

Cook Islands Audit Office

Annual Report of the Audit Office

1 July 2007 – 30 June 2008



PARLIAMENT OF THE COOK ISLANDS

PARLIAMENT PAPER NO. 117

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 2008.

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

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



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10 September 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 2008.

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 honoured to present my Annual Report to Parliament for the year ended 30 June 2008.

The Audit Office carries out its mandated functions and responsibilities under Article 71 of the Constitution on behalf of Parliament and the taxpayer. The Audit Office holds Government to account through its various reports, for the use of public money and resources, and to improve public service delivery and performance.

During 2007/2008, the aim of the Audit Office has been to strive for excellence in achieving our five budgeted outputs approval by Parliament.

These areas cover:

1. Crown Financial Statement Audits.
2. Ministries, Crown Agencies, Islands Administrations and State Owned Enterprises.
3. Performance Audits, Special Reviews and Investigations.
4. Audit Commission, through our independent external audit advisor, Ernst & Young, Chartered Accountants, New Zealand.
5. Audit Awareness and Training, for stakeholders such as Heads of Ministries, Members of Parliament and Chief Executive Officers.

Key Achievements

- During the year, we enhanced our audit methodology and practices by implementing recommendations previously provided by short-term expert and experienced audit trainers from KPMG, Neil French and Ernst & Young, Marcus Henry. This improved the efficiency of financial audits and the quality of reporting to clients and Parliament.
- Staff professional development was supported through our annual attachment training programme with Audit New Zealand, ethics and investigative training, regional and international training through the Commonwealth Secretariat and ADB/OECD. Elizabeth Tommy was approved as a Provisional Member of the New Zealand Institute of Chartered Accountants (NZICA) and the Director attained the Certified Fraud Examiner (CFE) designation from the Association of CFE's (ACFE). The Office, through two senior staff, have satisfactorily progressed in the in-country USP MBA executive management programme.
- Through the kind assistance of the Indian Government, the Office acquired an advanced electronic audit software programme - TeamMate. This software will accelerate our audit working paper files and data storage and retrieval systems thus greatly improving the efficient completion of financial audits.
- The Office successfully hosted the 11th South Pacific Association of Supreme Audit Institutions (SPASAI) Auditors General's Conference in April this year. The Director of Audit, also Chairman of SPASAI, was re-elected as SPASAI's representative on the Governing Board of International Organisation of Supreme Audit Institutions (INTOSAI).

- On the 30 June 2008, the Minister of Finance, Sir Terepai Maoate, Director of Audit and the Financial Secretary signed off the 2006 Crown Consolidated Financial Statements, having signed the 2005 Crown Accounts in September last year. This milestone, of signing two sets of Crown Financial Statements in one year, represents another significant development in the efforts of the Audit Office and MFEM.
- We have presented 87 reports to Parliament, covering the work of 2 Crown Accounts, 43 financial audits, 21 special review and 21 stock take reports. At the same time, we have maintained and supported the work of the Public Expenditure Review Committee, through its Chairman, Charles Little. Arising out of our performance audits, we undertook major reviews of the Development Investment Board, Tourism Marketing Corporation, Ministry of Agriculture, Ministry of Works and the Public Service Commission. Our value for money audits seek to make recommendations leading directly to efficiency improvements in public services.
- Our oversight and probity functions have led to detecting public corruption, including fraud, misappropriation of funds, misuse of position and authority and conflicts of interest. Some of these instances have resulted in criminal proceedings taken up by the Crown Law Office and Police.

Major Concerns

My concerns are grouped separately into reoccurring and unattended failures and new concerns that require immediate attention.

Reoccurring and Unattended Failures

- The absence of a Code of Conduct for public servants and Leadership Code for Parliamentarians. Our special review reports indicated 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 critically needs to 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.

New Concerns

Accountability Failures

- Resulting from our special reviews report into the Ministries of Agriculture and Works, the lack of corrective action and disciplinary measures by the Office of the Public Service Commissioner (PSC) has not assisted our work in curbing corruption and minimising the abuse of public resources. Moreover, the lack of effective action by PSC and Cabinet in the behaviour of non-performing Heads of Ministries has brought into question the decline of governance and government's credibility.
- At the Minister's Support Office level, at present there are no oversight procedures relating to the performance and practices of Chief Executive Officers (CEO's). Employment contracts have in the main, not been implemented and budgeted expenditure for the offices have no prescribed outputs and definitions. Of concern, resulting from our review of Minister's Offices, particularly are the CEO's of the Office of the Prime Minister and Minister of Environment.
- The remuneration and awarding process of Heads of Ministries and Crown Agencies requires much improvement. There are clearly legislative loopholes and ad-hoc practices in certain arrangements between the Office of the Public Service Commissioner, the Higher Salaries Committee and individual Minister's and Cabinet. This was brought to light after the Financial Secretary's salary and remuneration process, whereby policy and salary guidelines were not followed. This, and other senior executive salary anomalies are not conducive to fair and best management practices.

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.

My priorities for 2008/2009 will cover:

- A review of the PERCA Act 1995/96, with appropriate amendments to be submitted for approval by the Minister and Cabinet in late 2008.
- 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.
- Due to the limited number of accounting and finance graduates in the country, I have had difficulties in filling key audit positions. Alternative ways will be explored in order to assist our Office to fill these vacancies so that we can carry out all of our legislated functions.

Appreciation

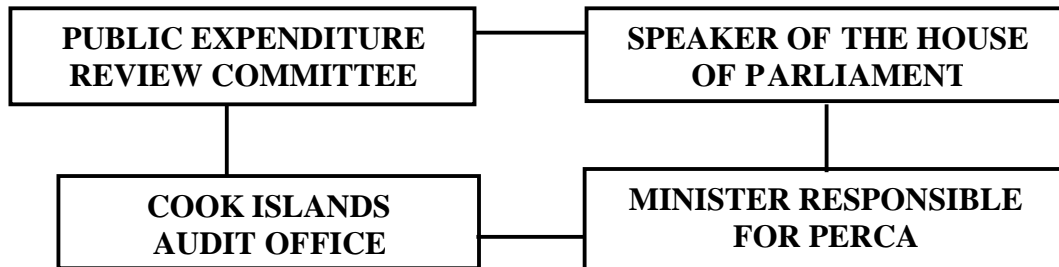
I would like to thank my Portfolio Minister; Hon Sir Terepai Maoate, KBE for his strong support of the Office and its endeavours to pursue financial management excellence in the Public Service. I would also like to thank all my staff for their hard work and dedication during the year and look forward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

