

FINANCIAL MANAGEMENT ASSESSMENT

A. Objective and Purpose

1. ADB conducted an update of the financial management assessment (FMA) for the TUV: Outer Island Maritime Infrastructure Project on xx April 2018. The FMA was prepared in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects and the publication Financial Due Diligence: A Methodology Note. The FMA included review of the accounting and reporting system, internal and external auditing arrangements, fund disbursement procedures, and information systems. The instrument used for the assessment was ADB financial management assessment questionnaire. financial planning, accounting, reporting, auditing, funding and organization. As the Executing Agency and Implementing Agency, EA/IA, respectively the Ministry of Finance and Economic Development (MFED) and the Ministry of Communications and Transport (MCT), should plan, develop and maintain financial management systems that can provide timely and reliable information for monitoring of the proposed project, towards agreed objectives.

2. The FMA was carried out in accordance with ADB guidelines¹. The FMA consisted of (i) through interviews with key staff of MFED and MCT; (ii) evaluating the organizational structure, personnel, accounting policies and procedures, internal and external auditing, financial reporting and budgeting with the assistance of responses to the FMAQ and other documents; (iii) identification of potential risks and mitigation measures.

B. The public finance environment in Tuvalu

3. Statutory provisions relating to public finance are enshrined in Part IX of the Constitution which gives the Parliament control over public finance in a number of ways such as approval of the annual budget and appropriations including supplementary budgets and supplementary appropriations, tabling of audited accounts of the government and public enterprises, deliberations through the Public Accounts Committee and questions raised on the floor of the Parliament. The creation of the Office and remuneration of the Auditor General (AG) are also provided for in the Constitution which therefore guarantees the independence of the position. The Public Finance Act lays down the responsibilities, rules and regulations relating to the Minister of Finance, operation of the Consolidated Fund (CF) and other public funds, management of deposits, powers of the AG and audit of public accounts. Pertinent provisions include (i) the appointment of an Accounting Officer for each expenditure head of the budget who is personally accountable for the monies collected/received and disbursed; (ii). Creation of a Development Fund separate from CF as a repository for bi-lateral aid to operate in accordance with rules and regulations under the Public Finance Act; (iii) the Tuvalu whole of government accounts (TWOG) to be submitted to AG within six months of the financial year end and to include a statement of assets and liabilities in addition to statement of receipts and payments, comparison of actual and estimated revenue and expenditure; (iv) statements of funds, deposits and public debt; (v) AG is required present the audited financial statement to Parliament within nine months of the end of the financial year (vi) the AG shall be the auditor of every public body set up by an Act of Parliament.

¹ Financial Management and Analysis of Projects, 2005, Financial Management Technical Guidance Note 2015, Financial Due Diligence, A Methodology Note, 2009

4. **Public Financial Management (PFM) initiatives.** PFM is the legal framework and institutions (laws, processes, procedures, entities and systems) to prepare, plan, execute and control the national budget. The latest PFM assessment was carried out by Public Expenditure and Financial Accountability (PEFA)² in June 2011. PEFA is methodology for assessing public financial management performance. The reviews are carried out by the PEFA Secretariat, which is part of the World Bank. The PEFA program is managed by seven international development partners; World Bank, IMF, European Commission and the governments of France, Norway, Switzerland and the U.K. The assessment concludes that (i) *Credibility of the budget*. The budget formulation process is satisfactory with a meaningful classification system and clear budget calendar. However, there have been instances of the lack of expenditure restraint and over use of supplementary budgets; (ii). *Comprehensiveness and transparency*. The budget classification used is consistent with IMF Government Finance Statistics (GFS) and is comprehensive and informative although greater dissemination of information to the public is encouraged; (iii). *Multi-year budgeting*. The Medium Term Fiscal Framework (MTFF) provides estimates of future budget aggregates; (iv) *Predictability and control in budget execution*. Release of budget through the warrant system is effective and so is the payroll. However, revenue collection and procurement needs improvement; (v). *Accounting, recording and reporting*. Reconciliation delays in bank and vote ledgers and in submission of the government financial statements for audit within the statutory period of six months; (vii) *External scrutiny and audit*. AG's audit report has been of time and the Public Accounts Committee (PAC) plays an active role in scrutiny. Lack of internal audit a weakness³. In addition, a number of AG's recommendations remain outstanding.

5. IMF Article IV consultation was conducted with the Government of Tuvalu in October 2016 and concluded in relation to PFM that further improvements to PFM were needed especially in the area of capital budgeting.

6. The PFM findings need to be considered in the context of the scale of PFM in Tuvalu which is very small and therefore it may not be feasible to adopt best practices used in larger administrations. In addition, systems are heavily reliant on one or two key people, which is difficult to sustain since they may migrate or leave to pursue higher studies. The scale and in-country resources make it difficult to ensure segregation of duties for all finance/accounting relating tasks.

7. **Accounting Standards.** The TWOG financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS).

C. FMA for Ministry of Finance and Economic Development (MFED)

8. **Brief description of MFED.** MFED is a ministry of the Government of Tuvalu. It is headed by the Minister and reporting to him is a Permanent Secretary, Senior Assistant Secretary and Assistant Secretary, the total staff strength of MFED is 75. There are seven divisions or departments reporting to the Minister through the secretaries; planning and budgeting (14), treasury/government accountant (19), statistics (5), customs (11), inland

² Under the PEFA framework, performance is assessed in relation to seven dimensions of public financial management: credibility of the budget; comprehensiveness and transparency; degree to which the budget is prepared with due regard to government policy; predictability and control in budget execution; accounting, recording and reporting; external scrutiny and audit operations; appropriateness of development partner practices in country; and intergovernmental fiscal relationships.

