REPORT OF THE AUDITOR-GENERAL

ON THE MANAGEMENT ISSUES OF THE NIUTAO KAUPULE FOR THE YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2021 and 31 DECEMBER 2022

Parliamentary Paper

Number............. 2024

Statutory Report of Kaupule of Niutao

To the Honourable Members of the Tuvalu Parliament

Dear Members,

I have audited the financial report and transactions of the Kaupule of Niutao as required by the Falekaupule Act. This Statutory Audit Report outlines the results of my audit for the years ended 31 December 2020, 31 December 2021 and 31 December 2022, and details any significant matters that in my opinion call for special notice. The Falekaupule Act requires that I send this report to the Parliament.

The Audit Opinion for 2020 was presented to Parliament during its final session in 2021. However, the management report was delayed following the Kaupule's request to produce individual reports for each Kaupule. Furthermore, domestic travel restrictions at the time hindered the Office of the Auditor-General from conducting an on-site, comprehensive audit. As a result, the management report was deferred and integrated into the audit reports for 2021 and 2022.

Audit Results

Individual audit results are detailed below:

Year Audited	Audit Opinion
2020	Qualified except for
2021	Qualified except for
2022	Qualified except for

The meaning of each opinion is explained in the Appendix.

Scope of the Audit

My audit procedures are targeted specifically towards forming an opinion on the Kaupules of Niutao. This includes testing whether the Kaupule have complied with key legislation that may materially impact on the financial report. The results of the audit are reported in this context.

Additionally I have made recommendations for improvement and analysis of the financial performance of the Kaupule within this report.

Acknowledgment

I thank the Kaupule staff for their courtesy and assistance during the audit process.

Yours sincerely

Imase T Kaunatu
Auditor-General

Funafuti, Tuvalu

Contents

The Tuvalu Audit Office has completed the financial audits of the Kaupule of Niutao for the years ended 31 December 2020, 31 December 2021 and 31 December 2022. This report summarises our findings from the audit and draws attention to areas where the Kaupule are doing well or could improve.

Introduction

The Format and Mandate of this Report

This report is tabled under section 32 of the Audit Act. The mandate for this report comes from section 74 and 75 of the Falekaupule Act and section 24 of the Audit Act.

Auditing Standards Used

The auditing standards used in the performance of the financial statement audits were the International Standards for Supreme Audit Institutions (ISSAI). The audit approach is a risk based approach and is considered to be compliant with the ISSAIs.

Compliance with ISSAI Auditing Standards

Our audit is considered to be in compliance with the requirements of ISSAI auditing standards. I have performed this audit in accordance with the International Standards for Supreme Audit Institutions.

Statement of Auditor Independence

We confirm that, for the audit of the financial statements of the Kaupule of Niutao for the years ended 31 December 2020, 31 December 2021 and 31 December 2022, we have maintained our independence in accordance with the requirements of the Constitution of Tuvalu, the Audit Act and the International Organisation of Supreme Audit Institutions.

Other than the audit, we have not provided any engagements for the Kaupule of Niutao during the years ended 31 December 2020, 31 December 2021 and 31 December 2022. In addition, we confirm that we have no relationships with, or interests in, the Kaupule.

Significant Issues with Kaupule Accounts for year ends 31 December 2020, 31 December 2021 and 31 December 2022

No individual management letter has been issued for each Kaupule, given the delay between the compilation of the accounts and the audit. Management responses will be sought from the Kaupule after the issues have been communicated to them for addressing.

1.2020; 2021; 2022 Non-compliance with section 71(1) of the Falekaupule Act and section 4.35 of the Financial Guideline

Findings and Analysis

The audit identified significant amounts of missing payment vouchers and supporting documentation in the years 2021 and 2022. Additionally, there were substantial amounts of missing receipts. These findings represent a breach of Section 71(1) of the Falekaupule Act, which mandates that "Every Kaupule shall keep proper accounts and other records in relation to the financial transactions of the Falekaupule." Furthermore, the absence of proper records also violates Section 4.35 of the Financial Guideline on the custody of used and unused receipt books. These discrepancies raise concerns about the accountability and transparency of the financial processes within the Kaupule and require urgent attention to rectify the situation.

