

## **REPORT OF THE AUDITOR-GENERAL**



### **ON THE ACCOUNTS OF THE TUVALU WHOLE OF GOVERNMENT for the years ended 31 December 2010 and 31 December 2011**

**The Tuvalu Audit Office is responsible for expressing an independent opinion on the financial statements and reporting that opinion to Parliament. This responsibility arises from section 32 of the Public Finance Act.**

**Our audit has been carried out in accordance with the International Standards of Supreme Audit Institutions. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is not material in terms of your financial statements.**

**The implementation and maintenance of your systems of controls for the detection of these matters remains the responsibility of the Minister for Finance and management.**

## Statutory Audit Report

### Tuvalu Whole of Government Audit

#### For the years ended 31 December 2010 and 31 December 2011

To: Honourable Members of the Tuvalu Parliament

Dear Members

### Tuvalu Whole of Government

I have audited the financial report and transactions of the Whole of Government as required by the Public Finance Act. This Statutory Audit Report outlines the results of my audit for the years ended 31 December 2010 and 31 December 2011, and details any significant matters that in my opinion call for special notice. The Public Finance Act requires that I send this report to the Parliament.

The 31 December 2010 and 31 December 2011 statutory audit reports have been combined into this one report. This is due to the Treasury presenting the 31 December 2010 and 31 December 2011 financial statements for audit at the same time.

This report is not the Independent Audit Report, which expresses my opinion on the Whole of Government's financial report. **I have enclosed the Independent Audit Report for the years ended 31 December 2010 and 31 December 2011, together with the Whole of Government's financial reports in Appendix 1.**

### Audit Result 2010 and 2011

I expressed a qualified (disclaimer of opinion) opinion on the Tuvalu Whole of Government's financial report for the years ended 31 December 2010 and 31 December 2011. The disagreement with management and limitations of scope of the audits are significant. The disagreements with management arise from the Ministry of Finance not agreeing to adjust the financial statements for expenditure incurred and paid, or paid, outside the accounting period. The limitations of scope arise from:

1. a lack of evidence to support:
  - a. the balances of Cash and Cash Equivalents, Accounts Payable, and Tuvalu Development Fund in the Statement of Assets and Liabilities;
  - b. the transactions which form Recurrent Expenditure in the Statement of Income and Expenditure, the Statement of Revenue and Expenditure by Heads, and the Comparative Statement of Actual and Estimated Recurrent Revenue by 'Sub Head';
  - c. relevant financial statement aggregate totals, including the Total Recurrent Expenditure, Recurrent Surplus/Deficit, Total Surplus/Deficit;
  - d. all comparative information; and
  - e. Net Surplus/(Deficit) for the period and the Accumulated Funds in the Statement of Changes in Equity.
2. non preparation of:
  - a. Fixed Assets and Inventories in the Statement of Assets and Liabilities and Depreciation in the Statement of Income and Expenditure;

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Years ended 31 December 2010 and 31 December 2011

- b. Statement of Summaries of Unallocated Stores and Manufacturing Accounts;
- c. Statement of Arrears of Revenue;
- d. Statement of Receipts and Payments; and
- e. Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments.

**Scope of the Audit**

My audit procedures are targeted specifically towards forming an opinion on the Whole of Government's financial report. This includes testing whether the Government has complied with key legislation that may materially impact on the financial report. The results of the audit are reported in this context.

**Acknowledgment**

I thank the Treasury and other departments' staff for their courtesy and assistance during the audit process. I acknowledge that improvement in the annual reporting process has been made and hope that these improvements continue into the future.

Yours sincerely



Isaako K. Kine

**Auditor General for Tuvalu**

**17 September 2012**

## Executive Summary

### AUDIT OPINION

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1. a lack of evidence to support:
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  - c. relevant financial statement aggregate totals, including the Total Recurrent Expenditure, Recurrent Surplus/Deficit, Total Surplus/Deficit;
  - d. all comparative information; and
  - e. Net Surplus/(Deficit) for the period and the Accumulated Funds in the Statement of Changes in Equity.
2. non preparation of:
  - a. Fixed Assets and Inventories in the Statement of Assets and Liabilities and Depreciation in the Statement of Income and Expenditure;
  - b. Statement of Summaries of Unallocated Stores and Manufacturing Accounts;
  - c. Statement of Arrears of Revenue;
  - d. Statement of Receipts and Payments; and
  - e. Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments.

These opinions are attached to the financial statements in Appendix 1 of this report.

### INTRODUCTION

We have performed this audit in accordance with the International Standards for Supreme Audit Institutions.

The key issues identified in the audits are lack of evidence, breaches of legislation, failure to implement audit recommendations from prior years and non compliance with generally accepted accounting principles.

We confirm that we are independent. There are unresolved disagreements surrounding the accounting treatment of expenses at year end. The matters raised in previous management reports have not been adequately addressed.

## **AREAS OF AUDIT EMPHASIS**

We note in respect of the areas of audit emphasis that:

- the 2009 Qualification raised concerns about:
  - a material departure from generally accepted accounting practice (GAAP) in the preparation of financial statements. This concern has been partially resolved. The continuing departure from GAAP relates to the non-disclosure of fixed assets.
  - the inability to reconcile the Tuvalu Development Fund transactions to bank account balance. This concern has not been resolved; and
  - expenditure exceeding approved budgets. This concern has not been resolved.
- there has been an effort to resolve issues raised in prior years with 37 issues marked as closed during the 2010/2011 audit;
- the accounts were largely in compliance with the Public Finance Act in terms of presentation. This is a significant improvement from the previous years' accounts in terms of compliance with GAAP. The usability and understandability of the accounts has improved;
- limited financial statement supporting documentation was presented, however, when requested documentation was provided;
- no fraud policy is in place;
- the management control environment in the Government was assessed as ineffective; and
- multiple legislative breaches were noted during the audit.

## **LEGISLATIVE COMPLIANCE**

There were breaches of significant legislation noted. The most significant breaches were:

- the expenditure of the 2011 budget into the first quarter of the 2012 financial year when the appropriations had lapsed;
- payment of \$500k out of the Tuvalu Development Fund and subsequent repayment were not in compliance with the law;
- the non compliance with generally accepted account principles within the financial statements; and
- the non compliance with the requirements of the Public Finance Act section 31 and 32 surrounding the submission of accounts within 6 months of the end of the financial year for the 2010 accounts.

## **SIGNIFICANT MATTERS ARISING FROM THE AUDIT**

The most significant matter for your attention is the qualification of the accounts and the issues causing the qualification. There has been an improvement in the quality of the accounts, however, we recommend that efforts are continued to ensure the financial statements are in compliance with GAAP, the Public Finance Act and that appropriate supporting documentation is provided to audit. The following significant matters were noted during the 2010 and 2011 audit:

- no Tuvalu Development Fund reconciliation performed. The TDF is not updated with expenditure, and no Statement on the Balance of the TDF account by annual and aggregate receipts was prepared;
- special funds should be either formally established or closed;

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Years ended 31 December 2010 and 31 December 2011

- accounting treatment for repayment of debt via retained earnings is incorrect;
- audit was unable to reconcile the Cash and Cash Equivalents in the Statement of Assets and Liabilities to the Statement of Receipts and Payments by Heads;
- two instances of Fraud were noted, there is a lack of procedures around fraud, recovery of funds is not performed and no fraud policy exists;
- not accounting for In Kind Assets provided at no cost by donors;
- no cut off review of expenditure and revenue at year end;
- issues with reconciliation of tax revenue records to cash collected, no audits of companies tax returns being performed, non usage of the Tax Revenue Management System and non enforcement of penalties for non compliance with legislation;
- weaknesses in management of Customs revenues surrounding documentation, auction of goods and follow up of payments;
- insecure usage of ACCPAC; and
- no reconciliation between Fisheries and Treasury records of revenue, the fisheries management system is not updated and there are no records of fisheries negotiations on file.

The significant matters outstanding from the 2007, 2008 and 2009 audits are:

- unauthorised expenditure within votes;
- non compilation of an inventory listing;
- non compilation of a fixed asset register for property, plant and equipment;
- no financial link between Inland Revenue Department and Treasury;
- lack of debt management policy to manage the TWOG's receivables; and
- lack of reconciliation between the Tuvalu Development Fund and the bank account.

## Contents

The Tuvalu Audit Office has completed the financial audit of the Tuvalu Whole of Government for the years ended 31 December 2010 and 31 December 2011. This report summarises our findings from the audit and draws attention to areas where the Tuvalu Whole of Government is doing well or could improve.

