reports, an increase of 17 (77%) as compared to the same period last year which had 22 audit reports. The 39 audit reports completed to 30 June 2007 were as follows,

- ✓ 21 Special Reviews and Investigations
- ✓ 7 Bank of the Cook Islands (BCI) Outer Island Reviews
- ✓ 6 Financial Special Audit Purpose Reports
- ✓ 1 Ministerial Audit Clearance
- ✓ 1 Review of the Acquisition of the Sand Pump by the Ports Authority
- ✓ 1 Review of Unauthorised Expenditure – Section 70 of the Constitution
- ✓ 1 Management Review of Operational Systems and Procedures at Immigration
- ✓ 1 Review into the Financial Management of the Cook Islands Tourism and Marketing Corporation

All of these reports have attempted to highlight and address a wide range of issues concerning the use of public resources, management and security of public funds and the confirmation of public expenditure within the public sector. One of the most common findings arising from our special investigations is the theft and misuse of public funds by employees within the public sector. These have arisen due to a number of factors including:

- The lack of supervision performed by senior management of Ministries and Crown Agencies over their employees.
- The failure by Ministries and Crown Agencies to implement and enforce internal control procedures surrounding high risk areas.
- Failure to adhere to policies and procedures set out and outlined in the Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM).
- Inconsistencies between policies established by CIGFPPM and Ministry and Crown Agencies.
- The failure of Ministries and Crown Agencies to address regular anomalies through disciplinary and corrective measures.

However, we note it is encouraging to see some Ministries and Crown Agencies taking corrective measures to address areas of concern as highlighted by our audit findings and recommendations in previous audit reports and we commend them for their efforts.

It is also pleasing to see that the appropriate authorities are addressing audit findings through disciplinary measures and legal judicial proceedings. We note that Police and Crown Law were successful in prosecuting 2 cases of misappropriation of funds arising from audit reports issued by the SRID. As a result, two government employees were convicted on charges for misusing public funds and removed from their position.

The Audit Office has taken some positive steps in addressing the backlog of outstanding audit reports table with the Police Department. Our meeting with Police brought closure to a number of audit reports filed with Police and a plan of action was resolved to address the remaining audit reports.

The SRID is working closely with the appropriate authorities to improve our methodologies of conducting investigations, enhancing the quality of audit findings and advancing the manner in which we report our findings.

A new approach initiated by the Audit Office was to build capacity to conduct major management and performance reviews of Government Ministries and Crown Agencies. The Audit Office recognised that major audit findings discovered in financial audits kept reoccurring year after year even after numerous recommendations were made to address these issues.

In this regard the Audit Office conducted an extensive management and performance review of the Immigration Department and collaborated with the Minister of Immigration in identifying the best way forward for this department. Currently, the Audit Office is conducting a similar type of review of the Ministry of Works and is intending to conduct more management and performance reviews in the future.

#### **Output 4      Audit Commission**

Marcus Henry, Partner, Ernst & Young, Wellington has been the Audit Commissioner for the past ten years and in that time has built up a thorough understanding of the operations of the Cook Islands Audit Office.

His role is one of 'Quality Assurance' and his annual visits to this office revolve around provision of recommendations as to areas we can enhance our performance in and also areas where we require external expert accounting advice. Marcus Henry is on the NZ Financial Standards Reporting Board and therefore has a wealth of knowledge in respect to application of accounting standards and generally accepted accounting practice (GAAP).

During his 2006/2007 four day visit in September 2006 he undertook the following reviews:

- a full review of the 2003 Crown Financial Statements focusing on applicable GAAP, audit qualifications, appropriations, fixed assets generated by POBOC's, treatment of aid revenues, accrual of PAYE on sick leave, hedging and numismatic stock;
- a high level review of some State Owned Enterprise accounts including the Airport Authority and Ports Authority addressing the application of GAAP, taxation and going concern issues;
- a review, and subsequent provision of recommendations for the financial audit managers to implement, in respect to planning our Ministry and Crown entity financial audits. This review included amendments to the Audit Offices template audit engagement and audit arrangement letters.