Implication

The breach of Section 71(1) of the Falekaupule Act and Section 4.35 of the Financial Guideline raises concerns about the Kaupule's compliance with legal and regulatory requirements. It also questions the level of accountability and transparency in the financial operations of the Kaupule.

Recommendation

- The Kaupule should immediately conduct a thorough investigation into the missing payment vouchers, supporting documentation, and receipts. The investigation should aim to identify the reasons for their absence and take appropriate measures to recover or reconstruct the missing records.

- To prevent similar issues in the future, the Kaupule must implement robust financial controls and procedures. This includes regular audits, segregation of duties, proper documentation and record-keeping practices, and staff training on financial management and compliance.

Management Comment

2.2020; 2021; 2022 Cash Balance Reconciliation Discrepancies

Findings and Analysis

During the audit of the financial statements for the years 2020, 2021 and 2022, a significant discrepancy was identified between the cash balance reported in the financial statements and the corresponding bank statement balance. Cash was understated in the cashbook by

($17,801), ($13,316.74) and ($17,015) in the years 2020, 2021 and 2022, respectively.

This inconsistency raises concerns about the accuracy and reliability of the financial reporting process and warrants further investigation and resolution.

Implication

- **Financial Accuracy:** The disparity between the reported cash balance and the actual bank statement balance casts doubt on the accuracy of the financial statements. This can erode the trust of stakeholders, including regulatory bodies, investors, and creditors, who rely on accurate financial information for decision-making.

- **Control Weakness:** Cash balance reconciliation serves as a crucial control mechanism to detect errors, fraud, or misappropriation of funds. The existence of reconciliation discrepancies suggests potential weaknesses in internal controls over cash management, exposing the Kaupule to financial risks.

Recommendation

- **Detailed Reconciliation Process:** Implement a robust and detailed reconciliation process that involves matching each transaction in the bank statement with corresponding entries in the Kaupule's financial records. This process should be performed regularly, preferably on a monthly basis.

- **Segregation of Duties**: Ensure clear segregation of duties in the cash management process. Different individuals should be responsible for recording cash transactions, reconciling accounts, and authorizing payments. This segregation reduces the risk of errors and potential fraud.

- **Independent Review**: Institute an independent review of the reconciliation process by a qualified individual who is not directly involved in cash management. This review can provide an additional layer of oversight and help identify discrepancies or errors.

- **Training and Awareness**: Provide training to staff members involved in cash management and reconciliation to ensure they understand the importance of accuracy and compliance. Awareness campaigns can reinforce the significance of proper reconciliation practices.

- **Documentation and Accountability**: Maintain thorough documentation of the reconciliation process, including all supporting documents and explanations for any discrepancies. Assign clear accountability for the reconciliation process to specific individuals within the Kaupule.

Management Comment

3.2020; 2021; 2022 Incorrect allocations of expenses paid and revenues receipted

Findings and Analysis

The audit identified instances of incorrect allocation of expenses paid during the years 2021 and 2022. During the payments testing, it was found that some expenses were allocated incorrectly on the cashbook, leading to discrepancies between the actual payments and their recorded allocations. Similarly, the audit also revealed instances of unmatched or incorrect allocation of receipts in comparison to the entries in the cashbook. These discrepancies raise concerns about the accuracy and reliability of the financial records and highlight the need for improved controls and reconciliation processes to ensure the proper allocation of expenses and receipts.

Implication

- The incorrect allocation of expenses and receipts can lead to inaccurate financial reporting. This may result in misrepresentation of the Kaupule's financial performance, which could impact decision-making and the overall financial management of the entity.