³ Internal audit department established in 2017

revenue (9), department of industries (5) and public enterprise, reform and monitoring (2). The finance/treasury division is headed by the Government Accountant and there are three subdivisions, one for payment processing of TWOG, another for preparation of financial statements and another for payment of the payroll. All TWOG payments are centralized through MFED treasury division including the payroll.

9. **Experience with ADB projects.** MCT is the EA for ongoing ADB financed Outer Island Maritime Infrastructure Project (OIMIP). OIMIP has established a separate project management unit (PMU) which is responsible for project implementation. In addition, MFED is the EA for the ongoing Aviation Sector Improvement Program of the World Bank.

10. **Financial reporting.** MFED's financial operations are reported using the TWOG financial statement which is based on International Public Sector Accounting Standards (IPSAS) and on a modified accrual basis. All ministries prepare financial statements on a cash basis which is consolidated by MFED, also on a cash basis. MFED then recognises fixed assets through an adjustment to equity. Accounts receivable (from revenues from taxation, fisheries licenses and customs) is also adjusted for by MFED. TWOG statements include those of public enterprises. MFED uses ACCPAC software for its financial management information system (FMIS) to prepare the TWOG. ACCPAC is only used at the Treasury division of MFED for consolidation of results of TWOG and not at any of the user ministries/departments which continue to use manual Votes Ledger (on MS Excel) to record actual expenditure against budgeted expenditure. These expenditures are then re-entered into ACCPAC at Treasury for the purpose of TWOG. Once this is done, an attempt is made to convert the hitherto transactions on a cash basis to accrual basis by incorporating fixed assets accounts receivable and payables through journal entries. Whilst this approach is error-prone and time consuming, it is against the spirit of double entry accounting where single entry transactions are converted in this manner. Nevertheless, it is the step in the right direction to prepare financial statements on a fully accrual basis, which many larger administrations even do not. This also requires substantial training for MFED and TWOG accounting staff in the mechanics of double entry accounting. MFED plans to move towards a system where ACCPAC is installed in all ministries so that transactions need to be entered once only.

11. **Budgeting.** As a government department, MFED forms part of the Government of Tuvalu (GoT) budget. MFED takes the lead in the preparation of the budget preparation according to a well established schedule working towards the approval of the budget in Parliament in November each year and MCT provides its own inputs. The budget includes actual expenditure, both recurrent and non-recurrent for the budget year, forecast for the previous year, actual for the year prior to the immediately previous year and projections for two years into the future. It also provides a commentary of the major activities and achievements.

12. **Auditing.** In 2017, GoT established an Internal Audit Division at MFED with one full time staff following recommendations from the Auditor General (AG) and the PEFA review. A 5-member Audit Committee was also established to meet quarterly and the first meeting has taken place. This is a very significant step in the right direction. With the assistance of a short-term technical assistance, an annual audit program and risk matrix has been prepared and an audit issues register opened. The division needs additional staffing and more importantly capacity building in order to function effectively. The objective of internal audit is to provide assurance of internal controls and compliance with policies and procedures of GoT.

13. GoT's external auditor is the Tuvalu Supreme Audit Institution (SAI). The last audit report issued by Auditor General (AG) was for the financial year 2016 which is in compliance with the

timing for submission of TWOG statements under the Public Finance Act. The establishment and independence of the AG is granted under the Constitution of Tuvalu, (Part IX: Finance) and the Audit Act provides an annual appropriation of up to 0.6% of total appropriation of GoT to the AG's office. GoT prepares and presents a TWOG financial statement in accordance with International Public Sector Accounting Standards (IPSAS). The AG has issued a disclaimer of opinion for TWOG financial statements for 2016 on the basis of limitations of scope resulting primarily from (i) valuation, completeness and existence of the Property, Plant and Equipment; (ii) non consolidation of certain public enterprises; (iii) lack of evidence to support account receivables; (iv) non-inclusion of inventory. All of the above limitations, with the exclusion of item (ii) relate to the fact that TWOG is done on a cash basis, although certain accounting entries are passed at the year-end to enable it to be considered as accruals basis. Furthermore, on the issue of property, plant and equipment, MFED maintains a fixed asset register (FAR) off-system on Microsoft Excel spreadsheets and they are in the process of uploading this information to the fixed asset module of ACCPAC with vendor support. Staff need thorough training when preparing financial statements on the accruals basis of accounting and it must be done at each user unit – it cannot be done through year end accounting adjustments. The non-consolidation of certain public sector institutions due to non-availability of financial statements, i.e. NAFICOT, TPL and TMTI⁴ present a significant shortcoming since especially NAFICOT is likely to have relatively large assets and liabilities and therefore impact on TWOG may be significant.

D. MCT Financial Management Assessment

14. **Brief description of MCT.** MCT is a ministry of the Government of Tuvalu. It is headed by the Minister and reporting to him is a Permanent Secretary, Senior Assistant Secretary and Assistant Secretary, the total staff strength of MCT is 98. There are four divisions or departments reporting to the Minister; the largest is Marine and Port Services employing 60, followed by civil aviation (11), meteorological services (14) and information technology (8). The finance division is headed by a High Executive Officer (HEO) and Executive Officer (EO) who have responsibility for executing the budget, through expending approved warrants. No actual expenditure takes place within the division, which simply facilitates payments through the approval and preparation of payment vouchers and supporting documents. All payments are centralized within the Treasury Division of the MFED.