Kia Manuia

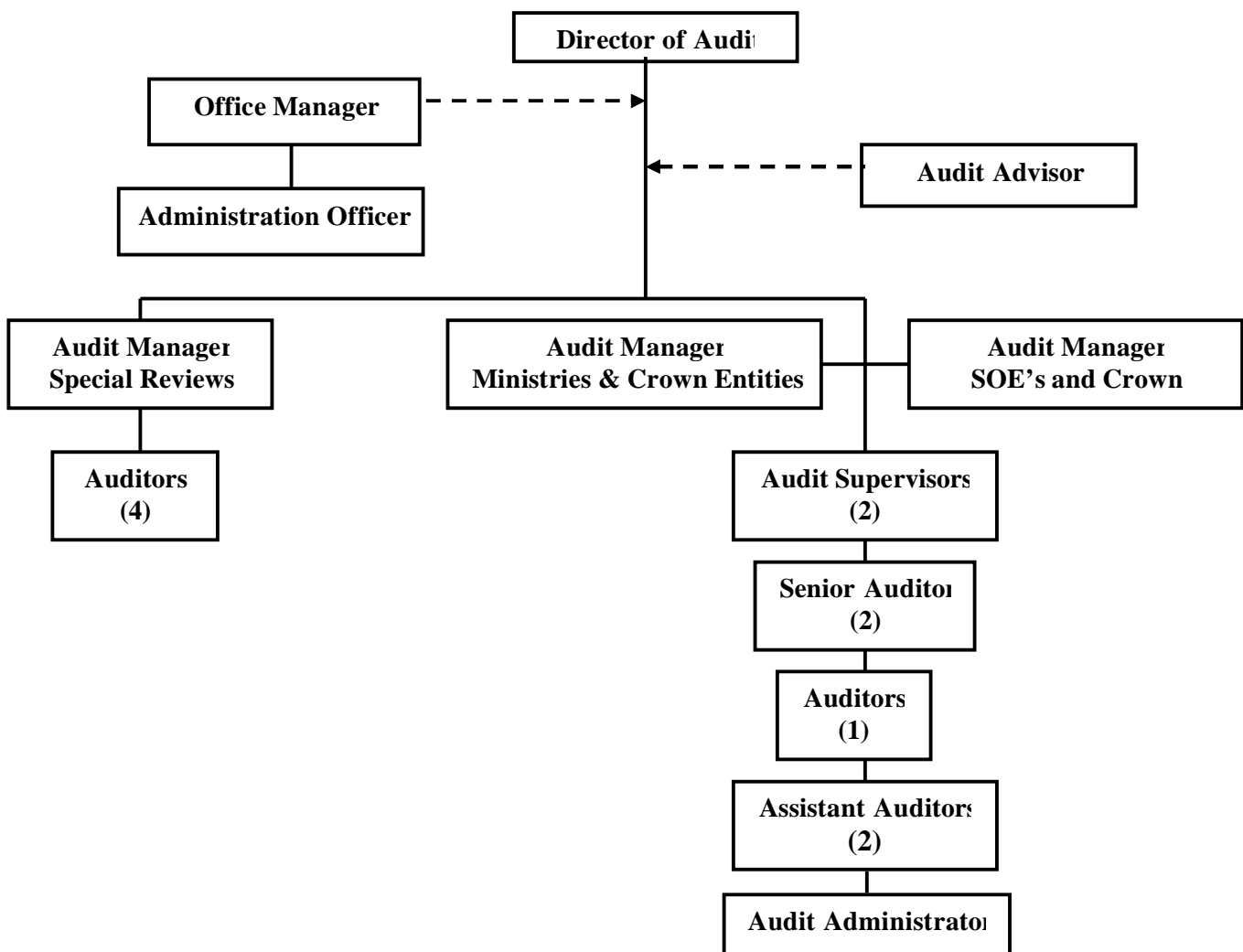
Paul Allsworth
DIRECTOR OF AUDIT

PART 1 - ABOUT THE COOK ISLANDS AUDIT OFFICE

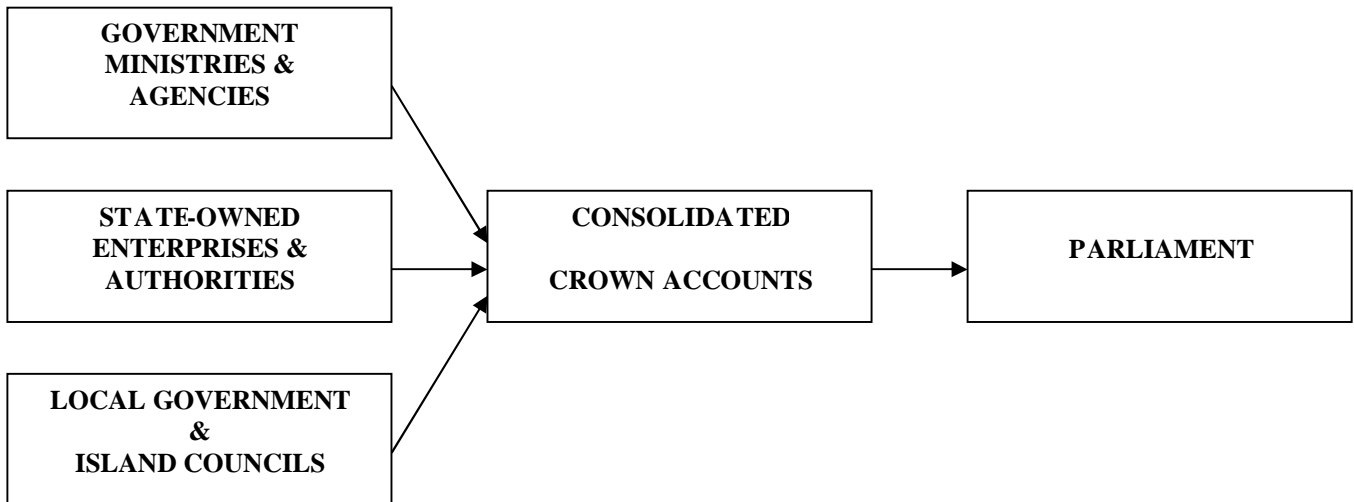
ORGANISATION STRUCTURE OF THE COOK ISLANDS AUDIT OFFICE AS AT 30 JUNE 2008



MANAGEMENT STRUCTURE OF THE COOK ISLANDS AUDIT OFFICE AS AT 30 JUNE 2008



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

The Audit Office is constantly seeking to recruit appropriate personnel. Our aim is to increase the Office’s capacity with recruiting graduates and experienced accountants with relevant tertiary qualifications and/or relevant work experience. This is required so that the Audit Office’s human resources capacity can meet its statutory audit responsibilities. New employees during the year to 30 June 2008 include:

	<u>Name</u>	<u>Position</u>	<u>Commencement Date</u>
1.	Mataina Ngatae	Administration Officer	September 2007
2.	Hoana Matapo	Audit Investigator	March 2008
3.	Nilesh Kumar	Senior Auditor	May 2008
4.	Anne McMahan	Office Manager	June 2008
5.	Donna Engu	Audit Administrator	June 2008

STAFF TRAINING AND PROFESSIONAL DEVELOPMENT

INHOUSE TRAINING:

Ethics Workshop

Marcus Henry, Partner, Ernst Young

The workshop focused around application of 'Ethics in Practice' and 'Ethical Decision Making'.

Investigative Techniques

Geoff Stoddart, Treasurer, MFEM

Topics covered during this session included interviewing techniques, evidence gathering and the benefits of sole versus team approach to investigations.

Stocktake Audits Briefing

Michael Innes-Jones, External Audit Contractor

The focus of the morning's briefing was to highlight changes in the stock take work programme and improve the knowledge and understanding of the reporting requirements.

Training & Implementation of TeamMate

Mathew Oliver, Business Manager & Martin Angala, Trainer of CCH 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. 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 NZ Aid's Public Sector Technical Assistance Fund (PSTAF). The office is grateful to both aid donors for their significant contribution.

TeamMate is 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 customisation of the software. Three "champions" were identified to work closely with the TeamMate consultants to become the trouble-shooters for all other users within the Office.

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

- **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 New Zealand on a 3-4 month short term attachment programme facilitated by the Department of National Human Resources Development. 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 programmes used by our overseas colleagues prior to their short term secondment.

EXTERNAL TRAINING:

Commonwealth Thematic Public Expenditure Management Fellowship

Financial Auditor, Michael Ponga, attended a workshop held in Wellington from 20 to 31 August 2007, with the focus of learning about the experiences and development of internal auditing and risk management within each of the Commonwealth countries or jurisdictions that attended the workshop. Eighteen various countries and participants were hosted that either worked in the area of internal auditing or envisioned that some day their own jurisdiction would adopt an internal audit programme.

Through the exchange and sharing of ideas, experiences and developments within the respective countries and in New Zealand, participants were often able to assist one another with their own unique problems or weaknesses. Given the opportunity to listen and learn from a number of highly qualified guest speakers and professionals within the New Zealand Public Sector like the Office of the Auditor General and Private Sector such as PricewaterhouseCoopers, and working alongside Ministries such as the Ministry of Defence and Agriculture and Forestry in Michael Ponga's job shadowing experience, was an invaluable learning experience which also assisted him in his presentation of his Wellington experience and teachings to staff at the Cook Islands Audit Office.

ADB/OECD Anti-Corruption Initiative's Regional Seminar

The Secretariat of the ADB/OECD Anti-Corruption Initiative for Asia and the Pacific invited the Ombudsman, Janet Maki and William Numanga, a member of the Cook Islands Audit Office to attend a Regional Seminar on "Making international anti-bribery standards operational: Fighting bribery in public procurement". The seminar was organized by the Commission for Eradication of Corruption in Indonesia and held in Bali, Indonesia on 5-7 November 2007. The seminar was hosted by the Government of Indonesia.

The Regional Seminar on "Making international anti-bribery standards operational: Fighting bribery in public procurement" aimed to convey information and knowledge on international developments and experience related to curbing corruption and bribery in public procurement. Experts presented and discussed regional and international experiences to allow experts from Asia-Pacific to identify the elements of bribery offences as set forth by international standards and instruments, provide an overview of the risk areas for bribery in public procurement in the Asia-Pacific region, and identify challenges that need to be addressed to curb bribery in public procurement. The ultimate aim of the seminar was to initiate constructive policy developments in curbing corruption in public procurement.

William Numanga, Special Reviews Auditor, observed that even though the Cook Islands engages in smaller development projects where public procurement processes like tendering are utilised, the principles and processes of public procurement are the same here as discussed at the seminar. The seminar provided a valuable insight into the systems and processes of public procurement engaged by other countries in the Asia Pacific region. As government prepare for large scale infrastructure development projects, a strong and robust public procurement system will not only provide appropriate guidelines for government and the private sector to follow, it will also complement the whole development process.