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Appendix 1: Part 1 - Tuvalu Whole of Government Financial Statements and Independent Audit Report for 2011

Appendix 1: Part 2 - Tuvalu Whole of Government Financial Statements and Independent Audit Report for 2010

Appendix 1: Part 3 - Tuvalu Whole of Government Financial Statements 2009

## List of Abbreviations

ACCPAC:	the Tuvaluan Government's Accounting Software
ADB:	Asian Development Bank
AFL:	Air Fiji Limited
AIMS:	Aid Information Management System
AusAID	Australian Agency for International Development
DCC:	Development Coordinating Committee
EEZ:	Exclusive Economic Zone
EU:	European Union
FTF:	Falekaupule Trust Fund
GAAP:	Generally Accepted Accounting Principles
GL:	General Ledger
GOT:	Government of Tuvalu
IBD:	Interest Bearing Deposit
IFRS:	International Financial Reporting Standards
INTOSAI:	International Organisation of Supreme Audit Institutions
IPSAS:	International Public Sector Accounting Standards
IRD:	Internal Revenue Department
ISSAI:	International Standards of Supreme Audit Institutions
k:	Thousands
MoFED:	Ministry of Finance and Economic Development
MCE:	Management Control Environment
NAFICOT:	National Fishing Corporation of Tuvalu
NBT:	National Bank of Tuvalu
PAC:	Public Accounts Committee
PASAI:	Pacific Association of Supreme Audit Institutions
PE Act:	The Public Enterprises (Performance and Accountability) Act of 2009.
PE:	Public Enterprise
PEFA:	Public Expenditure and Financial Accountability
PFM:	Public Financial Management
PFM-PR:	Public Financial Management Performance Report
TWOG:	Tuvalu Whole of Government
TAO:	Tuvalu Audit Office
TDF:	Tuvalu Development Fund
TMTI:	Tuvalu Maritime Training Institute

## 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: We are unable to form an opinion whether the financial statements present a true and fair view.
- Unqualified with an emphasis of matter paragraph: In our opinion the financial statements do present a true and fair view, however, emphasis which we consider important to the user is drawn to a certain disclosure within the financial statements.
- Unqualified with an other matter paragraph: In our opinion the financial statements do present a true and fair view, however, users' attention is drawn to a matter relevant to their understanding of the audit of the financial statements or the audit report.

## Definitions

### *Control Environment*

The control environment of an entity co-ordinates all systems used in order to safeguard the entity's assets, check the accuracy of the accounting information, promote efficiency, encourage staff to be productive and assist management to adhere to the policies of the entity.

The purpose of the control environment is to monitor how the entity is performing and to implement a plan that will help the entity perform. Controls also deter and prevent people from doing things their own way, and from committing fraud.

With controls in place, employees' duties can be arranged and the records and systems designed to make it possible to carry out effective accounting control over the assets, liabilities, income and expenses of the entity. Under this system the work of the employees is broken up wherever possible, so no single employee will perform a complete cycle of a particular operation.

### *Going concern*

Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

## Introduction

### **The format and mandate of this report**

This report is tabled under section 45 of the Audit Act. The Auditor General's mandate for this report comes from section 32 of the Public Finance Act. This report contains the results of the audit of the accounts of the Tuvalu Whole of Government for the year ended 31 December 2010 and 31 December 2011 including:

- auditing standards used;
- compliance with INTOSAI auditing standards;
- important issues identified in the audit;
- performance, waste and probity;
- subsequent events;
- changes in accounting policy;
- unusual accounting policies;
- statement of auditor independence;
- unresolved disagreements;
- status of areas of audit emphasis;
- legislative compliance;
- legislative compliance systems;
- breaches of significant legislation;
- significant matters arising from the audit;
- status of prior year audit issues; and
- audit issues closed in 2010/11

### **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 INTOSAI Auditing Standards**

Our audit is considered to be in compliance with the requirements of ISSAI Auditing Standards.

### **Performance, waste and probity**

During the planning and fieldwork stages, the Auditor-General briefed the team on the need to maintain awareness for performance, waste, probity, and fraud issues.

No specific performance waste and probity issues were noted as part of the financial statement audit. Commentary regarding efficiency and effectiveness has been made in our significant and less significant matters commentary, where appropriate.

### **Subsequent Events**

No subsequent events were noted during the 2010 and 2011 audit.

### **Changes in Accounting Policy**

There have been no significant changes to the accounting policies of the Tuvalu Whole of Government.

### **Unusual Accounting Policies**

The following accounting policies are considered unusual by audit:

- expensing of Fixed Assets and Inventories; and
- journaling of interest and principle repayment on loans to retained earnings.

These issues form part of our audit qualification or have been raised in significant matters arising from the audit.

## **Statement of Auditor Independence**

### **Independence**

We confirm that, for the audit of the financial statements of the Tuvalu Whole of Government for the year ended 31 December 2010 and 31 December 2011 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 Tuvalu Whole of Government during the year ended 31 December 2010 and 31 December 2011. In addition, we confirm that we have no relationships with, or interests in, the Tuvalu Whole of Government.

### **Unresolved disagreements**

We have unresolved disagreements with management about matters that individually or in aggregate are significant to the financial statements. This has been raised in the audit opinions. The disagreements are detailed below:

- A significant amount of expenses which were either incurred or paid during the 2011 period have been entered incorrectly into the 2010 financial year, in order to continue to expend the 2010 budget during the 2011 year. This issue was formally raised with the Secretary for Finance and the Minister for Finance, however, adjustment into the correct period was not approved.
- A significant amount of expenses which were either incurred or paid during the 2012 period have been entered incorrectly into the 2011 financial year, in order to continue to expend the 2011 budget during the 2012 year. This issue was formally raised with the Secretary for Finance and the Minister for Finance, however, adjustment into the correct period was not approved.

Management has not sought to influence our views on matters relevant to our audit opinion.

## Status of Areas of Audit Emphasis

In the audit arrangements letter issued to the Tuvalu Whole of Government, (TWOG) we identified areas of audit emphasis that we would pay particular attention to during the audit. Our response to these areas of audit emphasis is outlined below:

### Issues surrounding the 31 December 2009 qualification

A Disclaimer of audit opinion was issued for the year ended 31 December 2009 TWOG accounts. A disclaimer of audit opinion means that we are unable to form an opinion whether the financial statements present a true and fair view due to all evidence reasonably expected to be available not being available.

The 2010 and 2011 audit opinions were both a Disclaimer of audit opinion. We acknowledge there has been considerable improvement in the presentation of the accounts and the issues within the qualification. The evolution to a set of accounts which is approaching compliance with general accepted accounting practice was the major improvement in the financial statement reporting process.

The 2009 issues which are considered to be resolved are:

- non-consolidation of state owned enterprises;
- the inability to reconcile the Bank Account transactions to the General Ledger;
- the inability to obtain satisfactory explanations and documentation regarding a number of material entries for revenue in the financial statements; and
- the inability to reconcile the income and expenditure in the financial statements with the underlying cash transactions.

Issues considered to be partially resolved are:

- material departure from general accepted accounting practice (GAAP) in the preparation of financial statements, save for the non-disclosure of fixed assets.

Issues remaining unresolved are:

- non-disclosure of fixed assets;
- the inability to reconcile the TDF transactions to bank account balance; and
- expenditure exceeding approved budgets.

We recommend that the TWOG continue its efforts to improve the financial statement preparation process and reporting process.

### Issues raised in previous management reports

The progress that the TWOG has made in addressing the issues raised in the 2009 management report issues has been commented on below.

### Financial Statement compilation and compliance with GAAP

The TWOG's 2010 and 2011 financial statements were not prepared in compliance with GAAP (Generally Accepted Accounting Principles) as required by section 3(3)(e) of the Public Finance Act. The major departure was the non inclusion of fixed assets in the financial statements.

There has been considerable improvement in the presentation of the accounts, namely the production of the accounts largely in accordance with the Public Finance Act requirements. This is a significant improvement from the 2009 accounts. The usability and understandability of the accounts has improved.

The TWOG has defined a Tuvalu GAAP, in which the fixed assets position is not considered by audit to be in compliance with Generally Accepted Account Principles.

#### **Financial Statement supporting documentation**

Financial statement supporting documentation was not presented to audit with the financial statements. It was later provided when requested during the course of the audit. Going forward as the Treasury refines its Financial Statement reporting process, we recommend that supporting documentation is presented along with the accounts, as evidence of quality control.

The presentation of financial statements and our request for appropriate supporting documentation for the 2012 audit will be discussed with the Treasury.

#### **Fraud policy**

The Auditor-General expects that every public entity should formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with.

In 2010 and 2011, there has been no progress in relation to the development of a fraud policy. Two instances of fraud were noted in the 2010 and 2011 period, both of which would have benefited from guidance surrounding investigation, reporting and recovery of monies.

Progress of fraud policy creation and awareness will continue to be an area of audit emphasis in future audits.

We acknowledge that the Financial Instructions contain information on how to deal with fraud. However, a standalone policy with clear definitions and processes will benefit the TWOG.

Included in the fraud policy should be training surrounding fraud.

#### **Management control environment**

We have completed a management control environment (MCE) assessment and overall we have concluded that the MCE is "Ineffective".

Our primary bases for reaching this conclusion are:

- management decisions are sometimes taken without appropriate consultation with the finance and legal departments;
- decisions are reached without proper risk assessment and due diligence;
- significant capacity and capability gaps exist in all ministries;
- improvements are required in budget execution especially in relation to linkage between budget and ACCPAC, including monitoring of expenditures to budget; and
- there has been a lack of progress in addressing matters raised in the prior year management letters.

We will review the management control environment in the 2012 audit to assess if any improvements have been made.

#### **Legislative compliance**

Legislation breaches were noted during the audit. These are explained in the legislative compliance section below.

## Compliance with Legislative Requirements

### Legislative compliance systems

We reviewed the systems and procedures the Tuvalu Whole of Government uses to identify and comply with legislative requirements. There is no formal system in place for monitoring, compliance and reporting. We recommend that the Tuvalu Whole of Government put in place a system to monitor compliance of key legislation and ensure processes are in place to report breaches in legislation to the governing body.