15. **Experience with ADB projects.** MCT is the EA for ongoing ADB financed Outer Island Maritime Infrastructure Project (OIMIP). OIMIP has established a separate project management unit (PMO) which is responsible for project implementation. In addition, MCT is the IA for the ongoing Aviation Sector Improvement Program of the World Bank. The PMU for OIMIP was established in 2016 and financial statements up to the end of 2017 have been prepared and have been submitted for audit to the AG. The proposed project will rely on direct payment procedures for the large civil contracts and re-imbusement procedures for small local expenditure at the PMU – imprest account procedures will not be used. The PMU is staffed with a full time accountant who has been trained on ADB procedures.

16. **Financial reporting.** Financial reporting at MCT is through a financial statement comprising of budget to cumulative expenditure and remaining funds under each expenditure head. The details of expenditure per account head, or Vote Ledger, is maintained on a MS

⁴ National Fishing Corporation of Tuvalu (NAFICOT), Tuvalu Post Limited (TPL) and Tuvalu Maritime Training Institute (TMTI)

Excel spreadsheet, with each payment voucher recorded on a separate worksheet and added to the relevant Vote Ledger. There are no payments, either by cash or cheque, being carried out by MCT since payments are centralized at the Treasury division of MFED and payroll also centralized at MFED. MCT staff generates payment vouchers, have them approved and transmitted to the Treasury Division for payment. Every month, the finance staff reconciles the Vote Ledger with the Treasury Department to ensure the balances remaining on each vote is correct. The financial year is the calendar year.

17. **Budgeting.** As a government department, MCT is allocated part of the GoT budget. MFED takes the lead in the budget preparation according to a well established schedule working towards the approval of the budget in Parliament in November each year and MCT provides their own inputs. The budget includes actual expenditure, both recurrent and non-recurrent for the budget year, forecast for the previous year, actual for the year prior to the immediately previous year and projections for two years into the future. It also provides a commentary of the major activities and achievements.

18. **Auditing.** MCT is not audited separately but is part of the TWOG financial statements. See under MFED above as well. Separate project accounts would need to be set up and audited annually during project implementation as is indeed the case for the ongoing Outer Island Maritime Infrastructure Project.

19. **Financial management risk assessment.** A financial management internal control and risk management assessment, largely based on the International Standard on Auditing 400: Risk Assessment and Internal Control, was carried out during the FMA. The results including the risk mitigation measures are summarized in Table 1.

Table 1. Financial Management, Internal Control, and Risk Management Assessment

Risk Type	Risk Assessment Rating	Risk Description	Mitigation Measures
A. Inherent Risk (the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment (assuming absence of any counter checks or internal controls)).			
1. Country-specific Risks	Moderate	PEFA report identifies risks associated with segregation of duties, FMIS implementation, regular reconciliations to facilitate good internal control and lack of internal audit as key challenges to improve PFM.	Subsequent to the PEFA, GoT has established an internal audit unit, which however needs further capacity building and staff. TWOG accounts have been disclaimed by AG due to several reasons but AG has noted improvements with time. Most of these reasons relate to adjustments to convert cash basis TWOG statements to accrual basis at the year end.
2. Entity-specific Risks	Low	Government ministries under a centralized payment system. Project managed by separate PMU.	

	Low	Entity financial statements submitted to audit on a timely manner	
3. Project-specific Risks	Low	Relatively straightforward turnkey project with single contractor	
Overall Inherent Risk	Low		
B. Control Risk (the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported).			
1. Implementing Entity	Low	EA/IA has ongoing ADB project and World Bank project and has an established PMU which is well versed in ADB procedures.	Need to ensure that the PMU is adequately staffed with the growing scope of responsibilities with the approval of additional financing.
2. Funds Flow	Low	The majority of funds will not flow to EA/IA/PMU but be directly paid to contractor by ADB. Small amount of funds under re-imbursement procedure mainly for PMU recurrent expenditure.	The reimbursement procedure must require complete documentation.
3. Staffing	Low	Well qualified and experienced staff in both technical areas and finance	The PMU has two full time staff, ; a Project Manager with a technical background and a Project Accountant with training on ADB procedures.
4. Accounting Policies and Procedures	Moderate	Entity financials according to International Public Sector Accounting Standards (IPSAS) and so are project financial statements	Capacity building of TWOG accounting staff is needed to move on to accrual basis and satisfy the requirements of the AG
5. Internal Audit	Moderate	Separate unit recently established with one staff still in the process of being trained. Audit committee established.	Further capacity building and additional staff required for the internal audit division. Still in the early stages. Additional staff to be recruited before the start of the additional financing.
6. External Audit	Moderate	Financial statements audited in a timely manner but disclaimer of opinion issued.	Disclaimer relates to procedures for migration from cash based accounting to accrual accounting in terms of assets, receivables and payables. Nevertheless, AG notes improvements from FY2014-FY2016
7. Reporting and Monitoring	Moderate	Some reconciliation of past account balances, non - consolidation of certain public enterprise	All accounts must be reconciled before the start of the project and regularly thereafter. Financial statements for some public enterprises must be identified and submitted for audit.