Team Leader – Essential skills

Rebeka Buchanan, Office Manager attended a New Zealand Institute of Management Team Leader Essential Skills course held in Auckland for 3 days from Wednesday 14 November 2007 to Friday 16 November 2007.

The core contents of the team leader workshop included appreciating the changes in workplace roles and responsibilities and why these have taken place, understanding what drives an organisation's shape and performance, writing and employing Mission Statements, Goals and Objectives more effectively, knowing how to plan more simply and more effectively for yourself and your team performance, developing your core communication skills-speaking, writing and conducting team meetings, learning how to develop and implement effective, non-threatening controls and measurements, understanding and being able to design and implement core training and coaching, and managing time and changing job functions more effectively.

COOK ISLANDS ACCOUNTANTS GROUP:

A number of Audit Office personnel attended the Cook Islands Accountants Special Interest Group monthly presentations during the year ended 30 June 2008. Guest speakers during the period included:

- * *Mike Carr, Director, KPMG – ‘Accounting for Tax, Deferred Tax and Cook Islands Tax Issues’.*
- * *Marcus Henry, Partner, Ernst Young, Wellington – ‘Development of International Financial Reporting Standards’.*
- * *David Bridge, General Manager, Air New Zealand – ‘An Insight to Air New Zealand’.*
- * *Felicity Glensor, Senior External Reporting Analyst, Telecom New Zealand – Moving from 'Generally Accepted Accounting Practice (GAAP)' to compliance with 'International Financial Reporting Standards (IFRS)'.*
- * *Julian So, General Manager, Air Rarotonga - 'Northern Group Costings and Sunday Flights'.*
- * *Glenda Tuaine, Marketing Manager, Tourism Marketing Corporation (CITMC)– ‘Strategic plans and activities of the CITMC’.*
- * *Kevin Brady, Auditor & Controller General, New Zealand – ‘ The Standard Setting Process’.*
- * *Wayne Beckley, General Manager, Westpac Banking Corporation – ‘Credit Crunch’.*
- * *Stephenie Knight, NZ Aid Manager, New Zealand High Commission – ‘The Role of NZ Aid’.*

AUDIT NEW ZEALAND SECONDMENT:

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

Use of many similar audit techniques and tools– Many of the techniques and tools used in our home office were exactly the same as used at Audit NZ, with initial major difference being that their audits were largely stored as electronic files whilst ours were stored mainly as physical hardcopy files, of course with our move to TeamMate this has now changed.

New audit procedures and tools - These included the use of computer assisted audit techniques (CAAT's); integration of information system controls (CAF); and compliance testing.

Ongoing personnel training and development - Every year you spend with Audit NZ, you are required to participate in at least one training module that is tailored to employer/employee expectations, position and/or years of experience.

Global labour market– Audit NZ continuously strives to recruit skilled and qualified individuals in what is a very competitive and global labour market, by recruiting only the top new graduates three times a year. Existing employees are rewarded with higher salaries and long-term benefit plans.

PROFESSIONAL MEMBERSHIPS:

Director of Audit Earns CFE Designation

On 5 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.

CFE's 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.

NZ Institute of Chartered Accountants

Elizabeth Tommy, Audit Manager – Financials, was accepted as a Provisional Member of the Institute and given eligibility to enroll for PCE1 (Professional Competence Examination 1). The office is very supportive of Elizabeth's studies and work towards gaining the Associate Chartered Accountant qualification.

INTERNATIONAL & REGIONAL CONFERENCE REPRESENTATION

IFRS Meeting

The Director, amongst other work commitments, was in Wellington from 23 to 26 July 2007 to meet with New Zealand Treasury officials to discuss issues and problems relating to the pending introduction of the International Financial Reporting Standards for the Cook Islands. This is due to the fact, that New Zealand Treasury on behalf of Government introduced IFRS into the public sector accounting system, it was agreed that the Cook Islands Government officials met and discussed with our counterparts on the critical areas covering IFRS. The Director accompanied the Financial Secretary, Sholan Ivaiti, Teu Teulilo of MFEM Crown Accounts, John Tini, CEO of CIIC and a representative of the Financial Services Commission.

In summary, the following outcomes were noted:

1. That the New Zealand Treasury spent considerable amount of taxpayer's funds to implement IFRS into the public sector,
2. That in their view, given the benefit of hindsight, they would have done things differently, given their past experience, and
3. That the Cook Islands should not rush into the introduction of IFRS but plan it thoroughly and allow plenty of room for capacity building and training.

56th INTOSAI Governing Board Meeting & 19th INTOSAI Congress

The Director of Audit, Paul Allsworth as a Governing Board member of the International Organisation of Supreme Audit Institutions (INTOSAI), representing the South Pacific Association of Supreme Audit Institutions (SPASAI), attended the 56th Governing Board meeting in Mexico from 5-9 November 2007. INTOSAI is a United Nations affiliated body representing all democratic public sector audit organisations world-wide.

Following the Governing Board session, the INTOSAI Congress was convened. Various country reports and discussion papers were debated. These included:

1. Management, accountability and audit of public debt
2. Performance assessment systems based on universally accepted key indicators
3. Financial Audit Guidelines
4. Internal Control Standards
5. Promoting best practise and quality assurance through voluntary peer reviews
6. Public Debt
7. International Money Laundering
8. Audit of International Institutions
9. Accountability and audit of the Disaster related Aid

11th SPASAI Auditor General's Congress

The 11th 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 12th 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.

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 2007/2008 financial year. This comprised of five outputs:

Output 1 Crown Financial Statement Audits

To ensure that the Crown consolidated financial statements for the years ended 30 June 2005 and 30 June 2006 are audited and tabled in Parliament and future crown consolidation is completed in a timely manner.

Output 2 Ministries, Crown Agencies and State Owned Enterprise Audits

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, Special Reviews & Investigations

To complete special reviews and investigations with priority given to value for money 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 & Training

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 Financial Statement Audits

28 September 2007 and 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 years ended 30 June 2005 and 2006 respectively.

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 finalisation 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.

Output 2 Ministries, Crown Agencies and State Owned Enterprise Audits

During the period 1 July 2007 to 30 June 2008, we issued a total of 45 financial audit opinions and 21 Stock Take reports. Of the 45 audit opinions issued during the year 30 June 2008,

- Ø 41 related to 30 June 2006 financial year;
- Ø 3 related to 30 June 2007 financial year; and
- Ø 1 related to an Internal Controls Review.

Additionally 30 June 2007 and 2008 Stock Take reports were tabled in our 1st and 4th Quarter Reports to Parliament. Ten Stock Takes were completed for the 2007 year end and eleven Stock Takes were completed for the financial period to 30 June 2008. For the first time an auditor was present at the 2008 Mauke Island Administration stock count.

In February 2008, the Audit Office was informed of their successful proposal for funding from the India Grant Fund for the purchase of TeamMate, an electronic audit software program developed by PricewaterhouseCoopers. The funding for training and implementation was sourced through PSTAF and all hardware (10 laptops and server) was funded by the Cook Islands Government.

From 16 – 20 May, the implementation and training for TeamMate was carried out by Mathew Oliver, Business Manager and Martin Angala, Trainer of CCH TeamMate. 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.

It is envisaged that the package will significantly enhance our audit procedures while satisfying our goals and objectives for the next financial year through:

- **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 needs 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 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 given 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 following as now our auditors will have knowledge of software programs used by our overseas colleagues.

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

1. To endeavor to complete all 30 June 2007 financial audits by 31 March 2009 to enable the consolidation and audit of the Cook Islands Government consolidated accounts to be signed off by 30 June 2009;
2. To support & assist those staff eligible to obtain their provisional membership to the New Zealand Institute of Chartered Accountants by 30 June 2009;
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
5. 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, Special Reviews & Investigations

The Special Reviews and Investigation Division (SRID) are responsible for conducting any audit review, investigation and performance audit 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 and use of public funds or resources, and
- Statutory obligation.

During the twelve month period 1 July 2007 to 30 June 2008, the SRID completed a total of 21 audit reports. Of the 21 audit reports completed to 30 June 2008, the breakdown was as follows:

- ✓ 12 Special Reviews and Investigations,
- ✓ 7 Financial Special Audit Purpose Reports, and
- ✓ 2 Performance and Operational Reviews.

Going forward, the SRID intends to focus on increasing our performance audit coverage on government ministries and crown agencies. Performance reports are essential components of accountability documents. Accountability documents ensure that government ministries and other crown agencies can be held accountable to Parliament and the public.