### Breaches of significant legislation

During the audit, our main focus has been on the Tuvalu Whole of Government's financial reporting obligations. As part of our planning we identified the Public Finance Act and the Financial Instructions as key legislation and regulations that government officers should comply with. While our focus is on financial reporting obligations, we do maintain an awareness of other legislation that impacts on the entity. We noted the following breaches of legislation:

PUBLIC FINANCE ACT AND CONSTITUTION OF TUVALU:

Section 14 of the Public Finance Act states:

*“Every appropriation by Parliament of public moneys for the service of any financial year shall lapse and cease to have any effect at the close of that financial year, and any moneys issued from the Consolidated Fund but not spent shall be repaid to the Consolidated Fund”*

It follows that all Appropriation Acts for the 2011 year cease to have effect from 1 January 2012. Any money which left the consolidated fund (i.e. the Tuvalu Whole of Government's bank account) after 31 December 2011 cannot be paid out of the 2011 appropriations, as they are considered lapsed.

The current practice of using the prior year's budget for the expenditure in the current year meant that there was money being spent without the authority of an Act of Parliament.

Section 168(2) of The Constitution of Tuvalu states:

*“No money of or under the control of the Government shall be spent except as provided by this Constitution or by or under an Act of Parliament.”*

Because cash accounting is used for appropriations, invoices dated in 2011 cannot be paid with the authority of the 2011 Appropriation Act after 31 December 2011. The payment must be appropriated from the 2012 Appropriation Act.

PUBLIC FINANCE ACT SECTION 19(3) AND SCHEDULE TO THE PUBLIC FINANCE ACT

In 2011, a payment of \$500,000 was made out of the Tuvalu Development Fund in order to assist with cash flow in the General Government Account. This payment was not made by Development warrant as required by the schedule to the Public Finance Act, nor was the expenditure authorised by resolution of Parliament. This was an unlawful payment into the General account from the Tuvalu Development Fund.

The amount was subsequently repaid out of the General Account into the Tuvalu Development Fund in 2011. The payment did not have an Appropriation and thus was an unlawful payment.

The Consolidated Investment Fund and General account are both considered to be part of the Consolidated Revenue Fund. To transfer between these funds, no appropriation is required. We recommend in future if a cashflow shortage is experienced to transfer funds from the Consolidated Investment Fund rather than the Tuvalu Development Fund as transfers can be made without appropriation.



If the Tuvalu Whole of Government intend to continue the practice of borrowing from the Tuvalu Development Fund, there must be a Development Warrant and approval from Parliament. It would also be good practice to obtain permission from the donor which funds are borrowed from.

#### SECTION 31 OF THE PUBLIC FINANCE ACT

Section 31 of the Public Finance Act requires that the Minister prepare and present accounts showing fully the financial position of Tuvalu within a period of 6 months after the end of the financial year. The 2010 and 2011 accounts were both submitted on 28 June 2012. The requirement of the Public Finance Act was met with the submission of the 2011 accounts, however, was not met for the 2010 accounts. The Minister of Finance can request Parliament to appoint a longer period of time for submission of accounts, however, this has not occurred for the 2010 year.

Section 32 of the Public Finance Act requires the Auditor-General to issue an audit opinion within 9 months after the end of the financial year. This statutory deadline was also not met for the 2010 accounts due to the late submissions of accounts.

#### SECTION 20 OF THE PUBLIC FINANCE ACT

Section 20 of the Public Finance Act allows the Minister to establish special funds which can be set up for a specific purpose and then are wound up when all liabilities have been cleared and the purpose complete. During the audit, we found a number of bank accounts that have been opened under the name of the Tuvalu Whole of Government with the National Bank of Tuvalu that the Ministry of Finance is not in direct control over. We believe these accounts should be closed if they have not followed the due process in approving the establishment of these bank accounts. These bank accounts were also open in 2009.

#### SECTION 178(2) OF THE FINANCIAL INSTRUCTIONS

Section 178(2) of the Financial Instructions specifies that no accounting officer shall incur or commit any expenditure that shall exceed the approved Estimates of expenditure for any sub head item under his control. By incurring expenditure above the estimates for sub head items, the accounting officer will be in breach of section 178(2) of the Financial Instructions.

We note that during the year there has been expenditure above the estimates for sub head items. This was indicated by an overspend in the budget sub head expenditure. The expenditure estimates were updated for virements (approved movements) between sub head expenditure items before the calculation of overspends.

#### SECTION 224 AND 225 OF THE FINANCIAL INSTRUCTIONS

Clause 224 and 225 of the Financial Instructions details the monthly reconciliation process between the Ministry of Finance and each of the Ministries executive office's. We noted during the 2010 and 2011 audit that this process requires improvement for this to be an effective control.

#### PART (2) SECTION (5) OF THE MARINE RESOURCE ACT

Part (2) Section 5 of the Marine Resources Act states that "*the minister may authorise or enter an agreement with any person, government or agency*". During the audit we noted that agreements were being entered into by the Permanent Secretary for Fisheries, without the Minister's delegation. This power is able to be delegated, however, no delegation was noted. See Finding 2011.18 for more detail.

## Significant Matters Arising From the Audit

The following significant matters have been raised during the audit for your attention and comment:

### 1.2011 Tuvalu Development Fund

#### FINDINGS AND ANALYSIS

On our review of the Tuvalu Development Fund transactions, the following was noted:

1. A transfer of \$500,000 out of the Tuvalu Development Fund into the Consolidated Revenue Fund and subsequent repayment of the TDF "Loan" in the following years in instalments.
2. Non reconciliation of the TDF general ledger account in the Tuvalu Whole of Government's general ledger to the TDF companies general ledger within ACCPAC.
3. Updating of the TDF account is performed via journals to retained earnings rather than the respective revenue and expenditure accounts.
4. No Statement of the balance on the TDF accounts by annual and aggregate receipts and payments was disclosed in the financial statements. This is required by Section 31(xvi) of the Public Finance Act.

#### IMPLICATIONS

1. The borrowing is in direct contravention of the rule 1 of the *Rules for the Operation of the Development Fund* contained in the Schedule to the Public Finance Act.
2. The non reconciliation of the fund to the General Ledger and the bank account balance means that there is potential for fraud, all expenditures may not be recorded in the TDF general ledger, unauthorised expenditures may have occurred, expenditure on particular projects may be in excess of the approved amount, the TWOG is unable to report to donors on the financial progress of the project and unlawful loans are taken from the TDF.
3. The journals to retained earnings do not present a true and fair view of the expenditures and revenues during the year, and also do not provide any information about what expenditure was incurred for, or the split between expenditure and purchase/ development of assets.
4. The TWOG is not in compliance with the reporting requirements of section 31 of the Public Finance Act.

#### RECOMMENDATION

We acknowledge that measures are being taken to improve the management of Aid and the Tuvalu Development Fund through the creation of the Aid Information Management System (AIMS). The TWOG should:

1. Cease the unlawful practice of using the TDF as a short term solution for immediate cashflow problems
2. Perform reconciliation between government records and the TDF bank account. When the AIMS data becomes current, perform reconciliation between ACCPAC and AIMS on a regular basis to ensure both are updated.
3. Discontinue the practice of journals to retained earnings to update the TDF. Instead create expense and revenue transaction files from the TDF general ledger and use this to update expenditure and revenues.
4. Produce a Statement of the balance on the development fund accounts by annual and aggregate receipts and payments for disclosure in the financial statements.

#### MANAGEMENT COMMENT

- In regards to the borrowing from the TDF which occurred in 2010 and 2011, this practice has been ceased and additionally the TWOG has moved to utilise the Consolidated Investment Fund to better manage cash flow within the bounds of the legislation.
- Treasury acknowledges that additional work has been undertaken on the AIMS database, however notes that to further reconcile and include TDF transactions in the TWOG accounts, further work will be required. This reconciliation of the TDF and increased reporting is planned to be undertaken in 2013 and 2014.

### **2.2011 Special Funds balances**

#### FINDINGS AND ANALYSIS

The Minister for Finance's written authority or Act of Parliament is required to establish a special fund. During the audit we requested the documentation for the establishment of each of the special funds in existence, either by Ministerial order or Act of Parliament. When requested we were unable to be presented the documentation for the following funds which were reported as special funds:

- a. Business/Passport Investment Scheme - 01-420002-31
- b. IBD - Housing Repurchasing - 01-420002-4
- c. IBD - Insurance Fund - 01-420002-48
- d. IBD - Rehabilitation - 01-420002-45
- e. IBD - Tuvalu Parliament Building - 01-420002-42
- f. Investment in Education Office - 01-420061-44
- g. IBD-Tuvalu Development Fund - 01-751389-40

#### IMPLICATION

The above accounts are not special funds and should be considered to be part of the Consolidated Revenue Fund.

#### RECOMMENDATION

That the accounts above are either closed and the funds are transferred to the TWOG Current account, or the Minister for Finance in accordance with the Public Finance Act, orders the establishment of these accounts as Special Accounts.

#### MANAGEMENT COMMENT

- Treasury has drafted a minute to the Minister for Finance and Economic Development to address the status of these identified accounts. Following discussions with the Minister action on these accounts will be undertaken either to close or to ensure they have supporting documentation to create them as a special fund. This is likely to be undertaken during 2013.

### **3.2011 Debt repayment accounting treatment**

#### FINDINGS AND ANALYSIS

Our review of the accounting treatment of the repayment of domestic debt found that the entire payment was being journalised to interest expense and the loan was being decreased through a retained earnings adjustment. Movements instead of being split into repayment of principle and interest expense were accounted for through retained earnings movements. This

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practice is not consistent with generally accepted accounting practice, however is in compliance with the TWOG's accounting policy. The accounting journals are as follows:

- a. Dr Interest and Principal Repayment expense
- b. Cr Cash
- c. Dr Loan Liability
- d. Cr Retained Earnings

IMPLICATION

Interest expenses for the year will be overstated by the amount of the principle repayment. The journal entry to retained earnings is overstated. It is acknowledged that the result will be the same after the reporting period; however, it remains a misstatement in the current year.