8. Information systems	High	ACCPAC system in operation with vendor support, however all modules are not used such as fixed assets. There is a risk that some assets are not accounted for and will not be appropriately maintained.	ACCPAC must be introduced to all users so that transactions are entered only once. Starting the next fiscal/calendar year, discontinue use of Excel spreadsheets for asset management and use the fixed asset module in ACCPACC instead. Training in ACCPAC needed for all accounting officers
Overall Control Risk	Moderate		

* H = High; M = Moderate; L = Low or Negligible.

Annex A : FMA MFED

Topic	Response	Potential Risk Event
1. Executing / Implementing Agency		
1.1 What is the entity's legal status / registration?	Government ministry	
1.2 How much equity (shareholding) is owned by the Government?	Not applicable	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ⁵	Not applicable	
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes, currently the EA for the ADB Outer-island Maritime Project as well as the World Bank aviation project.	Low Risk. EA has sufficient experience with donors
1.5 Briefly describe the statutory reporting requirements for the entity.	Financial reporting monthly through whole of government (TWOG) budget versus actual expenditure and remaining expenditure on each vote ledger. In addition, TWOG financial statements are audited by the Auditor General (AG), presented to the Public Accounts Committee and tabled in Parliament.	Low Risk 2017 TWOG submitted for audit and tabled in Parliament on time
1.6 Describe the regulatory or supervisory agency of the entity.	Parliament and the Public Accounts Committee	
1.7 What is the governing body for the project? Is the governing body for the project independent ?	Governing body is MCT as the IA and MFED as the EA.	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Headed by the Minister, with Permanent Secretary, Senior Assistant Secretary and Assistant Secretary as top officials. Separate sections for planning and budgeting, statistics, customs, government accountant, inland revenue, industries and public enterprise reform and monitoring.	
1.9 Does the entity have a Code of Ethics in place?	Yes. As a government ministry subject to Administrative Orders and	

⁵ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Potential Risk Event
	violations reported to the Public Services Committee	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	No	
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	<p>MFED is the EA and MCT is the IA. Turnkey contracts will be under direct payment by ADB. PMU expenses and salaries will be under the re-impbursement method. No Imprest account is maintained.</p> <p>MCT must submit to MFED a request for a warrant for the project. MFED issues a warrant and MCT can spent up to that limit by the use of Purchase Orders. MFED issues cheques to suppliers on receipt of signed purchase orders 2 signatories to spend money (i) MCT and (ii) MFED</p>	Low Risk. Large project payments through ADB direct payment procedures direct to contractor/supplier
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes.	
2.3 Are the disbursement methods appropriate?	Ongoing experience with disbursements under OIMIP has deemed this method appropriate.	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	No. However, the previous ADB project, Tuvalu Maritime Training Project was deemed "partly successful" due to protracted delays and poor quality of work.	
2.5 In which bank will the Imprest Account (if applicable) be established?	Not applicable	

Topic	Response	Potential Risk Event
2.6 Is the bank in which the imprest account is established capable of- <ul style="list-style-type: none"> • Executing foreign and local currency transactions? • Issuing and administering letters of credit (LC) • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 	Not applicable	
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	Not applicable	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes, staff currently implementing OIMIP. Staff trained in ADB procedures and preparation of financial statements.	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Not applicable	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	No	
2.11 How are the counterpart funds accessed?	Through government budget	
2.12 How are payments made from the counterpart funds?	Counterpart funding will be included in the government budget. Once budget allocation available, MFED issues a warrant against which payments can be made. MCT then issues payment vouchers to expend the warrant for project expenses authorized by Secretary.	
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	No	

Topic	Response	Potential Risk Event
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	No	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Headed by Government Accountant has three sub-teams for one for consolidation and preparation of financial statements, another for payment of the payroll and another for the liaising with Ministries to consolidate the votes ledgers.	Medium Risk. All payments centralized at treasury division. Although segregation of duties difficult all payments have been initiated and approved by other ministries, so there is some segregation in reality. Entering of each transaction twice over inefficient.
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	No additional staff since PMU currently operating.	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	The project is staffed by a full time accountant with a degree in accounting from USP and trained in ADB procedures at its office in Fiji	Low Risk. Little risk since the officer is well trained. Only risk is in the event of resignation.
3.4 Is the project finance and accounting function staffed adequately?	Yes	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes.	
3.7 What is the duration of the contract with the project finance and accounting staff?	Contracted for one year and renewable	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	No	
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	Not applicable	

Topic	Response	Potential Risk Event
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	The general civil service rule for transfers every two years does not apply to key staff at MFED.	Low Risk.
3.12 What is training policy for the finance and accounting staff?	Policy for government in general is to provide a Scholarship program on long term training / Public and Private No internal or formal on-the-job training courses In-service training Dip in Business management sponsored by NZ GOV - Only one course. Currently one staff on scholarship	High Risk: Losing well qualified and capable staff because of no career progression through formal capacity enhancement
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	2015 ACCPAC training	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Although MFED uses an accounting system computerized on ACCPAC expenditure has to be keyed in manually once again from the votes ledgers and from revenue generating activities manually. There will be a separate accounting system for PMU.	Medium Risk Use of manual entry twice, once into Excel at ministry level and second time by MFED into ACCPAC. Use of Excel spreadsheets for fixed assets register instead of through ACCPAC fixed asset module error prone and time
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	The Ministry First Secretary (MCT) must always authorize transactions. When the First Secretary is away he/she writes to Permanent Secretary Finance appointing a substitute (usually the 2 nd Secretary). The authorization includes the amount and calculations and review of	Low Risk: Treasury are usually very good at requiring authorization before release of warrants. Confirmed by AG's reports