- The presence of incorrect allocations indicates a lack of robust financial controls and reconciliation processes. This can result in increased risks of fraud, misappropriation of funds, and inefficiencies in financial management of Kaupule funds.

Recommendation

- The Kaupule should establish and enforce strong financial controls and segregation of duties to prevent incorrect allocations. This includes implementing a thorough review process for all financial transactions and ensuring that multiple individuals are involved in verifying and approving financial records.

- Regular and comprehensive reconciliations to be carried out between payment records, receipts, and cashbook entries. This will help identify and rectify any discrepancies promptly and ensure accurate financial reporting.

Management Comment

4.2020; 2021; 2022 Cashbook not reconciled to passbooks

Findings and analysis

The Kaupule is required to perform account reconciliations at the end of each month and send the monthly reports to the relevant ministry for thorough monitoring and assessment. While conducting the assessment of monthly receipts and expenditures, discrepancies were identified during these years. Details of the shortages are as follows:

Year	Surplus/(Shortage)	Amount
2020	Surplus	$71,381.33
2021	Shortage	$24,117.82
2022	Surplus	$12,035.09

Implication

- The cash shortage and surplus raises concerns about the possibility of misappropriation or mishandling of funds within the Kaupule. It indicates a potential breakdown in internal controls or improper handling of cash transactions.

- The failure to reconcile accounts suggests deficiencies in the financial reporting process.

It may lead to inaccuracies in financial statements and compromise the integrity and reliability of financial information provided.

Recommendation

- A thorough investigation should be conducted to identify the cause of the cash shortage and the imbalance in accounts. This may involve reviewing cash handling procedures, examining transaction records, and interviewing relevant personnel. The goal is to uncover any potential discrepancies, identify weaknesses in controls, and take appropriate corrective actions.

- The Kaupule should also implement stronger internal controls and segregation of duties to prevent and detect cash shortages or discrepancies. This can include implementing regular cash counts, enhancing oversight and monitoring of cash transactions, and ensuring proper documentation and reconciliation of all financial transactions. Regular checks to be conducted to assess the effectiveness of internal control and address any identified weaknesses.

Management Comment

5.2020; 2021; 2022 Inconsistent amounts in words and figure amounts on payment vouchers and receipts

Findings and analysis

During the audit, it was observed that the amounts in words on most payment vouchers (PV) and receipts did not match the figure amounts, indicating discrepancies in the recorded financial transactions. This inconsistency is an ongoing issue that requires immediate attention and resolution.

Implication

- The mismatch between the amounts in words and figure amounts raises concerns about the accuracy and reliability of the financial records. It can lead to errors in financial reporting and misrepresentation of the Kaupule's financial position.

- Inconsistent and inaccurate financial documentation can create opportunities for fraudulent activities, such as embezzlement or misappropriation of funds. Without proper reconciliation of amounts, it becomes difficult to track and identify any potential financial misconduct.

Recommendation

- The Kaupule should implement rigorous documentation procedures that ensure consistent and accurate recording of financial transactions. This includes verifying and cross-referencing the amounts in words with the figure amounts before finalizing any payment or receipt.

- Regular reconciliations between the amounts in words and figure amounts should be performed to identify and rectify any discrepancies promptly. This will help ensure that the financial records are accurate and reliable, providing a clear and transparent view of the Kaupule's financial status.

Management Comment

6.2020; 2021; 2022 Inconsistent dates on receipts, payment vouchers and cash books

Findings and analysis

The dates on receipts and payment vouchers do not match with the dates recorded in the cash books. This inconsistency is a notable issue identified during the audit.

Implication

- The mismatched dates indicate a lack of timely recording and reconciliation of financial transactions. This can lead to delays in identifying errors or discrepancies and hinder effective financial management.

- Inaccurate recording of dates in financial documents may result in misstated financial information, which can affect the Kaupule's financial reporting and decision-making processes.