RECOMMENDATION

That correct journal entries are made to account for interest and principle repayment in the current year.

The accounting policy for the Loan repayments and interest is updated to reflect only interest payments as an expense and the principle payment as a reduction in the liability.

MANAGEMENT COMMENT

- Treasury will request the Planning and Budget Department to include separate allocations for the repayment of principle and interest in the 2013 Budget to support the reporting of these transactions.
- Treasury will look to address this recommendation as part of the 2012 annual financial statements.

**4.2011 Cash not able to be reconciled**

FINDINGS AND ANALYSIS

The Statement of Assets and Liabilities and the Statement of Income and Expenditure are both prepared on an accrual basis (revenue and expenses are accounted for when the expenditure is incurred or the revenue is earned). This is outlined in the TWOG's accounting policy.

The Statement of Receipts and Payments by Heads is prepared under the cash basis of accounting (receipts are recognised when cash is received and payments are recognised when cash is paid out). The statement of receipts and payments was not disclosed in the 31 December 2010 and 31 December 2011 accounts after this issue was brought to the attention of the TWOG. Instead a Statement of Revenue and Expenditure by Heads on an accrual basis was presented.

In our initial review of the financial statements which included the Statement of Receipts and Payments by Heads, we were unable to reconcile the cash figure in the Statement of Receipts and Payments by Heads (Recurrent Surplus/Deficit) to the movement in the cash balance in the Statement of Assets and Liabilities. This Statement was then re-named to the Statement of Revenue and Expenditures by Head and accounted for under the accrual basis of accounting.

IMPLICATION

The implication is that:

1. The Statement of Receipts and Payments by Heads was misstated in 2010 and 2011 and then when brought to the attention of the TWOG not prepared.

2. The current system of accounting for cash is not able to be verified to the actual cash balance

#### RECOMMENDATION

We recommend that the Treasury investigate the reasons for the variances and in 2012 make amendments to the Receipts and Payments by Head statement in order for it to reconcile to the Cash and Cash Equivalents figure on the Statement of Assets and Liabilities. In future, the Treasury could also provide a reconciliation of these figures in the notes to the accounts. This would demonstrate understanding and awareness of this issue.

#### MANAGEMENT COMMENT

- Treasury notes and agrees with the recommendation, and is seeking to improve and address the finding as part of the 2012 annual financial statements.

### **5.2011 Fraud**

#### FINDINGS AND ANALYSIS

The Auditor-General expects that every public entity should formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. In 2010 and 2011 there has been no progress in relation to the development of a fraud policy.

Audit noted two instances of suspected fraud during 2010, 2011.

In the first suspected fraud case of theft of \$5,150, Audit have discussed with Treasury the follow-up performed by them in order to attempt to recover the funds. However, Audit noted that the matter had not been reported to the Police, nor had the proper procedure in the financial instructions been adhered to.

The other fraud case, amounting to \$1,056, has had an investigation raised against the accused.

There is limited communication, awareness and training being conducted on fraud. There is a need to communicate ethics and leadership code principles to the entire staff of the TWOG.

#### IMPLICATION

These suspected fraud cases are not being prosecuted to the full extent. There were limited penalties imposed. One staff member's temporary assignment was not renewed, however, no follow-up regarding repayment has been noted. The other staff member is suspended and is receiving 50% of their salary. This action does not set an example to discourage fraud.

#### RECOMMENDATION

A fraud policy should be created, dealing with the definition of fraud, what is and is not fraud, the process to follow when you suspect fraud, the process to follow investigating and prosecuting fraud and the training which is required surrounding fraud.

We acknowledge that the Financial Instructions contain information on how to deal with fraud. However, a more user friendly, easier to understand policy with clear definitions and processes will benefit the TWOG.

Both cases of fraud would have benefited from guidance surrounding investigation, reporting and recovery of monies. A more aggressive collection and faster investigation process should occur, with the police being involved.

MANAGEMENT COMMENT

- Treasury agrees with recommendation.

**6.2011 In Kind Asset Accounting Policy**

FINDINGS AND ANALYSIS:

It was noted in the Statement of Accounting Policies that Grants in Kind are not recognised within the accounts. When known the amounts are recorded in the budget. This accounting policy is not in accordance with generally accepted accounting principles. Looking to the *International Accounting Standard 20 Accounting for Government Grants and Disclosure of Government Assistance*, it requires that non-monetary grants are usually accounted for at the fair value of the non-monetary asset. However, grants can be accounted for at a nominal amount which is representative of the non-monetary asset received.

IMPLICATION

The full extent of assistance given to the TWOG is not disclosed. The full picture of the running of the TWOG will not be given to the financial statement users. The statement of Assets and Liabilities will be understated as well as the statement of Revenues and Expenditures.

RECOMMENDATION:

The TWOG should initially use the amounts reported in the budget as in kind to identify and report in kind assets. Additionally the TWOG should revise its accounting policy to include in kind assets. A threshold on value could initially be employed in order to distribute the work load.

MANAGEMENT COMMENT

- This is noted and is planned to be addressed by Treasury through 2013 and 2014.

**7.2011 Cut off review of Revenue and Expenditure at Year End**

FINDINGS AND ANALYSIS:

During the 2010 and 2011 TWOG Audit, the Tuvalu Audit Office tested Payment Vouchers and supporting documentation for revenue and expenditure in early 2012 to ensure that amounts incurred in 2011 were not expensed or booked in 2012. We found in 2011 that there were expenses and revenue incorrectly raised in the 2012 year.

These adjustments have been raised in a schedule of misstatements. Some have been adjusted.

IMPLICATION

Without audit review and subsequent adjustment the financial statements would be misstated. The expenditure would have not been recorded in the period in which it was incurred and the revenue has not been recognised in the period in which it was earned.

RECOMMENDATION:

The Treasury instigate a process after year end to capture all Payment Vouchers and revenues which related to the prior year. This could include putting the invoice date in the posting date when posting an invoice, so that an accrual can be raised to place the expenditure/revenue in the correct period.

MANAGEMENT COMMENT

- Treasury agrees, and notes that the Minister for Finance and Secretary for Finance have indicated that allowing departments to utilise the 2012 budget allocations after 31 December 2012 will not occur.

### **8.2011 Reconciliation Issues**

#### FINDINGS AND ANALYSIS:

For the past two years, the Inland Revenue Department (IRD) has not performed any reconciliation from their records of taxation revenue due with ACCPAC which records the actual revenue collected.

#### IMPLICATION

The non performance of the reconciliation poses a risk in that: the IRD are not be able to tell who has paid their tax or not, there have been posting errors into ACCPAC, that payment of tax has been made but is not recorded, unpaid taxes are unable to be detected and other concealed fraudulent activities are occurring. Even though Tax and Customs have their own cashier, a reconciliation with ACCPAC is essential.

#### RECOMMENDATION

Monthly or more frequent reconciliation between ACCPAC and IRD records is recommended. The audit team can provide an Excel template for the reconciliation. The purpose of the reconciliation is to identify mis-posting errors, payments received that are not in ACCPAC but recorded, and payments received that appear in ACCPAC but are not recorded with IRD. Additionally we recommend the IRD document the reconciliation as audit evidence and to keep a record of variances.

#### MANAGEMENT COMMENT

- Treasury agrees with the recommendation, and notes that a Technical Advisor for IRD has been recruited and expects this to improve through 2013.

### **9.2011 Auditing of Business taxation has not been performed for past two years.**

#### FINDINGS AND ANALYSIS/ISSUES:

Net profit tax is one of the main sources of revenue for the IRD. Businesses do their own calculation of their net profit taxes. There has not been any inspections or audits performed by the IRD to ensure that businesses are paying the correct amount of tax.

#### IMPLICATION:

Businesses could be misstating figures in their tax returns in order to pay less tax and the IRD would not be aware of this.

#### RECOMMENDATION:

The IRD performs, on a risk basis, audits of businesses currently operating in Tuvalu. The purpose of the inspection is to prevent fraudulent reporting from occurring, make sure businesses are calculating their taxation correctly and to make sure businesses are up to date in settling their taxes. We recommend the IRD document each audit in case court proceedings are required to collect the outstanding amounts.

#### MANAGEMENT COMMENT:

- Treasury agrees with the recommendation, and notes that a Technical Advisor for IRD has been recruited and expects this to improve through 2013.

**10.2011 Penalties and Measures for Non-compliance with Taxation Legislation have not been enforced.**

FINDINGS AND ANALYSIS

For each tax payer that fails to comply with payment of taxes, the TWOG should impose a penalty in accordance with the provisions of the Income Tax Act. The TWOG through the IRD is not enforcing these penalties.

IMPLICATION

There is no incentive for taxpayers to submit their returns and make payments on time. This disadvantages the taxpayers who are in compliance. The rate of compliance when penalties and measures are enforced will be much higher.

Without enforcing such penalties this will lead to a loss of TWOG revenue as tax payers have no incentive to lodge a tax return on time.