A core purpose of performance reporting is to provide public accountability for the responsible use of public resources and regulatory powers, including demonstrating that public services are being delivered effectively and efficiently. Entities can be truly accountable only if they are transparent about both their financial and non-financial performance and the relationship between the two. It is encouraging to see Ministries and Crown Agencies defining their outputs and realigning them with the goals of the country's National Sustainable Development Plan (NSDP).

During the year, our performance and reports have attempted to highlight and address a wide range of issues concerning the use of public resources and donor aid funds, management and security of public funds and the confirmation of public expenditure within the public sector. Our audit reviews continue to identify recurring problems and anomalies within government Ministries and Crown Agencies. These recurring problems include the following:

- Ø Unsatisfactory levels of accountability on the usage of public funds.
- Ø Conflicts of interest.
- Ø Misuse of public funds.
- Ø Loss on sale of government assets.

Factors contributing to these recurring issues include:

- Irresponsible attitude of senior management of Ministries and Crown Agencies to address unethical behaviour and improper administration practices.
- 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).
- The failure of Ministries and Crown Agencies to address regular anomalies through disciplinary and corrective measures.

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

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).

For the first time Marcus visited our office twice during the financial year to assist with quality control and technical expertise with respect to the Crown 2005 and Crown 2006 Audits.

As part of each visit Marcus presents 'Office Wide' training. In September 2007 Marcus facilitated an "Ethics" workshop and in June 2008 he facilitated a "Audit Planning" workshop for all staff in MFEM's conference room. The focus of the planning 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.

Output 5 Audit Awareness

The Audit Office continued to strive to provide 'Audit Awareness' throughout the year to 30 June 2008 .

MP'S Good Governance Presentation – 13 February 2008:

The Director of Audit and Senior Management Team presented to all Members of Parliament, at Parliament, a full morning session focusing on Good Governance in the Public Sector.

The MP's Good Governance Presentation was opened by Paul Allsworth, Director of Audit, and followed by presentations on:

- Good Governance by Elizabeth Tommy,
- Conflicts of Interest by Allen Parker, and
- Codes of Conduct & Ethics by Louise Wittwer.

This presentation was well received by Members of Parliament and informal discussions on the above matters continued afterwards as the MP's and Audit Senior Management Team shared lunch.

Audit Process & Requirements Workshop – 29 April 2008:

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 half day workshop for Finance Managers and Finance Officers of all Government ministries and agencies by the Audit Office.

The workshop was held at the Edgewater Conference room, had a good turnout of 65 people attending, and 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 it's clients.

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.

Ongoing Audit Awareness Initiatives

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 2008

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 report title.

CROWN AUDITS

1. Cook Islands Government Consolidated Financial Statements 30 June 2005
2. Cook Islands Government Consolidated Financial Statements 30 June 2006

FINANCIAL AUDITS

1. Aid Management Division, MFEM 30 June 2006
2. Airport Authority 30 June 2007
3. Atiu Island Administration 30 June 2006
4. Aitutaki Island Administration 30 June 2006
5. Aitutaki Island Council 30 June 2006
6. Aitutaki Power Supply 30 June 2006
7. Civil List 30 June 2006
8. Cook Islands Natural Heritage Trust 30 June 2006
9. Cook Islands Pearl Authority 30 June 2007
10. Cook Islands Police Department 30 June 2006
11. Cook Islands Tourism Marketing Corporation 30 June 2006
12. Development Investment Board 30 June 2006

13. Financial Intelligence Unit 30 June 2006
14. Financial Supervisory Commission 30 June 2007
15. Head of State 30 June 2006
16. Mangaia Island Administration 30 June 2006
17. Manihiki Island Administration 30 June 2006
18. Mauke Island Administration 30 June 2006
19. Ministry of Agriculture 30 June 2006
20. Ministry of Education 30 June 2006
21. Ministry of Finance and Economic Management 30 June 2006
22. Ministry of Foreign Affairs & Immigration 30 June 2006
23. Ministry of Health 30 June 2006
24. Ministry of Internal Affairs 30 June 2006
25. Ministry of Justice 30 June 2006
26. Ministry of Marine Resources 30 June 2006
27. Ministry of Works 30 June 2006
28. Mitiaro Island Administration 30 June 2006
29. Nassau Island Administration 30 June 2006
30. National Environment Services 30 June 2006
31. Office of the Deputy Prime Minister 30 June 2006
32. Office of the Leader of Opposition 30 June 2006
33. Office of the Minister of Culture 30 June 2006
34. Office of the Minister for Island Administration (OMIA) 30 June 2006
35. Office of the Prime Minister 30 June 2006
36. Office of the Public Service Commissioner 30 June 2006
37. Palmerston Island Administration 30 June 2006
38. Penryhn Island Administration 30 June 2006
39. Ports Authority 30 June 2007
40. Prime Minister's Support Office 30 June 2006
41. Pukapuka Island Administration 30 June 2006
42. Rakahanga Island Administration 30 June 2006
43. Systems Review of the Cook Islands National Superannuation Fund

SPECIAL REVIEWS

1. Audit Review of the Cook Islands Wellington High Commission Office
2. NEX Audit – United Nations Development Programme Funded e-Government Initiative in the Cook Islands Project

3. Special Purpose Audit of Punanga Tauturu Inc 30 June 2006 and 2007
4. Review of the Cyclone Emergency Assistance Loan (CEAL) Project 30 June 2007
5. Review into the Catering Expenses Incurred by the Parliamentary Service 30 June 2007
6. Review of the Cook Islands Waste Management Project (CIWMP) 30 June 2005
7. Review into the operations of the Agriculture Division of the Aitutaki Island Administration (AIA)
8. Review into the merger of the Development Investment Board (DIB) and the Small Business Enterprise Centre (SBEC) to the Business Trade and Investment Board (BTIB)
9. Review into the allegations against the Acting Island Secretary of Aitutaki Island Administration (AIA), Mr Sabati Solomona
10. Review of the financial management practices of the former Manager of the Auckland Tourism Office (ATO), Mr Albert Numanga
11. Review into allegations of mismanagement of public funds made against the Assistant Clerk of Parliament, Mr Puna Rakanui
12. Review into the Catering Services for the Vaka Eiva farewell function hosted by the Minister of Internal Affairs, Hon. Ngamau Munokoa
13. Review of the CITMC official credit card held by the former Marketing Manager of the Cook Islands Tourism Marketing Corporation (CITMC), Ms Karla Eggelton.
14. Review into the management of the Airport car park.
15. Review of the Development Investment Board (DIB) operations and administration 30 June 2006 and 2007
16. Review into the Commercialisation Arrangements at the Airport Authority
17. Review of payments received by Mr Trevor Pitt, CEO for the Prime Ministers Support Office
18. Review of Management Functions, Operational Outputs and Systems at the Ministry of Works
19. Special Purpose Audit of the Cook Islands Creative Centre 30 June 2007
20. Special Purpose Audit of the Waste Management Project 30 June 2006
21. Special Purpose Audit of the Waste Management Project 30 June 2007

STOCK TAKE & FIXED ASSET REPORTS AS AT 30 JUNE 2007

1. Airport Authority Stock Take Report 30 June 2007
2. Aitutaki Ports Authority Fixed Assets Report 30 June 2007
3. Aitutaki Power Supply Stock Take Report 30 June 2007
4. Ministry of Cultural Development Stock Take Report 30 June 2007
5. Ministry of Education Stock Take Report 30 June 2007
6. Ministry of Health Stock Take Report 30 June 2007

7. Ministry of Works Stock Take Report 30 June 2007
8. Numismatics Division, MFEM Stock Take Report 30 June 2007
9. Office of the Min of Island Administrations (OMIA) Stock Take Report 30 June 2007
10. Parliamentary Services Stock Take Report 30 June 2007

STOCK TAKE & FIXED ASSET REPORTS AS AT 30 JUNE 2008

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. Mauke Island Administration Stock Take Report 30 June 2008
5. Ministry of Cultural Development Stock Take Report 30 June 2008
6. Ministry of Education Stock Take Report 30 June 2008
7. Ministry of Health Stock Take Report 30 June 2008
8. Ministry of Works Stock Take Report 30 June 2008
9. Numismatics Division, MFEM Stock Take Report 30 June 2008
10. Office of the Min of Island Administrations (OMIA) Stock Take Report 30 June 2008
11. Parliamentary Services Stock Take Report 30 June 2008

SUMMARY

There were 87 reports issued by the Audit Office during the 2007/2008 financial year as scheduled:

- 2 Crown audit opinions
- 43 Ministries, Crown Agencies and State Owned Enterprises Financial Audits
- 21 Performance Audits, Special Reviews & Investigations
- 21 Stock takes and vehicle verification reports



**OFFICE OF PUBLIC EXPENDITURE REVIEW
COMMITTEE AND AUDIT**

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2008

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DIRECTORY

Minister

Sir Terepai Maoate KBE

Director of Audit

Paul Allsworth

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Auditor

KPMG

Banker

Westpac Banking Corporation

Solicitor

Crown Law Office

STATEMENT OF RESPONSIBILITY

In terms of Section 30 of the Ministry of Finance and Economic Management Act 1995-96, I am responsible, as the Head of the Office of Public Expenditure Review Committee and Audit, for the preparation of the entity's financial report and the judgments made in the process of producing that report.