Recommendation

- The Kaupule should conduct regular reconciliations between receipts, payment vouchers, and cash books to ensure that all financial transactions are accurately recorded and promptly updated.

- It is also recommended that the Kaupule develop and enforce robust record-keeping procedures to ensure consistency in recording dates across all financial documents. This includes verifying the accuracy of dates before finalizing any transaction.

Management Comment

7.2020; 2021; 2022 Misuse of miscellaneous allocations by Kaupule

Findings and analysis

The audit identified a significant issue regarding the misuse of miscellaneous allocations within the Kaupule. It was observed that expenses that should have been allocated to specific categories were incorrectly recorded under the miscellaneous allocation. The purpose of the miscellaneous allocation is intended for miscellaneous expenses that cannot be allocated to any specific category. However, the entity has been using this allocation for other expense items, which has led to a misrepresentation of expenditure.

Implication

- Misallocating expenses under the miscellaneous allocation compromises the transparency and accuracy of financial reporting. It becomes challenging for users of financial information to understand and track the actual nature of expenses incurred by the Kaupule.

- Misuse of the miscellaneous allocation hampers the ability to analyze and manage expenses effectively. Without proper categorization, it becomes challenging to identify areas of overspending or assess the appropriateness of expenditure against budgeted amounts.

Recommendation

- Kaupule to review and revise the expense categorization process to ensure accurate allocation of expenses. This involves clearly defining specific categories and providing clear guidance to employees on how to correctly allocate expenses.

- Regular training and communication should be conducted to ensure awareness and compliance with the expense categorization policy.

- Implementing a robust review and approval process for expense allocations can help prevent incorrect use of the miscellaneous allocation.

Management Comment

8.2020; 2021; 2022 Fusi account still exists in Kaupule books

Findings and analysis

During the audit, it was noted that the Fusi Account balance still exists on all Kaupule Accounts, despite the fact that the Fusi has been dissolved in previous years. This indicates a lack of proper account reconciliation and management of financial records, which can have significant implications on the accuracy and transparency of the Kaupule's financial reporting.

Implications

The presence of the Fusi Account balance on the Kaupule Accounts, even after dissolution, can lead to a misrepresentation of the Kaupule's financial position. This can create confusion and raise questions about the accuracy and reliability of the financial statements presented to stakeholders.

Recommendation

As the Fusi has been dissolved, the Kaupule should take appropriate measures to dispose of any remaining assets or liabilities related to the Fusi. This may involve transferring funds or assets to appropriate accounts or returning them to relevant stakeholders, as per legal requirements.

Management Comment

9.2020; 2021; 2022 Kaupule passbook not updated and reconciled regularly

Findings and analysis

The audit identified a concerning issue regarding the passbook, not being updated and reconciled regularly. The passbook serves as a critical financial record that tracks all transactions and provides an accurate reflection of the Kaupule’s financial position. However, the failure to update and reconcile the passbook in a timely manner raises significant concerns about the accuracy and reliability of financial information.

Implication

- The lack of regular updating and reconciliation of the passbook can lead to discrepancies between the recorded balances in the accounting system and the actual balances in the passbook. This can result in inaccurate financial reporting and misrepresentation of the organization's financial position.

- By not promptly updating and reconciling the passbook, there is an increased risk of errors and fraudulent activities going undetected. Failure to identify and address discrepancies in a timely manner can lead to potential financial losses and compromises the Kaupule's financial integrity.

Recommendation

- The Kaupule to implement a robust system for regularly updating and reconciling the passbook. This includes designating specific individuals or a team responsible for maintaining the passbook and ensuring that all transactions are accurately recorded and reconciled with the accounting system. Regular reconciliations should be conducted to identify any discrepancies and promptly address them.

- Furthermore, the Kaupule should establish clear guidelines and timelines for passbook updates and reconciliations to ensure consistency and accountability.