Topic	Response	Potential Risk Event
	<p>supporting documents.</p> <p>For amounts greater than \$500 then the modality for purchase is under the Procurement Unit for the government reporting to MFED</p>	
<p>4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.</p>	YES	<p>Low Risk: The classifications provide a comprehensive coverage of MFED activity.</p>
<p>4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?</p>	Yes	
<p>4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?</p>	<p>Yes – reconciliations are completed monthly Actions are made immediately and changes made</p>	<p>Low Risk: AG confirms monthly reconciliations</p>
<p>4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g, ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?</p>	<p>Accounting records are kept for 5-years.</p> <p>However, for project closing they are kept for 5-years after close</p> <p>Project records and kept in a separate filing system</p>	<p>Low Risk: The system meets and exceeds ADB requirements</p>
<p>4.7 Describe any previous audit findings that have not been addressed.</p>	<p>Audit report is for TWOG and are submitted to the 1st Secretary then he convenes a meeting of all Directors and Vote Keepers to go through the report together and address issues raise.</p>	<p>Medium Risk: AG has pointed out issues in asset accounting and asset valuations and also in account receivables. See main report.</p>
Segregation of Duties		
<p>4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?</p>	<p>(i) Secretary Only or the substitute are the only ones authorized to execute transactions (ii) HEO records transactions on the computerized system (iii) Technical Managers have custody of</p>	<p>Low Risk: Although the accounting section is too small to expect proper segregation of duties, there are no cash transactions or payments being done. Therefore this aspect of</p>

Topic	Response	Potential Risk Event
	assets and vote keepers record their possession Reconciliations done by HEO and EO	internal control is less important.
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	There is a threshold of \$500 for spending limits in the Ministry. Anything above this threshold need to go through the Procurement Unit housed in the MFED. Purchase order (PO) by MFED and payment after	Low Risk: MFED staffed well
Budgeting System		
4.10 Do budgets include physical and financial targets?	YES	Low Risk: We have a copy of the budget and performance targets – financial and physical
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	YES	Low Risk
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	YES	Low Risk: Every month financial reports are produced on revenue and spending budgets v actual Quarterly – submit to Cabinet
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance	Medium Risk: The policy is correct however according to AG report and interview there are instances whereby this is shortcut.
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No Ceiling Virement system approved in advance of payment	Low Risk: Policy is correct
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Budget is prepared by the Director Planning and Budget finance using inputs from other divisions. Approval by Board and Ministry of Public Enterprises including oversight.	
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	1. July – November Expenditure ceiling – approval from Cabinet	Low Risk: Budget cycle is well used in Tuvalu government

Topic	Response	Potential Risk Event
	Circular to all ministries confirmation with envelope for each ministry – time line 2. August budget rounds 3. Consolidated budget to Cabinet 4. To Parliament November/Dec	
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals? Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds? Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects? What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?	Minister of finance approval required for \$750,000 above budget for whole of government	
Payments		
4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?	Yes	
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Treasury prepare and then Payroll Committee check before submitting to National Bank Treasury / HRM	Low Risk

Topic	Response	Potential Risk Event
Policies And Procedures		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	IPSAS modified accruals basis	Low Risk
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	International Public Sector Accounting Standards (IPSAS)	Low Risk Confirmed in PEFA
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes there are Financial Instructions issued (and revised) under the Public Finance Act	Low Risk
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes see above	Low Risk:
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Only Permanent Secretary can issue circulars	Low Risk
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	Low Risk
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	Low Risk
4.28 Are manuals distributed to appropriate personnel?	Yes	Low Risk
4.29 Describe how compliance with policies and procedures are verified and monitored.	Director of each department and external audit	Low Risk
Cash and Bank		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Permanent Secretary, Senior Assistant Secretary, Assistant Secretary and Government Accountant	
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Computerised system	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Wharf receipts banked weekly and reconciliations done with receipt books	
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes on a monthly basis Yes, on a daily basis	
4.34 Are all reconciling items approved and recorded?	YES	

Topic	Response	Potential Risk Event
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	YES	
4.36 Are there any persistent/non-moving reconciling items?	No.	Low Risk: Outstanding items in the Tuvalu Development Fund have been reconciled.
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	Not applicable	
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	All assets tagged and recorded in fixed assets register (FAR). Annual verification	Medium Risk: The AG has commented in the Management Letter on the asset verification procedure and the procedure where assets are accounted for at the year-end only through a Journal entry.
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes. Will upload to ACCPAC fixed asset module soon	Medium Risk: The FAR is maintained off-system on MS Excel which is likely to be time consuming to maintain and error prone.
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	YES	Medium Risk: Refer AG's report
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	YES	Medium Risk: Refer AG's report
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	YES	Medium Risk: Refer AG's report
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	YES	Medium Risk: Refer AG's report

Topic	Response	Potential Risk Event
4.46 Are assets sufficiently covered by insurance policies?	No	The government does not insure assets
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	In Financial Instructions and the Public Tenders Board Regulations	Medium Risk: Refer AG's report
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	Not applicable	
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	Not applicable	
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Not applicable	
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Not applicable	
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Not applicable	
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	None	
Contract Management and Accounting		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Not at the EA level but at PMU.	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
Other		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Reporting fraud and corruption is historically done through the Attorney General Police and now the Ombudsman who has now been in place for 2-	Medium Risk: The Ombudsman is a new concept to Tuvalu and it will take some time for the citizens to trust this modality.