The fourth and final day of Marcus's visit was allocated to training and as previously noted in this report, a one day workshop was held at the Edgewater Conference Room. The presentation made by Marcus Henry, to the entire staff of the Audit Office, covered the following topics: International Financial Reporting Standards, Audit risk and controls based auditing, Independence, Use of representation letters and some specific technical audit areas which Management had requested he address, e.g. deferred tax.

#### **Output 5      Audit Awareness**

The Audit Office continued to strive to provide 'Audit Awareness' throughout the year to 30 June 2007.

On 19 July 2006 a one day induction workshop was presented to the Heads of Ministries and Island Secretaries at the AOG church hall in Takuvaine. This seminar was attended by approximately 30 HOM's and southern Island Secretaries with presentations provided by the Senior Management team of the Audit Office.

The topics addressed were as follows:

- Good Governance, Paul Allsworth, Director of Audit

- Internal Controls, Louise Wittwer, Audit Advisor
- Year End Audit Requirements, Elizabeth Tommy, Audit Manager - Financial Audits
- Fraud Awareness, Waste and Abuse, Allen Parker, Audit Manager - Special Reviews

The Audit Office received very positive feedback from the attendees of this workshop and will continue to provide this forum of training on an annual basis.

On 20 June 2007, Allen Parker, Audit Manager - Special Reviews and Charlie Va'ai, Audit - Special Reviews provided a half day workshop to the Aitutaki Island Administration Divisional Heads and Finance Team on Internal Controls, Waste and Abuse. This seminar was requested by the Island Secretary and was held in a participative forum.

In addition to the above formal structured training sessions, frequent assistance has been provided throughout the year by members of our staff to Finance Officers of Ministries, SOE's, Crown Entities and Outer Islands to assist them with the preparation and presentation of their Annual Financial Statements.

As in previous years, the Audit Office also continues to produce a quarterly report which is tabled in Parliament as soon after the quarter end as Parliament sits. This formal quarterly update provides Government with timely commentary on the preceding three months under review, details the Financial and Special Review Audits which have been completed during that period, provides an update on the status of the Crown Accounts and narration on all training initiatives undertaken and international workshops/seminars attended by Audit Office personnel.

The Audit Office quarterly reports are scrutinised by the local media, following tabling in Parliament and assist the Audit Office with their 'Audit Awareness' output by publicising a number of our significant findings.

### ***AUDIT OFFICE REPORTS ISSUED FOR THE YEAR ENDED 30 JUNE 2007***

As our published reports (or excerpts from them) were included in our four quarterly reports for the financial year, we simply list the reports issued below by quarter and by report title.

#### ***FIRST QUARTER REPORT 1 JULY – 30 SEPTEMBER 2006***

##### **CROWN AUDITS**

1. Cook Islands Government Consolidated Accounts 30 June 2003

##### **FINANCIAL AUDITS**

1. Aitutaki Power Supply 30 June 2004
2. Aitutaki Island Council 30 June 2004
3. Aitutaki Island Administration 30 June 2004
4. Atiu Island Administration 30 June 2004
5. Mangaia Island Administration 30 June 2004
6. Manihiki Island Administration 30 June 2004
7. Ministry of Police 30 June 2004
8. Ministry of Education 30 June 2004

9. Ministry of Justice 30 June 2004
10. Ministry of Foreign Affairs and Immigration 30 June 2004
11. Nassau Island Administration 30 June 2004
12. National Environment Service (Tua'anga Taporoporo) 30 June 2004
13. Office of the Prime Minister 30 June 2004
14. Office of the Minister of Education 30 June 2004
15. Office of the Minister of Health 30 June 2004
16. Office of the Leader of the Opposition 30 June 2004
17. Office of the Deputy Prime Minister 30 June 2004
18. Penrhyn Island Administration 30 June 2004
19. Palmeston Island Administration 30 June 2004
20. Pukapuka Island Administration 30 June 2004
21. Rakahanga Island Administration 30 June 2004
22. Financial Supervisory Commission 30 June 2006