Management Comment

10.2020; 2021; 2022 No source documentation for pay in

Findings and analysis

The audit noted the absence of source documentation for pay-ins made by the Kaupule. Pay-ins refer to funds deposited into bank accounts by the Kaupule, and the lack of supporting documentation raises concerns about the transparency and accountability of these transactions.

Implication

- The absence of source documentation for pay-ins by the Kaupule undermines transparency in financial transactions. Without proper documentation, it becomes difficult to trace and verify the origin, purpose, and legitimacy of the funds deposited. This can raise suspicions and erode trust in the financial management of the organization.

- Without proper source documentation, there is an increased risk of misappropriation of funds. The lack of accountability and oversight associated with undocumented pay-ins creates an environment where funds could be misused or diverted for unauthorized purposes without detection.

Recommendation

- It is recommended that the Kaupule establish clear procedures for documenting all pay-ins made. This includes requiring the Kaupule to provide detailed information on the purpose, source, and authorization for the funds deposited. Adequate supporting documentation such as receipts, invoices, or official correspondence should be obtained and retained to ensure transparency and accountability.

- Additionally, robust internal controls and oversight mechanisms should be implemented to ensure that pay-ins by the Kaupule are properly documented and reviewed. This may involve assigning responsibility to specific individuals or departments for verifying and recording the pay-ins, conducting regular checks or reviews of the documentation process, and implementing segregation of duties to prevent unauthorized transactions.

Management Comment

11.2020; 2021; 2022 Poor debt recovery process

Findings and analysis
Audit noted the poor debt recovery process implemented by the Kaupule. The Kaupule is facing challenges in effectively recovering outstanding debts owed to them, resulting in compromised revenue streams and financial losses.

Implication

- Poor debt recovery processes can have a direct impact on the organization's financial health. Unrecovered debts lead to a loss of revenue, which can affect the Kaupule's ability to meet its financial obligations, fund projects, and provide essential services to the community.

- Inadequate debt recovery processes undermine the trust and accountability of the Kaupule. It can create a perception among debtors that their debts can go unpaid without consequences, eroding the credibility of the Kaupule and discouraging timely repayment.

Recommendation

- The Kaupule to develop and implement robust debt recovery procedures that clearly outline the steps, timelines, and actions to be taken in the event of non-payment. This may include issuing formal notices, engaging in direct communication with debtors, and escalating the matter to legal proceedings if necessary. Consistent and timely follow-up on outstanding debts will increase the likelihood of successful recovery.

- Furthermore, a comprehensive system for monitoring and reporting on outstanding debts need to be in place. This includes regular tracking of debtors, identifying accounts with a high risk of default, and generating periodic reports on the status of debt recovery efforts. Accurate and up-to-date information will enable proactive management of outstanding debts and facilitate informed decision-making.

Management Comment

12.2020; 2021; 2022 Incorrect balances brought forward on Fonopule passbook

Findings and analysis

During the audit, it was discovered that there is a variance of $2,000 in the brought forward balance on the Fonopule Passbook. The actual balance differs from the recorded balance, indicating an error in the previous accounting period.

Implication

- The incorrect brought forward balance on the Fonopule Passbook can lead to a misrepresentation of the entity's financial position. It may affect the accuracy of subsequent transactions and financial reports, potentially leading to incorrect decision-making.
- The presence of a variance in the passbook balance suggests a lack of accuracy and reliability in the accounting records. This can undermine the trustworthiness of the financial information and hinder the ability to track and reconcile transactions effectively.

Recommendation

- The Kaupule should conduct a detailed investigation into the cause of the incorrect brought forward balance. This may involve reviewing past transactions, reconciling bank statements, and identifying any errors or omissions that led to the discrepancy. Understanding the root cause is essential to prevent similar issues in the future.
- In addition, the Kaupule should establish robust reconciliation procedures to ensure accurate and reliable financial records. This includes regular reconciliations of bank statements, passbooks, and other financial records. Additionally, implementing checks and balances, such as independent verification of balances, can help identify and rectify errors promptly.
- Addressing the issue of the wrong brought forward balance on the Fonopule Passbook is crucial to maintain the integrity and accuracy of the Kaupule's financial records. By conducting a thorough investigation and implementing enhanced reconciliation procedures, the Kaupule can prevent future discrepancies and ensure the reliability of financial information.