RECOMMENDATION

- These penalties and measures to be enforced and put into practice as soon as possible;
- Create and run awareness workshops with the public encouraging them to pay taxes promptly, educating them about the process surrounding the payment of taxes and to inform them about the penalties for non compliance; and
- Grant an amnesty for a limited period where taxpayers are able to lodge overdue returns without penalty.

MANAGEMENT COMMENT:

- Treasury agrees with the recommendation, and notes that a Technical Advisor for IRD has been recruited and expects this to improve through 2013.

**11.2011 Ensure reminder letters sent have been received by taxpayers.**

FINDINGS AND ANALYSIS

For overdue tax payments and clients in non compliance, the IRD send out reminder letters. When the letters are despatched, the IRD register the date of despatch without ensuring the taxpayer receives the letters.

IMPLICATION

When penalties are charged on the taxpayer may argue that he/she has not received the reminder letter. Not having the record or the taxpayer receiving the letter may have a consequence on the legal proceedings taken to recover the amounts.

RECOMMENDATION:

Registering and signing the despatching process is recommended. The reminder letters should all be registered at the time of despatch and for the taxpayer to sign on the register confirming that the letter has been received. In doing this, the IRD will know that the letters have been received. Alternatively the letter could be hand delivered to the person; with a record taken that the person has received the letter.

MANAGEMENT COMMENT:



- Treasury agrees with the recommendation, and notes that a Technical Advisor for IRD has been recruited and expects this to improve through 2013.

### **12.2011 RMS system is currently not in use**

#### FINDINGS AND ANALYSIS

The Tuvalu Inland Revenue Department (IRD) has developed a system to calculate and record every transaction relating to Taxation revenue. This system is called the RMS (Revenue Management System). It is a user-friendly system with inbuilt formulas to calculate taxes levied to businesses and individuals. The RMS has only been used by the IRD for two of the past twelve months and is currently not in use. It is currently not in use due to a virus being present on the system. The Inland Revenue Department is using an excel spread sheet without password protection as a work around to the RMS system.

#### IMPLICATION

Using an Excel Spreadsheet to perform calculations and to manually record payments received is risky. Any person can easily manipulate spreadsheet records and change calculations with minimal chance of being detected. These records have a higher risk of fraudulent activities and errors.

Without password protection anyone can open the spreadsheet.

#### RECOMMENDATION

It is recommended that the Inland Revenue Department fix the issues with the RMS and get the RMS running as soon as possible. Additionally, it is recommended for the IRD perform vigorous checks and reviews when transferring the Excel Spreadsheet data onto the RMS system to ensure data quality.

#### MANAGEMENT COMMENT

- Treasury agrees with the recommendation, and notes that a Technical Advisor for IRD has been recruited and expects this to improve through 2013.

### **13.2011 Customs revenue management**

#### FINDINGS AND ANALYSIS

During the audit, we gained an understanding of the process of clearing imported goods through Customs and the payment of Duties and Taxes. We noted some issues with the process. The issues noted are:

1. No evidence of physical counting of released goods from the private warehouse by Customs Staff.
2. Settling of a Bill of Entry selected for testing was performed five months later than date payment was required.
3. 34 transactions of the 84 voyage documents selected for audit testing had missing supporting documentation which amounted to \$147k of Duty.
4. No sub-receipt was issued to customers purchasing goods during auction sale.
5. No updated record of unclaimed goods stored at the Queens warehouse was kept. This is to determine goods that will be auctioned and the numbers of years the goods have been kept at the warehouse.
6. No evidence of review of auction sale listing and collection prior pay in to Treasury department.

#### IMPLICATIONS

1. No evidence of physical counting when goods are cleared from private warehouses means that any goods could be being taken out of the warehouse and sold, without the payment of Customs Duty. This could reduce revenue for the TWOG and increases the risk of non payment of Duty.
2. The late settling of the bill of entry implies that the follow-up performed by Customs on overdue payments is inadequate.
3. With missing supporting documentation, we were unable to ascertain whether the correct amount of duty has been paid.
4. Not issuing a receipt for the goods sold increases the risk of fraud and misappropriation of assets.
5. No updated records of unclaimed goods increase the risk of fraud through theft. Without a record of goods in the warehouse for auction, Customs are unable to tell if there are missing goods which are the property of Customs.
6. Not reviewing the auction sale listing and reconciling the amount of revenue collected to the sale listing increases the risk of fraud via payment of a smaller amount than agreed upon at the auction.

The weak controls could lead to errors, irregularities, omissions and potential misstatement being undetected. As a result TWOG could be incurring losses due to errors, inefficiencies and lack of proper controls.

#### RECOMMENDATION

1. Physical counts are completed and a record is kept, when goods are cleared from private warehouses. Once all of the goods are cleared, perform reconciliation to the Bill of Entry to ensure that no goods have been taken from the warehouse without paying duty.
2. Continue to follow up overdue bill of entries on a regular basis. Maintain a record of this.
3. Improve record keeping surrounding voyage documents and ensure that all are on file
4. Issue receipts for the sale of all goods via auction
5. Perform a stocktake of all goods present in the Customs Warehouse and update for any movements in and out. Continue to update and perform regular stocktakes.
6. Have a senior member of staff sign off on the review of the auction sale listing and agree these to receipts and cash collected.

#### MANAGEMENT COMMENT

- No Comment from Treasury

#### **14.2011 Usage of ACCPAC**

##### FINDINGS AND ANALYSIS:

During the audit the following issues were noted with the TWOG's usage of their accounting package ACCPAC:

1. The granting of access to and installation of ACCPAC was unable to be performed by Treasury staff. A consultant in New Zealand was required to assist in the installation onto any new computers. This presents an issue in the event that a computer in Treasury requires formatting or a new computer is purchased.

2. Passwords for access to ACCPAC are shared and users are able to post transactions under the ADMIN user. The Admin user should be used to manage access to ACCPAC only, not to perform any transactions. This ensures that all entries are able to be attributed to a staff member.
3. The procurement functionality in ACCPAC is available however is not currently in use. The procurement function is used to commit funds within ACCPAC and ensures that approval for expenditure is obtained before funding is committed.

IMPLICATION:

1. The delay gaining access to ACCPAC means that staff may be performing inefficient activities whilst waiting to gain access to ACCPAC. Additionally the requesting of the consultant to assist with access to ACCPAC is extremely costly.
2. With staff members using the Admin account to post transactions into ACCPAC, there is no accountability of who has posted transactions into ACCPAC and is a breakdown of internal controls.
3. The procurement function will assist in ensuring that approval for expenditure has been granted and that funds are available in the budget before the expenditure is committed.

RECOMMENDATION:

1. A staff member is appointed and trained on the installation and creation of ACCPAC accounts. This role is included in the staff member's job description. The staff member should produce written step by step instructions and train a second officer in the process.
2. Passwords are changed by all staff members and not shared. The Admin user is only used to change user access, not process any transactions by a senior staff member.
3. The procurement functionality of ACCPAC is used

MANAGEMENT COMMENT

1. Underway. In 2012 there have been 12 installations of ACCPAC undertaken with the support of the Treasury Department. While not seamless, Treasury now has the capability to install new ACCPAC users.
2. This has been actioned and staff now have individual accounts. The Admin password has been changed and is known only to the Government Accountant and system administrator.
3. The Treasury does not currently have access to the Purchase Order module of ACCPAC. Introduction of this functionality will be considered during 2013 and 2014.

**15.2011 Tuvalu Fisheries Management System (TUFMAN) data not up-to-date**

FINDINGS AND ANALYSIS:

Every vessel that has been granted permission/license to fish within Tuvalu's EEZ must pay access fees and vessel day fees or licence fees. Tuvalu fisheries do not maintain adequate records of payment of these fees by vessels as they do not update their system of recording payments. Currently payments are entered into an excel spreadsheet rather than into their fisheries management system (TUFMAN), which has capability to record payments.

IMPLICATIONS

If record of payment is not updated in TUFMAN, fisheries are unable to tell which foreign fishing vessels have made payment of their licence fee. The completeness of revenues collected from these fees is also at risk. Errors can be made and not picked up when entering data into excel spreadsheets as there are no data entry controls.

RECOMMENDATION

The audit recommends the following;

1. The fisheries management system is updated with all financial data, including payments, and receivables.
2. Ensure that all license and access fees are entered into TUFMAN not on an excel spreadsheet.

MANAGEMENT COMMENT

- No Treasury Comment

**16.2011 No Reconciliation between Fisheries and Treasury records.**

FINDINGS AND ANALYSIS:

Fishing license Fees and Access Fees are collected by the TWOG. Payment confirmation is sent to the Treasury Department and sometimes copied to the Tuvalu Fisheries Department to update their records of payments received. No reconciliation of fishing licenses between Treasury records and the Fisheries Department records is performed. The Fisheries Department needs to know if payment has been made in order to determine if a vessel is fishing illegally in Tuvalu's Exclusive Economic Zone.

Vessels that are found to be illegally fishing in Tuvalu's waters are normally fined in accordance with the laws of Tuvalu. The monitoring of the fines imposed and payment of the fines is not performed by the Fisheries Department. There is no follow up on fines payment, nor any method to record all fines which are due to be paid.

IMPLICATION

As treasury records and fisheries records are not reconciled, it makes it difficult for the fisheries department to trace whether a particular fishing vessel has paid for their fees and fines and also for Treasury to ensure that all revenues of the TWOG are completely collected. This reconciliation would also assist in identifying payments which relate to multiple financial years.