#### SPECIAL REVIEWS

1. Review of the Bank of the Cook Islands - Aitutaki Branch
2. Review of the Bank of the Cook Islands - Atiu Branch
3. Review of the Bank of the Cook Islands - Penrhyn Branch
4. Review of the Bank of the Cook Islands - Manihiki Branch
5. Review of the Bank of the Cook Islands - Rakahanga Branch
6. Review of the Consultancy Fees paid by Ports Authority to Mr. Don Beer Jnr
7. Review of the Missing Cash from Ministry of Health Administration.
8. Review of Annual leave payment made to the former Head of the Ministry of Health (MOH), Mr Vaine Teokotai.
9. Audit Clearance for the Office of the Honourable Minister Teina Bishop.
10. Review of the Island Administrations and various Government Projects in the Northern Group.
11. Review into Allegations of theft of Government Fuel in Atiu
12. Review into the misuse of Public Funds at the Aitutaki Hospital

#### STOCK TAKES AND VEHICLE VERIFICATION AS AT 30 JUNE 2006

1. Ministry of Cultural Development
2. Ministry of Health
3. Ministry of Education
4. Ministry of Works
5. Office of the Minister for Island Administrations (OMIA)
6. Airport Authority
7. Aitutaki Power Supply
8. Parliamentary Services
9. Numismatic

## ***SECOND QUARTER REPORT 1 OCTOBER – 31 DECEMBER 2006***

### **CROWN AUDITS**

1. Cook Islands Government Consolidated Accounts 30 June 2004

### **FINANCIAL AUDITS**

1. Ministry of Agriculture 30 June 2005
2. Office of the Ombudsman 30 June 2005
3. Office of the Ombudsman 30 June 2006
4. Financial Intelligence Unit 30 June 2005
5. Office of the Head of State 30 June 2005
6. Department of National Human Resources 30 June 2005
7. Department of National Human Resources 30 June 2006
8. Ports Authority 30 June 2006
9. Airport Authority 30 June 2006
10. Parliamentary Services 30 June 2005
11. Parliamentary Services 30 June 2006
12. Crown Law Office 30 June 2005
13. Crown Law Office 30 June 2006
14. Office of the Minister of Health 30 June 2005
15. Office of the Minister of Education 30 June 2005
16. Ministry of Transport 30 June 2005

### **SPECIAL REVIEWS**

1. Financial Audit of the Cook Islands Creative Centre for the year ended 30 June 2006
2. Audit of the Cyclone Emergency Assistance Loan (CEAL) Projects Statement of cash receipts and disbursements for the year ended 30 June 2006.
3. Audit review into the Financial Management of the Punanga Nui Market.
4. Review of overspending by the Office of the Ombudsman, the Ministry of Justice and the Ministry of Cultural Development for the financial year 1 July 2005 to 30 June 2006.
5. Financial Audit of the Cook Islands Women Counselling Centre – Punanga Tauturu Incorporated for the year ended 30 June 2005.
6. Audit of the Bank of Cook Islands Branch in Mangaia.
7. Review of Financial Mismanagement of Public Funds by the Penrhyn Island Administration for the financial period ended 30 June 2003.
8. Review of Vehicle Tender Process by the Ministry of Agriculture (GA 318 Toyota Rav Jeep).