I have the responsibility of establishing and maintaining, and I have established and maintained a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, this financial report fairly reflects the financial position and operations and cashflows of the Office of Public Expenditure Review Committee and Audit for the year ended 30 June 2008.

Paul Allsworth

Director of Audit

Hon. Tangata Vavia

**Acting Minister of the Office of Public
Expenditure Review Committee
and Audit**

Date

Date



Audit report

To the readers of the financial statements of the Office of Public Expenditure Review Committee and Audit

We have audited the financial statements on pages 7 to 21. The financial statements provide information about the past financial performance of the office and its financial position as at 30 June 2008. This information is stated in accordance with the accounting policies set out on pages 14 to 17.

Minister of the Office of Public Expenditure Review Committee & Audit (“the Minister”) responsibilities

The Minister is responsible for the preparation of financial statements which give a true and fair view of the financial position of the office as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date.

Auditors’ responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Minister and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Minister in the preparation of the financial statements;
- whether the accounting policies are appropriate to the office’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the office.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT



- proper accounting records have been kept by the office as far as appears from our examination of those records;
- the financial statements on pages 7 to 21:
 - comply with generally accepted accounting practice as defined by the Ministry of Finance and Economic Management Act 1995-96;
 - give a true and fair view of the financial position of the office as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 3rd September 2008 and our unqualified opinion is expressed as at that date.

KPMG

Rarotonga

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2008**

In New Zealand Dollars	Notes	2008	2007
REVENUE	2	1,007,743	996,865
EXPENSES	3	1,007,735	970,753
NET SURPLUS		<u>\$8</u>	<u>\$26,112</u>

The accompanying notes should be read in conjunction with these Financial Statements.

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2008**

In New Zealand Dollars	Notes	2008	2007
TAXPAYERS' FUNDS		\$105,770	\$26,254
Represented by:			
CURRENT ASSETS			
Bank		16,296	82,295
Sundry Debtors and Receivables		2,256	1,388
Related Party Receivables	4	46,387	28,235
		<u>64,939</u>	<u>111,918</u>
TERM ASSETS			
Fixed Assets	6	62,569	18,199
Asset in Transit		-	8,055
Intangible Assets	6	50,455	-
TOTAL ASSETS		<u>177,963</u>	<u>138,172</u>
CURRENT LIABILITIES			
Sundry Creditors and Payables		34,512	26,532
Related Party Payables	4	25,763	70,697
Employee Entitlements	5	11,918	14,689
TOTAL LIABILITIES		<u>72,193</u>	<u>111,918</u>
NET ASSETS		<u>\$105,770</u>	<u>\$26,254</u>

Paul Allsworth
Director of Audit

Date

The accompanying notes should be read in conjunction with these Financial Statements.

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

**STATEMENT OF MOVEMENTS IN TAXPAYERS' FUNDS
FOR THE YEAR ENDED 30 JUNE 2008**

In New Zealand Dollars	2008	2007
Opening Taxpayers' funds as at 1 July	26,254	27,797
Net surplus for the year	8	26,112
Capital funding from the Crown	45,068	8,055
Aid Funding from the Crown	48,893	-
Surplus to be repaid to the Crown	1,112	(26,112)
Depreciation to be repaid to the Crown	(14,491)	(9,598)
Amortisation to be repaid to Crown	(1,074)	-
	<hr/>	<hr/>
TAXPAYERS' FUNDS AS AT 30 JUNE	\$105,770	\$26,254
	<hr/>	<hr/>

The accompanying notes should be read in conjunction with these Financial Statements.

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2008**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash was provided from:</i>		
Crown Appropriation	764,022	895,533
Receipts from Clients	192,381	253,197
Interest received	455	494
Over-funded Appropriation	(20,002)	20,002
	<hr/>	<hr/>
	936,856	1,169,226
<i>Cash was applied to:</i>		
Payments to Employees	755,789	761,692
Payments to Suppliers	238,693	211,584
	<hr/>	<hr/>
	994,482	973,276
 Net Cash Flows from Operating Activities	<hr/>	<hr/>
	(57,626)	195,950
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash was applied to:</i>		
Purchase of Fixed Assets	50,805	8,055
Purchase of Intangible Assets	51,529	-
	<hr/>	<hr/>
Net Cash Flows from Investing Activities	(102,334)	(8,055)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash was provided from:</i>		
Capital funding from the Crown	45,068	8,055
Capital funding from Aid Donors	48,893	-
	<hr/>	<hr/>
	93,961	8,055
<i>Cash was applied to:</i>		
Repayment to the Crown	-	130,476
	<hr/>	<hr/>
Net Cash Flows from Financing Activities	93,961	(122,421)
	<hr/>	<hr/>
Net Increase/(Decrease) in Cash Held	(65,999)	65,474
	<hr/>	<hr/>
Opening Cash Balances	82,295	16,821
	<hr/>	<hr/>
Closing Cash Balance	\$16,296	\$82,295
	<hr/>	<hr/>

The accompanying notes should be read in conjunction with these Financial Statements.

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

**STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 30 JUNE 2008**

In New Zealand Dollars	2008	2007
RECONCILIATION OF NET SURPLUS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Reported Surplus	8	26,112
<i>Add / (less): Non-cash items</i>		
Depreciation	14,491	9,598
Amortisation	1,074	-
Return of surplus repaid to the Crown	(25,000)	-
	<hr/>	<hr/>
	(9,427)	9,598
	<hr/>	<hr/>
<i>Add / (less): Movements in working capital items</i>		
(Increase) / decrease in Sundry Debtors & Receivable	(869)	(561)
(Increase) / decrease in Related Party Receivables	(18,152)	152,918
Increase / (decrease) in Sundry Creditors & Payable	7,980	17,628
Increase / (decrease) in Related Party Payables	(34,387)	(22,950)
Increase / (decrease) in Employee Entitlements	(2,771)	(6,798)
Increase / (decrease) in Over Funded Appropriation Payable	-	20,003
	<hr/>	<hr/>
	(48,199)	160,240
	<hr/>	<hr/>
Net Cash Flows from Operating Activities	(57,626)	195,950
	<hr/>	<hr/>

The accompanying notes should be read in conjunction with these Financial Statements.

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

**STATEMENT OF APPROPRIATION
FOR THE YEAR ENDED 30 JUNE 2008**

In New Zealand Dollars

	Appropriation Voted	Revenue / Expenditure Actual	Surplus / (Deficit)
Year Ended 30 June 2008			
Output 1: Audit of the Crown Accounts	236,491	236,199	292
Output 2: Audit of Ministries, Crown Agencies & State Owned Enterprises	466,014	465,438	576
Output 3: Performance Audits & Special Reviews	257,278	256,960	318
Output 4: Audit Commission	15,000	14,981	19
Output 5: Audit Awareness	34,200	34,158	42
	<hr/>	<hr/>	<hr/>
	1,008,983	1,007,736	1,247
	<hr/>	<hr/>	<hr/>
Included in the Appropriation Vote:			
Trading Revenue	215,000	186,870	(28,130)
Other Revenue	-	1,891	1,891
Approved Surplus Carried Forward 07/08	-	25,000	25,000
			<hr/>
Net Surplus			\$8
			<hr/>
Year Ended 30 June 2007			
Output 1: Audit of the Crown Accounts	68,248	68,645	(398)
Output 2: Audit of Ministries, Crown Agencies & State Owned Enterprises	582,841	586,238	(3,397)
Output 3: Performance Audits & Special Reviews	279,039	280,665	(1,626)
Output 4: Audit Commission	15,000	15,087	(87)
Output 5: Audit Awareness	20,000	20,117	(117)
	<hr/>	<hr/>	<hr/>
	965,128	970,753	(5,625)
	<hr/>	<hr/>	<hr/>
Included in the Appropriation Vote:			
Trading Revenue	223,114	220,298	(2,816)
Other Revenue	-	795	795
Approved Surplus Carried Forward 06/07	-	33,758	33,758
			<hr/>
Net Surplus			\$26,112
			<hr/>

As the Office of the Public Expenditure Review Committee & Audit do not record expenditure based on above classifications, actual expenditure is apportioned based on the portion of appropriation voted.