RECOMMENDATION

The Audit recommends that the Fisheries department and Treasury department to perform a regular reconciliation of their fishing license revenue and fines to ensure that all amounts due are paid and that all payments are recorded in the Fisheries Management System (TUFMAN).

MANAGEMENT COMMENT

- Treasury will look to improve this process during 2013, and notes that the previously assigned officer from Fisheries who reconciled with Treasury accounts no longer actively liaises with Treasury.

**17.2011 Fisheries to keep minutes of negotiation in file**

FINDINGS AND ANALYSIS:

Fishing nations/companies interested in fishing in Tuvalu's waters will firstly negotiate with the Fisheries Department through the Permanent Secretary and Director for Fisheries. The negotiation is surrounding the terms and condition of the Access Agreements. We noted that the fisheries staff are using their personal email addresses for negotiation purposes and that there are no written minutes to confirm the negotiation outcomes.

#### IMPLICATION

If negotiation records including emails and minutes are not kept properly the process becomes more vulnerable to fraudulent activities which can lead to decreased revenues from fishing or increased exploitation of Tuvalu's limited fisheries resource.

#### RECOMMENDATIONS

The Audit recommends,

1. Official records and minutes of negotiating to approve fishing licenses discussed via email should be filed for transparency.
2. The secretary for the Access Agreement and Licensing committee should file official records of decisions made (including printing or saving emails), to ensure transparency and accountability of the Access Agreement and Licensing committee.

#### MANAGEMENT COMMENT

- No Treasury Comment

#### **18.2011 Signing of Access Agreements**

##### FINDINGS AND ANALYSIS:

During negotiation for licences to fish in Tuvalu's Exclusive Economic Zone, an Access Agreement is signed on behalf of the Tuvalu Whole of Government and the licensee. Our audit noted that the Permanent Secretary for fisheries has been signing access agreements with no legal authority to do so.

This violates part (2) section (5) of the Marine Resource Act which states that;

“the minister may authorise or enter an agreement with any person, government or agency”.

Delegation by the minister is permitted under part (5) of section (7) of the Marine Resource Act;

“The Minister may delegate, in writing, the exercise of any or all powers and functions conferred upon him by this Act to such official or officials as he deems fit, except as may be otherwise provided in this Act”.

No delegation documentation was able to be produced when requested by Audit.

#### IMPLICATION

The Permanent Secretary of Fisheries is not able to enter into access agreements on behalf of the Tuvalu Whole of Government. The agreements entered into by the Permanent Secretary for Fisheries may be invalid.

#### RECOMMENDATION

The Audit recommends that formal delegation of power is made by the Minister of Natural Resources or the Minister signs off on all access agreements personally.

#### MANAGEMENT COMMENT

- No Treasury Comment

## Status of Prior Year Audit Issues

Recommendation	Risk	Management response
<p><b>2. 2009 Payments and expenses backdated to the previous year</b></p> <p>Notice is sent out to each Accounting Officer stating that any Payment Voucher received after a certain date before year end will be processed in the next financial year</p> <p>Enforce this cut off date</p> <p>Any payments which are made after the 31st of December (i.e. any funds leaving the bank account after 31 December) should come out of the next year's budget, regardless when the PV was processed and the expenditure was incurred. Communicate this requirement to the Accounting Officers.</p> <p>If required for the financial statements perform an accrual adjustment.</p>	<p>Government Accounting Officers are able to continue to expend their 2011 budget well into 2012, thereby having the ability to spend 12 months worth of expenditure over 15 months. This is contrary to the cash budgeting rules enforced by the TWOG, as the cash is to be provided to sustain each head for a fixed period of time, not until it is expended.</p> <p>These payments out of the 2011 budget in 2012 are contrary to the Public Finance Act and the Constitution of Tuvalu. (See the legislative breach section of this report for more details).</p>	<p>Treasury has commenced the process of closing ACCPAC accounting periods to prevent entry of Accounts Payable and Accounts Receivable entries into prior periods. Prior to January 2012 this had not been undertaken and all prior periods remained open.</p> <p>At the end of year 2011, Treasury posted all 'Backdated' checks and payment vouchers into January 2012. Contrary to advice provided by Treasury, the Minister and Financial Secretary instructed the impact of these postings was journaled back to 2011.</p> <p>The enforcement of the end of year cut-off is an area for improvement for Treasury. There will be education sessions for Treasury and Departmental staff on the end of year 2012 process to improve the end of period close outcome.</p> <p>The Minister and Financial Secretary have indicated their support to stringently apply the end of year close process to the 2012 financial year.</p> <p>Treasury agrees with this Audit finding and notes that any non-</p>

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Recommendation	Risk	Management response
		compliance will only occur on directive from Minister or Financial Secretary.
<p><b>7.2009 Top-up Payments</b></p> <p>Treasury should investigate with the NBT the reasons why no favourable top up payment to the TWOG has occurred.</p> <p>There are potential savings which could be made on overseas transactions.</p>	<p>International payments are given to the bank for overseas payments to be made on behalf of the Tuvalu Whole of Government. The amount is authorised via Payment Voucher.</p> <p>Top up payments taken by the bank for international transfers and are required due to fluctuating exchange rates are then taken out of the TWOG's bank accounts.</p> <p>Audit noted that there is never any refund given for favourable exchange rate movements.</p>	Treasury will review during 2012-13
<p><b>8.2009 Reconciliation between Customs and ACCPAC</b></p> <p>Develop a reconciliation which is performed monthly, to ensure that all transactions in the Customs database are accounted for in ACCPAC.</p> <p>Initially the monthly movements could be reconciled in order to simplify the reconciliation process.</p>	<p>Currently there is no reconciliation process between the Customs revenue collection system and ACCPAC. The amount of revenue noted in the Customs database does not agree to the amount collected in ACCPAC.</p> <p>The implication is that payments recorded by ACCPAC may not agree to the Customs revenue collection database. This may cause either issues surrounding the release of goods without payment or the refusal to release goods, even though payment has been made.</p>	Treasury will review during 2012-13
<p><b>9.2009 Improper use of Bank Entries</b></p> <p>Discontinue the practice of using bank entries to process payments. Raise the payments in the Accounts Receivable module and then clear them using the bank module.</p> <p>We reviewed the 2012 General Ledger and noted bank entries were made. We acknowledge that they are practical for bank</p>	<p>Currently the treasury uses bank entries to process receipts which have been made into the TWOG's bank account, but which have not been journaled into ACCPAC.</p> <p>This process does not use the Accounts receivable module which is useful for tracking donations/ payments per vendor/ person as well as tracking if full payment has been made or not.</p> <p>Bank entries should only be for transfers between bank</p>	This practice has been discontinued and transactions are now processed through the Accounts Receivable module.

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Recommendation	Risk	Management response
charges and interest, however, we noted substantial revenues being journaled with Bank Entries.	accounts, interest earned and bank fees.	
<p><b>1.2008 Guarantees and Commitments Issued by Government</b></p> <p>Perform due diligence to identify the risks, exposure, likelihood of recovery of outlay and alternative options prior to issuing any guarantee or other financial commitments to any local or overseas institutions.</p> <p>Involve the Attorney General's office to provide a legal opinion as to the correct level of approval authority required before the TWOG commits financial or other obligations both locally and overseas.</p> <p>Formally notify and provide supporting documentation to Treasury when such guarantees are issued after proper approval and due diligence so that the nature and extent of the TWOG's commitments can be correctly recorded and reported.</p>	<p>TWOG enters into contract/ commitment which is not able to be serviced or is onerous</p> <p>Cashflow forecasts are inaccurate as all contract payments are not known by Treasury</p> <p>Contract payments may not be in accordance with the Public Finance Act if the correct authority is not provided.</p> <p>Nature and extent of the TWOG's commitments are not recorded</p>	<p>Through the Ministry of Finance review of Public Financial Management (PFM) priorities to develop a PFM Roadmap the issue of Debt and Guarantee issues has been identified.</p> <p>Treasury intend to take on the coordination responsibilities during 2012-13</p> <p>As a component of the 2011 Annual Financial Statement preparation, the Treasury introduces a Note to the financial statements disclosing the known Debt and Contingent Liabilities (Guarantees) of TWOG.</p> <p>Further education is required for Cabinet. This is a responsibility of the Ministry of Finance and was highlighted in PFM roadmap discussions.</p>
<p><b>2.2008 Journals processing</b></p> <p>Print journal batches and attach supporting documentation to all journals for future reference.</p> <p>Seek appropriate advice on the correct</p>	<p>Journals are processed, affecting the financial position of TWOG without proper authorisation</p> <p>Greater potential for reporting fraud to occur as if no</p>	<p>Over the second half of 2012 and into 2013, treasury will commence monthly balance sheet reconciliations and an improved management</p>



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Recommendation	Risk	Management response
<p>accounting treatment prior to posting journals to minimise the number of errors processed in the financial statements.</p>	<p>documentation is required for a journal entry, it is much more difficult to ascertain if the transaction is genuine.</p> <p>It is inefficient and open to interpretation whether the journal entry is required without supporting documentation.</p>	<p>process in regards to journals.</p> <p>In the 2010, 2011 accounts, the correct allocations for clearing of holding accounts were identified prior to the correcting journals being processed.</p> <p>As at 31 December 2011 the Cash at bank reconciles to the GL 110600 Account.</p>
<p><b>3.2008 Minimising errors in the annual accounts</b></p> <p>Implement a more rigorous reconciliation regime to ensure reconciliations are prepared and independently reviewed continuously and documentation is kept. Reconciliations should include general bank account, investment accounts, mission accounts, Tuvalu development fund, outer island cash accounts, debtors and creditors control accounts.</p> <p>Consider the long-term technical assistance required to assist and train TWOG officials on the following:</p> <ul style="list-style-type: none"> <li>• planning for the preparation of the annual accounts</li> <li>• accrual accounting and year end cut-off procedures</li> <li>• identification of routine and non-routine transactions frequently incurred by TWOG and document a guidance</li> </ul>	<p>The annual accounts are misstated, with supporting documentation justifying the balances unable to be provided.</p> <p>Significant uncertainty surrounding the completeness, occurrence and accuracy of transactions in the annual accounts.</p>	<p>Over the second half of 2012 and into 2013, treasury will commence monthly balance sheet reconciliations and an improved management process in regards to journals.</p>