Topic	Response	Potential Risk Event
	years	
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	Internal audit division established with one staff in early 2017. Some capacity building done on a TA but more needed	Low Risk. Based on AG reports and PEFA reports, the Division is now Established but further Capacity development Needed
5.2 What are the qualifications and experience of the IA staff?	One staff – accounting and commerce Bachelors from USP but no experience in internal audit	Medium Risk. Capacity building over a period of time needed and additional staff
5.3 To whom does the head of the internal audit report?	Secretary of Finance MFED	
5.4 Will the internal audit department include the project in its annual work program?	Not yet. Starting to develop audit program	
5.5 Are actions taken on the internal audit findings?	No audit work done as yet	
5.6 What is the scope of the internal audit program? How was it developed?	Just been developed	
5.7 Is the IA department independent?	Yes	
5.8 Do they perform pre-audit of transactions?	No but will do	
5.9 Who approves the internal audit program?	Secretary	
5.10 What standards guide the internal audit program?	International auditing standards	
5.11 How are audit deficiencies tracked?	Will be done	
5.12 How long have the internal audit staff members been with the organization?	One year	
5.13 Does any of the internal audit staff have an IT background?	No	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Quarterly	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Not yet	
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e.,	No	

Topic	Response	Potential Risk Event
LDH)?		
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Office of the Auditor-General Tuvalu.	Low Risk
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Within statutory timeframe. 9 months after the end of the financial year.	Low Risk
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes.	Low Risk
6.4 Were there any major accountability issues noted in the audit report for the past three years?	Yes.	Low Risk: Mentioned in the main report
6.5 Does the external auditor meet with the audit committee without the presence of management?	Yes. Public Accounts Committee which consists of members of Parliament, who are not in the executive.	Low Risk
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.	Low Risk
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	Yes.	Medium Risk: See the current report
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	Low Risk
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No.	Low Risk
External Audit – project level		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Entity auditor.	Low Risk
6.11 Are there any recommendations made by the auditors in prior project audit reports or	No.	Low Risk

Topic	Response	Potential Risk Event
management letters that have not yet been implemented?		
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes.	Low Risk
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes. Pending. Model audit report useful, audit standards and scope. Cash basis accounting.	Low Risk
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	Audit report not issued yet.	
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
6.17 [For second or subsequent projects] Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	Not applicable	
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the entity?	Yes	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Monthly, half yearly and annually	
7.4 Does the entity reporting system need to be adapted for project reporting?	No	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	
7.6 Are financial management reports used by management?	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	

Topic	Response	Potential Risk Event
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Prepared directly using ACCPAC system.	Medium Risk. FAR still on Excel.
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	At the PMU, yes.	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes, ongoing World Bank projects	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	Yes	Low Risk.
8.2 If computerized, is the software off-the-shelf, or customized?	Off the shelf ACCPAC software	Low Risk.
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	No, Only at MFED	Medium Risk. Other Ministries use manual Excel worksheets
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Project financial data separate from this system	Low Risk
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Yes	Low Risk
8.6 Can the system automatically produce the necessary project financial reports?	Yes	Low Risk
8.7 Is the staff adequately trained to maintain the computerized system?	Yes, Including online support from New Zealand	Low Risk
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	Low Risk
8.9 Are there back-up procedures in place?	Yes	Low Risk
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, and earthquake and calamity protection for backups.	Separate server for ACCPAC and also a dropbox	Medium Risk Offsite back up through hard drive etc needed

Annex A : FMA MCT

Topic	Response	Potential Risk Event
1. Executing / Implementing Agency		
1.1 What is the entity's legal status / registration?	Government ministry	
1.2 How much equity (shareholding) is owned by the Government?	Not applicable	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ⁶	Not applicable	
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Implementing the ADB Outer Island Maritime Infrastructure Project since 2016, construction soon to start. ADB 32407-Tuvalu: Maritime Training Project 2004 to 2011	Low Risk. PMU already in place for current project
1.5 Briefly describe the statutory reporting requirements for the entity.	Financial reporting through budget versus actual expenditure and remaining budget to MCT and MFED Monthly reconciliation with between MCT and MFED of above to adjust for any differences of exchange rates for overseas payments and any errors in processing	Low Risk since no cash / cheques handled at MCT
1.6 Describe the regulatory or supervisory agency of the entity.	Minster and Parliament	
1.7 What is the governing body for the project? Is the governing body for the project independent ?	Governing body is MCT as the IA and MFEA as the EA.	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Yes.	
1.9 Does the entity have a Code of Ethics in place?	Yes. As a government ministry subject to Administrative Orders and violations reported to the Public Services Committee	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and	No	