The accompanying notes should be read in conjunction with these Financial Statements.

**SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2008**

Statement of Commitments

There were no financial commitments at balance date. (2007:nil)

Statement of Contingent Liabilities

There were no contingent liabilities at balance date. (2007:nil)

Statement of Un-appropriated Expenditure

No un-appropriated expenditure was incurred during the year. (2007:nil)

Statement of Trust Monies

The Office held no trust monies at balance date. (2007:nil)

Statement of Specific Fiscal Risks

There were no fiscal risks at balance date. (2007:nil)

Statement of Borrowings

There were no borrowings at balance date. (2007:nil)

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

1. STATEMENT OF ACCOUNTING POLICIES

The Office of Public Expenditure Review Committee and Audit is an Office of Parliament of the Cook Islands as defined by the Public Expenditure Review Committee and Audit Act 1995-96. The Office carries out auditing services for all Crown funded agencies as mandated under Article 71 of the Constitution.

These are the Financial Statements of the Office of Public Expenditure Review Committee and Audit prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

The Office is commonly known as the Cook Islands Audit Office.

GENERAL ACCOUNTING POLICIES

The general accounting policies recognized as appropriate for the measurement and reporting of results, cash flows and financial position under the historical cost method have been followed in the preparation of these Financial Statements. These Financial Statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest dollar.

PARTICULAR ACCOUNTING POLICIES

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows have been applied.

(i) Revenue

The Audit Office derives revenue from the Crown to fund personnel and operating expenditure for the provision of services to the Crown in the form of the production of certain outputs disclosed in the Statement of Appropriation on page 12.

Personnel expenditure is paid directly by the Ministry of Finance and Economic Management on behalf of the Office of Public Expenditure Review Committee and Audit. Crown funding is recognized as revenue when it is approved.

The Office of Public Expenditure Review Committee and Audit is required to return any surplus to the Crown at the end of each financial year. Other Crown Appropriation consists of return of surplus from prior years already given back to the Crown that has subsequently been returned to the Office. This return of prior year surplus is recognised as revenue when the Crown has granted approval for the surplus to be returned to the Office.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2008**

PARTICULAR ACCOUNTING POLICIES (continued)

Trading Revenue is derived from the provision of audit services. Revenue is recognized in proportion to the stage of completion of the audit engagement at the reporting date. The stage of completion is assessed by reviewing the amount of audit work performed.

(ii) Debtors

Debtors are stated at estimated realizable value after providing against doubtful debts.

(iii) Fixed Assets

Fixed Assets are recorded at cost less accumulated depreciation.

The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

(iv) Depreciation

Depreciation of fixed assets is provided on a straight-line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Computer Equipment	3 to 4 years
Furniture and Fittings	4 to 10 years
Motor Vehicles	4 years
Office Equipment	3 to 4 years

(v) Intangible Assets

Intangible Assets are recorded at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over the estimated useful life. The software estimated useful life is 4 years.

(vi) Impairment

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the statement of financial performance.

(vii) Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased item, are charged as expenses in the periods in which they are incurred.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2008**

PARTICULAR ACCOUNTING POLICIES (continued)

(viii) Provision for Employee Entitlements

Annual leave and time off in lieu of overtime worked are recognized as they accrue to employees.

(ix) Financial Instruments

Financial instruments primarily consist of bank balances, receivables and payables. Financial instruments are recorded at fair value. Revenue and expenses in relation to all financial instruments are recognized in the Statement of Financial Performance.

(x) Taxation

The Office of Public Expenditure Review Committee and Audit, as an institution of the Crown, is exempt from the payment of income tax in terms of the Income Tax Act 1997. Accordingly, no charge for income tax has been provided for.

(xi) Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

(xii) Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

(xiii) Statement of Cash Flows

Cash is considered to be cash balances on hand and current accounts in banks, net of bank overdrafts.

Operating activities include cash received from all income sources of the Office and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition, holding and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

(xiv) Value Added Tax (VAT)

All statements of account are exclusive of VAT. The Statement of Financial Position is exclusive of VAT except for payables and receivables, which are, stated VAT inclusive as these represent the total amount to be paid or collected by the Office to or from third parties.

The amount of VAT owing to or from the Revenue Management Division at balance date, being the difference between Output VAT and Input VAT, is included in payables or receivables as appropriate.

TAXPAYERS' FUNDS

This represents the Crown's net investment in the Office.

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2008

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies since the date of the last audited Financial Statements.

2. REVENUE	2008	2007
Crown Appropriation	818,982	775,772
Trading Revenue	186,870	220,298
Interest Revenue	455	493
Other Revenue	1,436	302
	<hr/>	<hr/>
	\$1,007,743	\$996,865
	<hr/>	<hr/>
 3. EXPENSES		
Personnel Costs	753,018	754,894
Other Operating Expenses	114,940	96,663
Travel	63,674	59,906
Professional Fees for External Consultants	49,538	39,084
Depreciation	14,491	9,598
Amortisation	1,074	-
Audit Fees	11,000	10,608
	<hr/>	<hr/>
	\$1,007,735	\$970,753
	<hr/>	<hr/>
 4. RELATED PARTIES		

The Office of Public Expenditure Review Committee and Audit is a wholly owned entity of the Crown, however, the Government protects it through its legislation from undue influence and significant control.

The Crown provides the Office with significant funding in the form of an annual appropriation to assist the Office in discharging its duties and obligations. The Office also enters into transactions with other Government Ministries, Crown Agencies and State Owned Enterprises on an arms length basis.

The key management personnel are members of the senior management group. The senior management group consists of: Director of Audit; Office Manager; Audit Advisor; Audit Manager – Crown; Audit Manager – Financials; and Audit Manager – Special Reviews.

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2008

The aggregate remuneration of members of the senior management group and the number of individuals determined on a full time equivalent basis receiving remuneration within this category are:

	2008	2007
Aggregate remuneration	\$304,274	\$290,411
Number of persons	6	6

Related Parties:

Inter-Ministry Receivables:

Bank of the Cook Islands	-	2,141
Crown Law Office	1,069	-
Manihiki Island Administration	2,250	-
Mauke Island Administration	337	-
Ministry of Education	-	3,937
Ministry of Works	-	1,294
Mitiaro Island Administration	625	500
Office of the Ombudsman	780	5,280
Penrhyn Island Administration	-	125
Prime Minister's Support Office	-	365
Rakahanga Island Administration	-	2,250
Revenue Management Division (VAT/PAYE)	2,304	-
Waste Management	-	3,281

	\$7,365	\$19,173
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Crown Receivables:

Crown Appropriation for 30 June 2007	-	9,062
Crown Appropriation for 30 June 2008	39,022	-

	39,022	9,062
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Total Related Party Receivables

	\$46,387	\$28,235
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OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2008

RELATED PARTIES (continued):

	2008	2007
<i>Inter-Ministry Payables</i>		
Government of the Cook Islands – Crown Revenue Management Division (VAT)	-	5,000
Waste Management	-	2,083
Leader of Opposition	-	650
	<hr/>	<hr/>
	0	\$14,385
	<hr/>	<hr/>
<i>Crown Payables:</i>		
Crown Depreciation for 30 June 2007	9,598	9,598
Crown Personnel Over-Funding 30 June 2007	-	20,002
Crown Surplus for 30 June 2007	-	26,112
Crown Depreciation for 30 June 2008	14,491	-
Crown Amortisation for 30 June 2008	1,074	-
	<hr/>	<hr/>
	\$25,163	\$55,712
	<hr/>	<hr/>
<i>Other related parties:</i>		
Te Aponga Uira	600	600
	<hr/>	<hr/>
Total Related Party Payables	\$25,763	\$70,697
	<hr/>	<hr/>

5. EMPLOYEE ENTITLEMENTS

Provision for Annual Leave	3,642	8,957
Payroll Accrual	8,276	5,732
	<hr/>	<hr/>
	\$11,918	\$14,689
	<hr/>	<hr/>

OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2008

6. FIXED ASSETS

Reporting Period	Computer Equipment		Furniture & Fittings		Motor Vehicles		Office Equipment		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Opening Balance	10,501	15,750	3,252	4,046	4,446	8,001	-	-	18,199	27,797
Additions	30,529	-	8,147	-	20,185	-	-	-	58,861	-
Disposals	-	(43,606)	-	(33,068)	-	-	-	(997)	-	77,671
Accumulated Depreciation Disposals	-	43,606	-	33,068	-	-	-	997	-	(77,671)
Depreciation	(6,384)	(5,249)	(1,608)	(794)	(6,499)	(3,555)	-	-	(14,491)	(9,598)
Revaluations (net)	-	-	-	-	-	-	-	-	-	-
Closing Balance (as per Statement of Financial Position)	34,646	10,501	9,791	3,252	18,132	4,446	-	-	62,569	18,199
Gross Carrying Amount	56,856	26,327	16,128	7,981	34,408	14,222	8,803	8,803	116,195	57,333
Accumulated Depreciation	(22,210)	(15,826)	(6,337)	(4,729)	(16,276)	(9,776)	(8,803)	(8803)	(53,626)	(39,134)
Net Carrying Amount	34,646	10,501	9,791	3,252	18,132	4,446	-	-	62,569	18,199

Included in additions is computer equipment costing \$4,703 that would be expensed under the Cook Islands Government Financial Policies and Procedures as it relates to items below MFEM's capitalisation threshold and was therefore funded from the Office's operating budget. The capitalisation of this equipment is consistent with IPSAS 17.