Report of the Auditor-General on the Tuvalu Whole of Government Accounts:  
Years ended 31 December 2010 and 31 December 2011

Recommendation	Risk	Management response
booklet to provide consistent accounting treatment of similar transactions.		
<p><b>5.2008 Debt management policy</b></p> <p>Develop and implement a debt management policy to assist in the timely recovery of debts owed to TWOG.</p> <p>Approve advances based only on full and complete budget details.</p> <p>Ensure appropriate documentation is available for all advances made against this account prior to processing payment.</p>	<p>That all debts which are owed to the TWOG are not collected.</p>	<p>Treasury is undertaking a process of reconciling and writing off unrecoverable or erroneous debt records.</p> <p>During 2012 and 2013 further activity will be undertaken to more actively manage and collect debts.</p>
<p><b>7.2008 Payroll fortnightly pay analysis</b></p> <p>Prepare a fortnightly workpaper to show the movement of the current fortnightly payroll costs from previous period.</p> <p>The reconciliation can also be signed off by the Payroll committee to indicate review of approval prior to payroll payment.</p>	<p>From our review of the payroll system we noted that there is no evidence of check by payroll committee after payroll is processed.</p> <p>We suggest that a fortnightly workpaper be prepared by the payroll officer to indicate differences occurring between pay weeks for the payroll committee. This will allow the payroll committee to easily identify the causes of any changes in payroll costs from week to week.</p>	<p>On a fortnightly basis the payroll officer now compares prior fortnight pay to the current pay. This difference is then reviewed by the payroll committee.</p> <p>Formalisation and documentation of the full payroll process is being undertaken and will be finalised during 2013.</p>
<p><b>8.2008 Change in payroll bank details</b></p> <p>Maintain written notification of details of employees' bank accounts and changes to bank accounts for payments of salaries.</p>	<p>Payment may occur into incorrect bank account, difficulties may be experienced recovering the money.</p>	<p>To be addressed as part of payroll process review in 2013.</p>
<p><b>9.2008 Employee entitlements</b></p> <p>Maintain a record of leave entitlement</p>	<p>Liabilities for leave and sick leave may accrue without finance being able to forecast resultant cash flows.</p>	<p>The TWOG of Tuvalu does not currently record a liability for staff</p>

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Recommendation	Risk	Management response
liabilities and provide this information at least quarterly to 'finance'.	Leave may be taken, however, not recorded in the system.	entitlements. Treasury will liaise with Personnel to improve this practice in 2013 and 2014.
<p><b>1.2007 Property, plant and equipment</b></p> <p>That a fixed asset register be completed to record all fixed assets of the TWOG.</p> <p>A uniform capitalisation policy needs to be formulated to ensure that assets are initially recorded when purchased and to be able to monitor for existence periodically through stocktakes.</p>	<p>Statement of Assets and Liabilities of the TWOG is understated.</p> <p>Statement of Income and Expenditure is overstated if capital items are expensed.</p>	<p>Treasury agrees with recommendations and is currently seeking to reinstate the Asset Manager Position in Treasury.</p> <p>Treasury's intention is to incorporate Property Plant and Equipment in the Annual Financial Statements.</p>
<p><b>3.2007 Inventory recognition</b></p> <p>That a full inventory stocktake be undertaken to determine the level of inventory held by all TWOG entities.</p> <p>I recommend that:</p> <p>i) All departments with inventory perform a stocktake of the inventory at least once per year (preferably year end)</p> <p>ii) A master inventory listing is created by the Asset Manager and updated yearly</p>	<p>Statement of Assets and Liabilities of the TWOG is understated.</p> <p>Statement of Income and Expenditure is overstated if inventory on hand is expensed.</p>	<p>Treasury will investigate as part of 2013 or 2014 annual statutory account preparation.</p> <p>Reliant on reinstatement of Treasury Asset Management position.</p>
<p><b>4.2007 Unauthorised expenditure</b></p> <p>That all expenditure is processed only within the approved vote appropriation.</p>	<p>Unauthorised expenditure is processed without appropriate authority i.e. through the initial budget process, virements or supplementary funding.</p>	<p>Treasury now utilising ACCPAC to improve real time monitoring of available appropriation when assessing payment requests.</p>

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Recommendation	Risk	Management response
		Monthly reporting procedures will also check for possible areas of over expenditure and require action by Departments in the form of virement or de-reservation requests.
<p><b>5.2007 Netting of income and expenditure</b></p> <p>That all revenue and expenditure is reported on a gross basis and not netted off.</p>	<p>TWOG accounts users are misled as to the actual level of revenue and expenditure.</p> <p>Also incompatible revenue and expenditure items may be netted off inappropriately.</p>	<p>Treasury notes the recommendation and where possible has ceased the netting of transactions.</p> <p>This practice also needs to be incorporated in the annual Budget to remove the practice where revenue collections have been utilised to offset/net with expenditures.</p>
<p><b>8.2007 Capital items recorded in recurrent expenditure</b></p> <p>That a capital expenditure budget be prepared to separate capital items from normal operating expenses in the annual budget process.</p>	<p>The balance sheet is understated by the value of the fixed assets expensed.</p> <p>Correspondingly the surplus in financial performance is understated and the associated depreciation expense is not recognised over the remaining useful life of the asset.</p>	<p>Relates to the overall inclusion of Property Plant and Equipment on the TWOG Accounts.</p>
<p><b>13.2007 Unlawful issue of guarantees</b></p> <p>That TWOG officials ensure proper due diligence is conducted and approvals as required by legislation obtained before 'guarantees' and commitments involving TWOG funds and assets are given to third parties.</p> <p>One guarantee given on an overdraft facility with the National Bank of Tuvalu for \$600K for Air Fiji Limited might need to be paid by the</p>	<p>That TWOG decision makers expose the TWOG to financial loss and legal action if critical analyses covering all aspects of the transaction including financial cost benefit and risk of loss, are not conducted before committing the TWOG.</p>	<p>No comment received from TWOG</p>

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Recommendation	Risk	Management response
TWOG of Tuvalu due to the financial difficulties faced by Air Fiji.		
<p><b>14.2007 Consolidation of Kaupule operations</b></p> <p>That the outer island Kaupules are consolidated into the TWOG accounts to allow for a full picture of the financial performance and position of the TWOG.</p>	<p>Complete and accurate financial statements of the Tuvalu Whole of Govt are not provided to users and interested parties.</p>	<p>Will be considered as part of 2013 or 2014 annual accounts.</p>
<p><b>17.2007 TMTI upgrade project</b></p> <p>That projects are appropriately managed to avoid cost overruns and all costs are recorded for reporting purposes.</p> <p>Also ensure that donor funding is used for the purpose it is intended for.</p>	<p>The TWOG does not have a true picture of project costs and assurance that projects are being properly managed.</p> <p>Donors will be reluctant to fund improperly managed projects.</p>	<p>No comment received from TWOG</p>
<p><b>18.2007 Government policy register</b></p> <p>Compile a TWOG policy register to log all TWOG policies to ensure easy access and consistent application for all TWOG employees.</p>	<p>TWOG officials apply TWOG policy inconsistently giving rise to inconsistent practices across ministries and functions.</p>	<p>No comment received from TWOG</p>
<p><b>19.2007 Government contracts register</b></p> <p>Compile and maintain a central contracts register to allow for better management and budgeting.</p>	<p>Budgets are based on estimates rather than source documents.</p> <p>TWOG is unaware at a global level what contracts they are counter-party to and the impact this has on TWOG cashflows.</p>	<p>No comment received from TWOG</p>

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Recommendation	Risk	Management response
<p><b>21.2007 Conflict of interest</b></p> <p>That 'conflict of interest' situations are avoided to remove real and perceived conflicts of interest in TWOG operations.</p> <p>Consider the establishment of an Office of Ombudsman to preside over and action the Leadership Code and determine whether or not such conflicts require criminal proceedings.</p>	<p>TWOG are unaware of conflict of interest situations that will increase the risk of inappropriate spending of TWOG funds or loss of TWOG revenue.</p>	<p>No comment received from TWOG</p>
<p><b>23.F.2007 Bank reconciliations</b></p> <p>Stale cheques &gt;6 months need to be reviewed, written back and then reissued.</p>	<p>That stale cheques, outstanding deposits and unpresented cheques are not valid</p>	<p>Partly undertaken. As at 20 June 2012 there was \$139k of unpresented cheques dated prior to 1 January 2012. This is a significant reduction.</p>
<p><b>23.G.2007 Bank reconciliations</b></p> <p>Close the bank accounts on balance date to avoid the significant number of unpresented cheques to creditors at balance. This occurred due to leaving the bank account open until mid January.</p>	<p>That year-end cut-off procedures are not appropriately managed to ensure correct disclosure of revenue and expenditure items.</p>	<p>Process will be implemented and enforced as part of 2012 end of year procedures.</p>
<p><b>23.H.2007 Bank reconciliations</b></p> <p>Ensure that year-end procedures include the appropriate adjustment of bank accounts managed offshore relating to UN Mission in New York and the Fiji High Commission.</p>	<p>That year-end cut-off procedures are not appropriately managed to ensure correct disclosure of revenue and expenditure items.</p>	<p>Process will be implemented and enforced as part of 2012 end of year procedures.</p>
<p><b>23.I.2007 Bank reconciliations</b></p> <p>Ensure that the Ministry of Finance are aware and record all other bank accounts that are being administered at individual ministry level</p>	<p>That TWOG is not aware of all bank accounts in operation at ministry level.</p>	<p>Remains Outstanding. Treasury has made some progress in closing some departmental bank accounts however there remain some accounts not under</p>