⁶ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Potential Risk Event
management. How were they addressed?		
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	<p>MFED is the EA and MCT is the IA. Turnkey contracts will be under direct payment by ADB. PMU expenses and salaries will be under the re-imbursement method. No Imprest account is maintained.</p> <p>MCT must submit to MFED a request for a warrant for the project. MFED issues a warrant and MCT can spend up to that limit by the use of Purchase Orders. MFED issues cheques to suppliers on receipt of signed purchase orders 2 signatories to spend money (i) MCT and (ii) MFED</p>	Low risk since no funds managed at MCT
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Not applicable to MCT	
2.3 Are the disbursement methods appropriate?	Ongoing experience with disbursements under OIMIP has deemed this method appropriate.	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	No. However, the previous ADB project, Tuvalu Maritime Training Project was deemed "partly successful" due to protracted delays and poor quality of work.	
2.5 In which bank will the Imprest Account (if applicable) be established?	Not applicable	
2.6 Is the bank in which the imprest account is established capable of- <ul style="list-style-type: none"> • Executing foreign and local currency transactions? 	Not applicable	

Topic	Response	Potential Risk Event
<ul style="list-style-type: none"> • Issuing and administering letters of credit (LC) • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 		
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	Not applicable	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes, staff currently implementing OIMIP. Staff trained in ADB procedures and preparation of financial statements.	Low Risk.
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Not applicable	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	No	
2.11 How are the counterpart funds accessed?	Through government budget	
2.12 How are payments made from the counterpart funds?	Counterpart funding will be included in the government budget. Once budget allocation available, MFED issues a warrant against which payments can be made. MCT then issues payment vouchers to expend the warrant for project expenses authorized by Secretary.	Low Risk. Well established procedure
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	No	

Topic	Response	Potential Risk Event
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	No	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	MCT finance division is headed by a Higher Executive Officer (HEO) and an Executive Officer (EO).	Low risk Segregation of duties is difficult due to the unit being so small. However no funds pass through MCT therefore low risk.
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	No additional staff since PMU currently operating.	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	The project is staffed by a full time accountant with a degree in accounting from USP and trained in ADB procedures at its office in Fiji	Low risk Little risk since the officer is well trained. Only risk is in the event of resignation.
3.4 Is the project finance and accounting function staffed adequately?	Yes	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes.	
3.7 What is the duration of the contract with the project finance and accounting staff?	Contracted for one year and renewable	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	No	
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	Not applicable	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	The Public Service Commission ensure that permanent staff are	High Risk: No institutional memory

Topic	Response	Potential Risk Event
	reshuffled every 2-years.	
3.12 What is training policy for the finance and accounting staff?	<p>Policy for government in general is to provide a Scholarship program on long term training / Public and Private</p> <p>No internal or formal on-the-job training courses</p> <p>In-service training Dip in Business management sponsored by NZ GOV - Only one course</p> <p>For finance staff, cost of relevant USP courses passed can be re-imbursed.</p>	High Risk: Losing well qualified and capable staff because of no career progression through formal capacity enhancement
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	2011 only	High Risk: No formal training given
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	<p>Although MFED uses and accounting system computerized on ACCPAC system MCT does not use any such system but MS Excel spreadsheets to record the warrant, payment vouchers and balance on the warrant. Common Chart of Account used. Manually reconciled with MFED record of actual payment on a monthly basis.</p> <p>There will be a separate accounting system for PMU.</p>	Medium Risk Use of Excel spreadsheets error prone and time consuming but monthly reconciliation with MFED eliminates errors.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	<p>The Ministry First Secretary (MCT) must always authorize transactions. When the First Secretary is away he/she writes to Permanent Secretary Finance appointing a substitute (usually the 2nd Secretary).</p> <p>The authorization includes</p>	Low Risk: System functions well furthermore low risk at MCT since funds not handled

Topic	Response	Potential Risk Event
	the amount and calculations and review of supporting documents.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes, uniform Chart of Accounts for entire government operation	Low Risk: The classifications provide a comprehensive coverage of MCT activity.
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Not applicable for MCT since no General Ledger and subsidiary ledgers maintained	Low Risk:
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g, ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Accounting records are kept for 5-years. However, for project closing they are kept for 5-years after close Project records and kept in a separate filing system	Low Risk:
4.7 Describe any previous audit findings that have not been addressed.	Not applicable for MCT. MFED prepares the whole of government accounts which are subject to audit	
Segregation of Duties		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	(iv) Secretary Only or the substitute are the only ones authorized to execute transactions (v) HEO records transactions (payment vouchers) on MS Excel spreadsheet (vi) Technical Managers have custody of assets and vote keepers record their possession (vii) Reconciliations done by HEO / EO and MFED	Low Risk: Although the accounting section is too small to expect proper segregation of duties, there is no cash handled, only the paper trail of approved vouchers.
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, Purchase Orders needs approval for above \$500 and need to go	Low Risk

Topic	Response	Potential Risk Event
	through the Procurement Unit housed in the MFED.	
Budgeting System		
4.10 Do budgets include physical and financial targets?	Yes	Low Risk: Budget presentation is detailed and comprehensive
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes	Low Risk
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes. Monthly	Low Risk: Every month financial reports are produced on revenue and spending budgets v actual Quarterly – submit to Cabinet
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance	Medium Risk: The policy is correct. However, there are considerable virements and supplementary
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No Ceiling Virement system approved in advance of payment	Low Risk: Policy is correct
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Budget is prepared by the Director Planning and Budget finance using inputs from other divisions. Approval by Board and Ministry of Public Enterprises including oversight.	
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	1. July – November Expenditure ceiling – approval from Cabinet Circular to all ministries confirmation with envelope for each ministry – time line 2. August budget rounds 3. Consolidated budget to Cabinet 4. To Parliament November/Dec	Low Risk: Budget cycle is known and used by Tuvalu government