INTANGIBLE ASSETS

Intangible assets is made up of auditing software.

Reporting Period	Intangible Assets		Total	
	2008	2007	2008	2007
Opening Balance	-	-	-	-
Additions	51,529	-	51,529	-
Disposals	-	-	-	-
Accumulated Amortisation Disposals	-	-	-	-
Amortisation	(1,074)	-	(1,074)	-
Revaluations (net)	-	-	-	-
Closing Balance (as per Statement of Financial Position)	50,455	-	50,455	-
Gross Carrying Amount	51,529	-	51,529	-
Accumulated Amortisation	(1,074)	-	(1,074)	-
Net Carrying Amount	50,455	-	50,455	-

7. FINANCIAL INSTRUMENTS

The Office of Public Expenditure Review Committee and Audit is not exposed to currency risk or significant levels of interest rate risk.

In the normal course of business, the Office incurs credit risk from trade debtors and transactions with financial institutions. The Office has a credit policy, which is used to manage risk. As part of this policy, limits on exposures with counter parties have been set and approved by the Director and are monitored on a regular basis.

The Office has no significant concentrations of credit risk. The Office does not require any collateral or security to support financial instruments due to the quality of financial institutions and trade debtors dealt with.

The fair values of the Office's financial assets and liabilities are estimated as at their carrying values.

8. SEGMENT INFORMATION

The Office of the Public Expenditure Review Committee and Audit provides public sector audit services within the Cook Islands.

9. SUBSEQUENT EVENTS

None.



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Paul Allsworth
Office of Public Expenditure Review Committee and Audit
P O Box 691
Rarotonga

8 September 2008

Dear Paul

Management letter for the year ended 30 June 2008

We have recently completed our audit of the Office of Public Expenditure Review Committee and Audit (PERCA) for the year ended 30 June 2008.

During our audit, we noted certain matters involving the systems of internal control and other operational matters, which are presented for your consideration in the attached report.

These observations and recommendations have been discussed with the appropriate management personnel and are intended to improve the systems of internal control or enhance operating efficiency. We have included management's response to our observations and recommendations.

We have aimed to use our knowledge of the business gained during our routine audit work to make comments and suggestions, which will be of use to you. However, you will appreciate that our work is designed primarily to enable us to form an opinion on the financial statements of PERCA and should not be relied upon to disclose errors or irregularities, which are not material in relation to the financial statements. Therefore, our comments do not include all possible improvements in internal controls that a specific review of all accounting systems might determine. We note that the management of PERCA are responsible for implementing an internal control structure to maintain the reliability of the financial statements.

We would like to take this opportunity to thank you and your team for your co-operation during our audit.

If you or your team has any queries in relation to the points raised please do not hesitate to contact either Simone Feao or Mike Carr of the Cook Islands office or myself.

Yours faithfully

John Kensington
Partner



KPMG, a Cook Islands company and a member firm of the
KPMG network of independent member firms affiliated with
KPMG International, a Swiss cooperative

*Office of Public Expenditure Review
Committee and Audit (PERCA)*
Audit Management Letter
Year ended 30 June 2008

AUDIT

Purpose	<p>This report has been prepared to present to the management of PERCA the process and control points emerging from our audit procedures</p> <p>This report has been discussed with management responsible for the areas where control issues were identified and we have included their responses to the issues we have raised</p>
Scope	<p>This management letter is based on the results of our audit procedures for the year ended 30 June 2008.</p> <p>The management letter points identified in this report represent the more significant control issues identified during the performance of our audit procedures. Our procedures were limited to the systems and processes underlying the significant balances and transactions which are reported in the financial statements upon which we express our audit opinion. The matters raised in this document are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.</p>
Disclaimer	<p>Management is responsible for implementing an internal control structure to maintain the reliability of the financial statements, safeguard assets and to mitigate risks in the business. Because of the test nature and other limitations of an audit, it cannot provide an absolute assurance that there are no misstatements whether arising from fraud or error.</p> <p>The issues raised in this report came to our attention during the course of our audit procedures in relation to the financial statements of PERCA for the year ended 30 June 2008. However, we must emphasise that:</p> <ul style="list-style-type: none"> • we did not examine internal controls other than to the extent necessary to determine the nature, extent and timing of our audit procedures; • this report does not include all matters that came to our attention, but only those we regard as sufficiently important that they require management's attention; • except where specifically stated, this report covers only the period of the financial statements and will not be updated to take into account any subsequent information or circumstances unless we are requested to do so. <p>This report is provided solely for the use of the Minister of Finance and senior management of PERCA and may not be quoted or referred to in whole or in part without our prior written consent.</p>

Contents	Page	Priority	First raised (bal date)	Status	
				This report	Last report
Current period observations:					
1. Recognising revenue and related expenditure	4	Medium	30.06.08		N/A
2. Accounting for capital expenditure	4-5	Medium	30.06.08		N/A
3. Appropriate authorisation for Staff Reimbursement	6	Medium	30.06.08		N/A
Prior period observations:					
3. Record and Review Individual Engagement Costs	7	Medium	30.06.07	Incomplete	Incomplete
4. Prepare and retain minutes for Management meetings	8	Low	30.06.07	Incomplete	Incomplete
5. Recognition of Receivables and Income in Advance for Trading Revenue	9	Medium	30.06.07	Complete	In progress
6. Restrict Access to MYOB data file for the General Ledger	10	Medium	30.06.07	Complete	In progress
7. Update Cheque Signatories with Westpac	11	Medium	30.06.07	Complete	In progress
8. Sign GL Reconciliations as evidence of Review	12	Low	30.06.07	Complete	In progress
9. Ensure all Payment Vouchers are appropriately authorised	12-13	Low	30.06.07	Complete	In progress

Current period observation and recommendation	Management response	Priority	Status	
			This report	Last report
<p>1. Recognising revenue and related expenditure</p> <p><i>Observation and implication</i> The accounting treatment initially applied to the recognition of income in relation to Government funding did not comply with the matching principle. A liability for consulting fees in relation to the completion of an audit engagement had been apportioned based on the percentage of work completed at 30 June 2008. The full amount of the funding to pay for this had been received prior to year end and the full amount had been recognised as income. The accounting treatment was corrected by the office in the 2008 financial statements.</p> <p><i>Recommendation</i> Clarify the accounting policy and process for recognition of revenue and directly related expenses.</p>	<p>We acknowledge this inadvertent year end accounting error in respect to a 'one-off' approval received from the Financial Secretary to carry forward a portion of the prior years surplus. This was adjusted for in the final accounts.</p>	Medium	In progress	N/A
<p>2. Accounting for Capital expenditure</p> <p><i>Observation and implication</i> PERCA currently classify expenditure on fixed assets as operating or capital depending on the source of the funding obtained. Where there has been a Capital Expenditure Appropriation - the appropriation is treated as an equity injection and when the funds are spent this is recorded as an asset (or added to an existing asset). Purchases funding from PERCA's operational budget that are less than \$3,000 are expensed.</p>	<p>Audit observes that the items were not expensed because they came from our operational budget but because the individual assets purchased were below MFEM's capitalisation threshold.</p>	Medium	In progress	N/A



Current period observation and recommendation	Management response	Priority	Status	
			This report	Last report
<p>This is consistent with the Cook Islands Government Policies & Procedures manual.</p> <p>KPMG identified \$5,000 of various computer equipment that had been expensed on the basis that it had come from an operational budget allocation but was capital in nature. These items were expensed because they were funded from PERCA's operational budget.</p> <p>KPMG notes that other computer equipment purchased during the year used for the same purpose (but funded from capital appropriation) have been included in fixed asset additions.</p> <p>KPMG considers that the current accounting treatment for expenditure (i.e. determined based on type of funding received) is inappropriate and may result in inappropriate classifications.</p> <p>The accounting treatment was corrected by the office in the 2008 financial statements.</p> <p><i>Recommendation</i> Ensure expenditure on assets is accounted as Capital or Operating expenditure inline with the requirements of IPSAS 17, rather than the grant source to define the nature.</p>				