Management Comment

13.2020; 2021; 2022. Lack of segregation of duties in receipting and pay-in process

Findings and analysis

The audit has identified a lack of segregation of duties in the receipting and pay-in processes within the Kaupule. This means that the same individuals are responsible for both receiving funds and depositing them into the designated accounts.

Implication

- Without proper segregation of duties, there is an increased risk of fraudulent activities, such as misappropriation of funds or manipulation of financial records. The absence of checks and balances creates opportunities for unauthorized activities to go undetected.

- When the same individuals are responsible for multiple aspects of financial transactions, it becomes challenging to establish clear lines of accountability. This can lead to a lack of oversight and hinder the Kaupule's ability to identify and rectify potential errors or irregularities.

Recommendation

- The Kaupule to establish a clear segregation of duties in the receipting and pay-in processes. This involves assigning different individuals or teams to handle the receipt of funds and the subsequent depositing into bank accounts. By separating these functions, it ensures that multiple individuals are involved in the process, enhancing accountability and reducing the risk of fraudulent activities.

- Implementing robust internal controls and conducting regular monitoring activities can help mitigate the risk associated with the lack of segregation of duties. This includes regular reconciliations, periodic audits, and independent reviews of financial transactions.

- Additionally, establishing clear policies and procedures for receipting and pay-in processes can provide guidelines for employees to follow and ensure consistency and compliance.

Management Comment

14.2020; 2021; 2022. Over expenditure of budget heads

Finding and Analysis

The audit conducted an analysis of expenditures against approved budget figures and noted significant overspending in some of the budget categories for the year 2020, 2021 and 2022 which amounted to $193,438.14, $236,338.23 and $45,104.98 respectively.

The Kaupule has exceeded spending on certain budget allocations beyond the amounts approved by the Falekaupule. This action was not in compliance with the requirement outlined in the Falekaupule guidelines section 3.9 which states that, in cases where there is a specific and necessary need for the Kaupule, and if there is no provision or insufficient provision in the budget for such need, the Pule o Kaupule may submit an application for a supplementary appropriation to the Pule Fenua. This application would then be considered and approved by the Falekaupule.

Implication

- This suggests that there might be financial mismanagement within the Kaupule, as expenditures have exceeded the approved budget figures. This could lead to budgetary shortfalls, potential deficits, and a strain on the organization's financial health.

- The lack of adherence to the budgetary constraints set by the Falekaupule could raise concerns about the Kaupule's ability to responsibly manage its finances and make informed decisions regarding resource allocation.

- The fact that the Kaupule overspent without seeking proper approval through the appropriate channels suggests a lack of proper oversight and control mechanisms. This could result in unchecked spending, potential waste of resources, and difficulties in maintaining financial discipline.

Recommendation

- Establish clear guidelines for seeking approval for supplementary appropriations when necessary, as outlined in section 3.9 of the Falekaupule guidelines.

- Ensure that all staff members understand the budgeting process, the importance of adhering to guidelines, and the consequences of overspending.

- Implement a robust budget oversight mechanism that ensures expenditures are in line with approved budget figures.

Management Comment

Unresolved disagreement

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

Appendix 1

Types of Audit Opinions

The following are the types of audit opinions issued by the Tuvalu Audit Office:

- Unqualified: In our opinion the financial statements present a true and fair view.
- Qualified except for: In our opinion except for the matters noted in the qualification paragraph the financial statements present a true and fair view.
- Qualified adverse: In our opinion the financial statements do not present a true and fair view.
- Qualified disclaimer (inability): We are unable to form an opinion whether the financial statements present a true and fair view. Also known as an Inability to form an audit opinion.