Topic	Response	Potential Risk Event
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Minister of finance approval required for \$750,000 above budget for whole of government</p>	
Payments		
<p>4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	<p>Yes</p>	
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	<p>Yes</p>	
<p>4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?</p>	<p>Centralized payroll – not applicable to MCT</p>	<p>Low Risk</p>
Policies And Procedures		
<p>4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?</p>	<p>Cash</p>	
<p>4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?</p>	<p>Not applicable to MCT</p>	

Topic	Response	Potential Risk Event
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes	
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Only Permanent Secretary can issue circulars	Low Risk
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes. Financial instructions available	Low Risk
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	Low Risk
4.28 Are manuals distributed to appropriate personnel?	Yes	Low Risk
4.29 Describe how compliance with policies and procedures are verified and monitored.	Head of MCT	Low Risk
Cash and Bank		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Not applicable to MCT	
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Not applicable to MCT	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Not applicable to MCT	
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Not applicable to MCT	
4.34 Are all reconciling items approved and recorded?	Not applicable to MCT	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Not applicable to MCT	
4.36 Are there any persistent/non-moving reconciling items?	Not applicable to MCT	
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Not applicable to MCT	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	Not applicable to MCT	

Topic	Response	Potential Risk Event
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	Not applicable to MCT	
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Centralized fixed asset register and asset verification procedures at MFED. Not applicable to MCT	Medium Risk. AG has Noted deficiencies in The asset verification process
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Centralized at MFED	
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	See above not applicable To MCT	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Not applicable to MCT	
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Not applicable to MCT	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Not applicable to MCT	
4.46 Are assets sufficiently covered by insurance policies?	No	The government does not insure assets
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Not applicable to MCT	
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	Not applicable	
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	Not applicable	
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Not applicable	

Topic	Response	Potential Risk Event
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Not applicable	
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Not applicable	
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	None	
Contract Management and Accounting		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Not at the MCT but at PMU.	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
Other		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Reporting fraud and corruption is historically done through the Attorney General Police and now the Ombudsman who has now been in place for 2-years	Medium Risk: The Ombudsman is a new concept to Tuvalu and it will take some time for the citizens to trust this modality.
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	No, but centralized internal audit for TWOG	Low Risk.
5.2 What are the qualifications and experience of the IA staff?	Not applicable to MCT see MFED FMA	
5.3 To whom does the head of the internal audit report?	Not applicable to MCT see MFED FMA	
5.4 Will the internal audit department include the project in its annual work program?	Not applicable to MCT see MFED FMA	
5.5 Are actions taken on the internal audit findings?	Not applicable to MCT see MFED FMA	
5.6 What is the scope of the internal audit program? How was it developed?	Not applicable to MCT see MFED FMA	

Topic	Response	Potential Risk Event
5.7 Is the IA department independent?	Not applicable to MCT see MFED FMA	
5.8 Do they perform pre-audit of transactions?	Not applicable to MCT see MFED FMA	
5.9 Who approves the internal audit program?	Not applicable to MCT see MFED FMA	
5.10 What standards guide the internal audit program?	Not applicable to MCT see MFED FMA	
5.11 How are audit deficiencies tracked?	Not applicable to MCT see MFED FMA	
5.12 How long have the internal audit staff members been with the organization?	Not applicable to MCT see MFED FMA	
5.13 Does any of the internal audit staff have an IT background?	Not applicable to MCT see MFED FMA	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not applicable to MCT see MFED FMA	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Not applicable to MCT see MFED FMA	
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Not applicable to MCT see MFED FMA	
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Only whole of government audited not MCT separately	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Not applicable to MCT see MFED FMA	
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Not applicable to MCT see MFED FMA	
6.4 Were there any major accountability issues noted in the audit report for the past three years?	Not applicable to MCT see MFED FMA	
6.5 Does the external auditor meet with the audit committee without the presence of management?	Not applicable to MCT see MFED FMA	

Topic	Response	Potential Risk Event
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	Not applicable to MCT see MFED FMA	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	Not applicable to MCT see MFED FMA	
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Not applicable to MCT see MFED FMA	
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	Not applicable to MCT see MFED FMA	
External Audit – project level		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	AG	Low Risk
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	First audit report not issued	
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	As above	Low Risk
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes.	Low Risk
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	None	
6.17 [For second or subsequent projects] Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	Yes	

Topic	Response	Potential Risk Event
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the entity?	Yes, budget and cumulative expenditure	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Monthly, half yearly and annually	
7.4 Does the entity reporting system need to be adapted for project reporting?	No	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	
7.6 Are financial management reports used by management?	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Using Excel spreadsheets and reconciled to the project account in the government system	Medium Risk spreadsheets error prone and time consuming
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes, ongoing World Bank projects	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	MCT uses spreadsheets only	Medium Risk spreadsheets error prone and time consuming
8.2 If computerized, is the software off-the-shelf, or customized?	See above	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	See above	
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual	MCT financial report is only budget versus cumulative expenditure and remaining budget	

Topic	Response	Potential Risk Event
entry?		
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	See above	
8.6 Can the system automatically produce the necessary project financial reports?	Yes	
8.7 Is the staff adequately trained to maintain the computerized system?	Yes	
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes due to reconciliation with MFED	
8.9 Are there back-up procedures in place?	Yes	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, and earthquake and calamity protection for backups.	On hard copy. However, MFED also have same data which is on ACCPAC system	Medium Risk. Indirect backup available through MFED.