<p>3. Appropriate authorisation for Staff Reimbursements</p> <p><i>Observation and implication</i> Included in sundry debtors at 30 June 2008 is \$2,000 owed by the Director of Audit in relation to personal phone call and internet charges. This has been paid by PERCA on his behalf with the intention that this is reimbursed. Subsequent to year end this telephone account has been transferred into his own name and all future charges will be paid directly by the Director.</p> <p><i>Recommendation</i> Ensure appropriate authorisation is obtained for such procedures and is documented in the employment contract of the staff member concerned and reimbursement is obtained on a timely basis.</p>	<p>Prior to audit sign-off on 2 September 2008, the sundry debtor relating to the Director of \$1,645.49 was paid in full and cleared as per receipt number 20712. Procedures for staff debtors have now been changed and improved.</p>	<p>Medium</p>	<p>In progress</p>	<p>N/A</p>
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Prior period observation and recommendation	Management response	Priority	Status	
			This report	Last report
<p>4. Record and Review Individual Engagement Costs</p> <p><i>Observation and implication</i> 2008 update: KPMG observed that there has been no change as PERCA do not consider this to provide useful information given special reviews are non-chargeable and ministry audits are not charged commercial fees. 2007: For each audit or other special review engagement an arrangement letter will be prepared detailing the terms of the engagement, timing, and the fee. There is however currently no budget prepared for individual engagements and costs per engagement are not recorded and tracked. Preparing a budget for each engagement and recording costs by engagement would enable the performance of each engagement to be assessed and specific inefficiencies identified and subsequently addressed. This may enable additional costs incurred to be identified and be recovered from the client concerned, or alternatively processes put in place in future to control the audit.</p> <p><i>Recommendation</i></p> <ul style="list-style-type: none"> • Prepare a budget for each engagement which includes expected hours by staff member, charge out rates for staff, and other costs to be incurred to be able to estimate the total expected cost of the engagement. • Implement a system to have staff record actual time spent on each engagement and any additional costs incurred that were over and above the engagement terms 	<p>2007: <i>The Audit Office reviews client fees on an annual basis a year in advance to assist Ministries with accurate audit fee figures for their annual budget for Parliament.</i></p> <p>2008: We consider that the current excel timesheets completed by staff allow for actual audit costs to be calculated should the need ever arise.</p> <p>As any additional trading revenue earned by the Office is repayable to the Crown (and cannot be retained by this Office) we do not agree it is efficient to implement a comprehensive time/cost billing system. Obviously, at crown level, all audit fees between our office and our clients is eliminated on consolidation so the overall effect of any Audit Office fee increase to government is nil.</p>	<p>Medium</p>	<p>Incomplete</p>	<p>Incomplete</p>



Prior period observation and recommendation	Management response	Priority	Status	
			This report	Last report
<ul style="list-style-type: none"> Compare actual costs to budgeted costs and review any additional costs incurred to identify areas of efficiency that may be improved on. 				
<p>5. Prepare and retain minutes for Management meetings</p> <p><i>Observation and implication</i> 2008 update: No formal minutes are prepared. Paul keeps a record in his diary of any decisions or action points from the management meetings. 2007: Based on discussions with Paul Allsworth (Director of Audit) and Rebeka Buchanan (Office Manager) management team meetings are held weekly. The attendees are: Paul Allsworth, Louise Wittwer (Audit Advisor), Elizabeth Tommy (Financial Audit Manager) Alan Parker (Special Investigations Audit Manager) and Rosalie Fiel (Crown Audit Manager). There are no records kept of decisions made or outcomes from these meetings. <i>Recommendation</i> Minutes are prepared and retained as a record of the management meetings held.</p>	<p>2007: The Office does not prepare minutes for the day to day operational management meetings.</p> <p>2008: A single page minute record, of our weekly management 'operational' meetings, has been implemented as of Wednesday 27 August 2008.</p>	Low	Incomplete	Incomplete



<p>6. Recognition of Receivables and Income in Advance for Trading Revenue</p> <p><i>Observation and implication</i> 2008 update: Correct adjustments made at year end. 2007: Currently, PERCA invoice the full fee for an engagement and recognise this in debtors upon entering into an engagement. To record the other side of the entry, at each month end an assessment of the stage of completion of each engagement is made to calculate the portion of revenue earned to be recognised and the balance is included in income in advance (liability). However based on the terms of the engagement contained in the arrangement letter, 50% of the fee is due on entering into the engagement and the balance is only due prior to issue of final clearance. i.e. completion. Therefore for incomplete engagements only 50% of the fee should be recognised in receivables at year end (less any payments already made). Income in Advance should only be made up of advance cash payments and revenue earned not yet billed. The implication for the year ended 30 June 2007 is that debtors and hence income in advance were overstated by \$20,522 (incl VAT). This has been corrected in the financial statements. <i>Recommendation</i> Amend the accounting procedures for recording receivables to be consistent with the terms of the arrangement letter.</p>	<p>2007: At financial year end an adjustment for incomplete audits will be made to debtors. 2008: N/A</p>	<p>Medium</p>	<p>Complete</p>	<p>In Progress</p>
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<p>7. Restrict Access to MYOB data file for the General Ledger</p> <p><i>Observation and implication</i> 2008 update: Access to the data file has been restricted to the user ids of the Office Manager and the IT supervisor as a backup. These user ids are password protected and passwords are not shared 2007: The MYOB data file for the General Ledger is stored on the Audit Administration server. Whilst this data file is generally only used by Rebeka Buchanan (Office Manager) to update the ledger there is currently no restrictions on access. This could result in unauthorised or inappropriate entries or changes being made. <i>Recommendation</i> Use the password facility on MYOB to restrict access to the General Ledger data file to only those individuals who require access.</p>	<p>2007: <i>The system is now password protected.</i> 2008: N/A</p>	<p>Medium</p>	<p>Complete</p>	<p>In progress</p>
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<p>8. Update Cheque Signatories with Westpac</p> <p><i>Observation and implication</i> 2008 update: Bank confirmation confirms the correct cheque signatories. 2007: The authorised cheque signatories per Westpac records do not reflect the current authorised cheque signatories for the bank account. The Westpac list includes one staff member who has left.</p> <p><i>Recommendation</i> Provide Westpac with an updated list of cheque signatories so that the records can be updated.</p>	<p>2007: A further letter has been sent to Westpac on 13 November 2007 reminding them to remove Phillip Santy from the cheque signatory list.</p> <p>2008: N/A</p>	<p>Medium</p>	<p>Complete</p>	<p>N/A</p>
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<p>9. Sign GL Reconciliations as evidence of Review</p> <p><i>Observation and implication</i> 2008 update: GL reconciliations have been signed as reviewed. 2007: Month end reconciliations for key balance sheet accounts are performed by Rebeka Buchanan (Office Manager). These reconciliations are subsequently reviewed by Louise Wittwer (Audit Advisor) or in her absence Elizabeth Tommy (Audit Manager); however these reconciliations are not signed as evidence of review. <i>Recommendation</i> All balance sheet account reconciliations should be signed as evidence of review by the appropriate Manager.</p>	<p>2007: Procedures are now in place to ensure that all balance sheet reconciliations are certified on a monthly basis. 2008: N/A</p>	<p>Low</p>	<p>Complete</p>	<p>In progress</p>
<p>10.Ensure all Payment Vouchers are appropriately authorised</p> <p><i>Observation and implication</i> 2008 update: No errors noted in testing performed 2007: Once invoices are received a payment voucher is prepared by Mataine (Receptionist) which details the expense type, description, and date with the attached invoice. This is signed and certified (checked for correctness) by one of the Managers and signed as approved by Paul Allsworth. Based on KPMG's testing performed we noted 2 vouchers (out of 25 tested) that had not been signed as approved by Paul. One of these instances occurred whilst Paul was on leave. The other instance was where an expense had already been paid (at the time of the transaction occurring) and the voucher was prepared subsequently.</p>	<p>2007: Procedures are in place to ensure that all vouchers are now appropriately authorised. 2008: N/A</p>	<p>Low</p>	<p>Complete</p>	<p>In Progress</p>



<p>Whilst payment can't be made until the cheque is signed which requires 2 signatories, retaining an approved payment voucher provides an audit trail as evidence that the expense has been appropriately approved and decreases the risk of unauthorised expenditure being incurred.</p> <p><i>Recommendation</i></p> <p>All payment vouchers are signed as approved. In Paul's absence an alternative person is delegated to approve payment vouchers on his behalf.</p>				
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