### ***THIRD QUARTER REPORT 1 JANUARY – 31 MARCH 2007***

#### **FINANCIAL AUDITS**

1. Ministry of Cultural Development 30 June 2005
2. Development Investment Board 30 June 2005
3. Ministry of Marine Resources 30 June 2005
4. Nassau Island Administration 30 June 2005
5. Cook Islands Natural Heritage Trust 30 June 2005
6. Office of the Minister Wilkie Rasmussen 30 June 2005
7. Office of the Minister for Island Administration 30 June 2005
8. Prime Minister Support Office 30 June 2005
9. Ministry of Police 30 June 2005
10. Office of the Public Service Commissioner 30 June 2005
11. Pukapuka Island Administration 30 June 2005
12. Civil List 30 June 2005

#### **SPECIAL REVIEWS**

1. International Water Program 31 December 2006
2. Project Development Fund (PDF) managed by the Ministry of Marine Resources (MMR)
3. Maritime Cook Islands Ltd (MCIL) 31 December 2003, 31 December 2004, 31 December 2005
4. Water Works Capital Expenditure Review
5. Ministry of Health – Review of the Purchasing and Payment of Essential Drugs
6. Mauke Branch – BCI Review and Cash Count
7. Leave Accountability by Government Ministries and Crown Agencies over the Christmas/New Year Period.
8. Ministry of Education – Alleged Misuse and Misappropriation of Public Funds.
9. Grievances of Jimmy Browne & Sons Builders Ltd (JBSBL) concerning the Ministry of Health (MOH) Rarotonga Hospital Project
10. Misuse of Public Funds by an employee of the Ministry of Justice
11. Management review of the Chief Executive Officer for the Ministerial Support Office for the Hon. Kete Ioane, Anthony Brown

### ***FOURTH QUARTER REPORT 1 APRIL – 30 JUNE 2006***

#### **FINANCIAL AUDITS**

1. Aitutaki Island Administration 30 June 2005
2. Aitutaki Island Council 30 June 2005
3. Aitutaki Power Supply 30 June 2005
4. Aid Management Division 30 June 2005

5. Atiu Island Administration 30 June 2005
6. National Environment Service (Tua'anga Taporoporo) 30 June 2005
7. Ministry of Foreign Affairs & Immigration 30 June 2005
8. Ministry of Health 30 June 2005
9. Ministry of Internal Affairs 30 June 2005
10. Ministry of Justice 30 June 2005
11. Mangaia Island Administration 30 June 2005
12. Manihiki Island Administration 30 June 2005
13. Mauke Island Administration 30 June 2005
14. Ministry of Finance and Economic Management 30 June 2005
15. Mitiaro Island Administration 30 June 2005
16. Office of the Minister Munokoa 30 June 2005
17. Office of the Minister Vavia 30 June 2005
18. Office of the Prime Minister 30 June 2005
19. Palmerston Island Administration 30 June 2005
20. Penrhyn Island Administration 30 June 2005
21. Rakahanga Island Administration 30 June 2005
22. Cook Islands Tourism Marketing Corporation 30 June 2005
23. Ministry of Transport 30 June 2005
24. Ministry of Works 30 June 2005

### SPECIAL REVIEWS

1. Land Trust Audit for the years ended 31 December 2000 And 2001
2. Management Review of the CEO for the Office of the Hon. Minister Kete Ioane
3. Review of the Public Service Commissioner's Trip to Samoa Accompanying the Queen's Representative
4. Audit Review of Cook Islands Tourism Marketing Corporation, Sydney Office
5. Audit Review into the Missing Assets managed by the Office of the Hon. Minister Ngamau Munokoa
6. Review of the Alleged Misused Of Public Funds by an employee of the Ministry Of Justice
7. Management Review of Operational Systems and Procedures at Immigration
8. Review into the Financial Management of the Cook Islands Tourism and Marketing Corporation

## SUMMARY

There were 124 reports issued by the Audit Office during the 2006/2007 financial year as scheduled:

- 2 (2%) Crown audit opinions
- 74 (60%) Ministries, Crown Agencies and State Owned Enterprises Financial Audits
- 39 (31%) Performance Audits and Special Reviews
- 9 (7%) Stock takes and vehicle verification reports