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Recommendation	Risk	Management response
for completeness.		the control of Treasury.
<p><b>25.2007 Cash on hand for outer islands</b></p> <p>Variances have been noted between the island cash books and what is recorded in the general ledger of TWOG.</p> <p>That monthly reconciliations are performed to identify reconciling errors for timely clearance.</p> <p>In January 2008, a circular was issued saying that the limit of Tuvalu funds for each island was to be \$10,000. This means that anything above that should be remitted to the TWOG. With the balances as at 31 December 2007, this represents an extra \$54,000 to be remitted to Treasury.</p>	<p>That the cash balances for the outer island government operations are incorrectly stated in the financial statements.</p>	<p>No comment received from TWOG</p>
<p><b>27.2007 Mission accounts</b></p> <p>Accounts for UN mission in New York and Fiji High Commission were incomplete and not received in the timely fashion to allow for all transactions to be recorded in the TWOG accounts.</p> <p>TWOG revenue received at the UN mission and Fiji High Commission should be remitted back to Tuvalu.</p> <p>I recommend the following:</p> <p>i) With current levels of technology, much of these financial accountability functions can be re-centralised in Tuvalu. The Treasury should ensure that they</p>	<p>That incomplete mission accounts undermines the integrity of the TWOG accounts where revenue, expenditure and balance sheet items are not correctly recorded.</p>	<p>Finding addressed as a component of improvements in the 2009/10/11 financial statement preparation process.</p>

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Recommendation	Risk	Management response
<p>have internet access to the bank accounts of the missions and ALL bank reconciliations can be done centrally in Funafuti.</p> <p>ii) Strict compliance with the Financial Instructions manual with respect to the correct process of incurring expenditure.</p> <p>iii) Treasury Division maintains these records efficiently and regularly reconciles these to cashbooks maintained by these Embassies to ensure accurate accountability of TWOG Funds</p>		
<p><b>29.2007 Receivables</b></p> <p>Cut-off procedures need improvement to ensure revenue is recorded in the correct period. An error of \$346K was revenue received in early 2008 that should have been accrued in 2007.</p> <p>Aged debtors (greater than 12 months) totalling \$140K should be provided for as uncollectible.</p> <p>That TWOG manage their debtors through timely review of debtor reconciliations.</p>	<p>Receivables and revenue is understated.</p> <p>That TWOG make inadequate provisions for debts that are no longer collectable.</p> <p>That TWOG don't manage debtors effectively and therefore undermining the revenue collectability.</p>	<p>Remains outstanding. Treasury has plans to further improve during 2012 and 2013.</p>
<p><b>30.2007 Advance accounts</b></p> <p>Advance accounts should be cleared on a timely basis to ensure they are appropriately coded to the correct expenditure codes.</p> <p>Noted \$655K of new advances was made in 2007 relating to the TMTI project, Rotomould</p>	<p>Advance accounts could be used to mask inappropriate progress reporting against projects and overspends by Ministries against their budgets.</p>	<p>Remains outstanding. Treasury has plans to further improve during 2012 and 2013.</p>



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Recommendation	Risk	Management response
and Tolise Primary School.		
<p><b>31.2007 Special imprest accounts</b></p> <p>Special imprest accounts should be settled as soon as practically possible after an official trip has been completed.</p> <p>Finance needs to review the special imprest accounts as audit was unable to ascertain the accuracy of the imprest balances. This was due to:</p> <ol style="list-style-type: none"> <li>1) Deductions were posted to the respective accounts exhibiting an incorrect refundable position on numerous accounts.</li> <li>2) Errors in posting inflate/deflate outstanding imprest on individual's accounts.</li> <li>3) Interest charged on accounts may have accounted for some differences</li> </ol> <p>The development fund also issues special imprests which are not monitored by treasury. This undermines the imprest process as outlined by the financial instructions.</p>	<p>Staff are advanced funds which may not be settled creating duplicate claims and "double dipping".</p>	<p>Remains outstanding. Treasury has plans to further improve during 2012 and 2013.</p>
<p><b>32.2007 Special imprest accounts</b></p> <p>Other matters of concern raised in prior years and still applicable are:</p> <ol style="list-style-type: none"> <li>1) Retirement of imprest has not been made according to the agreed time noted in the application forms.</li> <li>2) Proper maintenance of the Special Imprest Register at the Treasury Division is still</li> </ol>	<p>That staff are advanced funds but not required to settle these and hence could be double dipping.</p>	<p>No comment received from TWOG</p>

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Recommendation	Risk	Management response
<p>required; and</p> <p>3) Section 318 (2) of the Financial Instructions manual states:</p> <p><i>“that appropriate written reminders must be sent to officers concerned in the event that a Special Imprest has not been accounted for or retired on the due date.”</i> This I believe has not been done effectively.</p>		
<p><b>34.2007 Accounts payable</b></p> <p>Improve cut-off procedures for recognising creditors at year-end.</p> <p>Present cut-off procedures involve keeping the bank accounts open to process payments against the old year some 10 days into the New Year. This has resulted in some 70% of outstanding cheques in the bank reconciliation (or \$755,338) being dated 31/12/07.</p> <p>An under-accrual in Accounts Payable of \$177,793, meaning that this expenditure was processed into the 2008 year when it related to 2007.</p>	<p>That creditors are understated due to incorrect cut-off procedures.</p> <p>That the June bank reconciliation is inflated due to cheques being dated on balance when the payments should really be accrued for the financial year.</p>	<p>Refer Significant Audit Issues 2009</p>
<p><b>39.2007 Revenue - monitoring and reconciling accounts</b></p> <p>Close monitoring and reconciling of accounts be carried out systematically throughout the year to detect and prevent errors and misstatements. A reconciliation regime should be implemented</p>	<p>That reconciling items are not identified and cleared in a timely manner.</p>	<p>Treasury has commenced reviewing existing Accounts Receivable balances and reconciling the Accounts Receivable sub ledger to the Accounts Receivable control General Ledger account.</p>

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Years ended 31/12/2010 and 31/12/2011

Recommendation	Risk	Management response
to ensure that reconciliations are done and reviewed continuously and documentation is kept.		This process will continue to be refined into 2013.
<p><b>43.2007 Contracts monitoring database</b></p> <p>All TWOG contracts are reviewed by the TWOG legal division and monitored through a centralised contracts register. Centralising and updating TWOG contracts will facilitate better decision making, better cash flow forecasting and increased transparency.</p>	That the TWOG are not able to effectively manage contracts to its fullest extent.	This matter has already been discussed under the TWOG contracts register above.
<p><b>45.2007 In-kind contributions</b></p> <p>There is no mechanism in place for systematically recognizing income received "in kind" by the TWOG. All assets, equipment and expenditure paid for by other governments or organizations should be recorded in the assets register and also as non cash income or income received in kind.</p> <p>In 2007, the TWOG received \$1,146,461 worth of fuel under the Japanese fuel grant scheme. This has not been accounted for as income as it should have under the International Accounting Standards, but has been netted off against expenditure. Subsequent adjustment has been made by the audit.</p>	That revenue and assets are understated.	Disclosed in TWOG accounting policy.
<p><b>47.2007 Vote books</b></p> <p>Ministry vote books do not reconcile to the general ledger for all expenditure items. This is a serious break down in controls. It is pointless</p>	That expenditure is incorrectly recorded as the reconciliation process is not operating effectively to provide a third party check on data inputted by	Treasury has now installed a Monthly reporting process which requires vote book reconciliations by vote keepers

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Recommendation	Risk	Management response
<p>using this type of control unless the system is maintained properly. Implications can include:</p> <ul style="list-style-type: none"> <li>• mispostings by treasury remaining undetected</li> <li>• virement decisions based on incorrect data</li> <li>• incurring expenditure without correct budget/actual data</li> <li>• budget overspends remaining undetected.</li> </ul> <p>If the vote book system is to be retained, I urgently recommend that monthly reconciliations are undertaken by each vote keeper to the general ledger. Evidence of these reconciliations should be retained at Treasury and a register kept of what vote books are outstanding.</p>	<p>finance.</p>	<p>monthly to a report provided from the Treasury financial system.</p> <p>Non-compliant vote keepers are reported to the Minister and Financial Secretary as a component of the following Monthly report.</p>
<p><b>48.2007 Payroll</b></p> <p>Fortnightly reconciliations are performed to detect errors.</p> <p>Govt also investigating the possibility of purchasing a payroll module that will produce reports to assist in the reconciliation process.</p> <p>Payroll data done via spreadsheet and open to human error. Payroll data often difficult to obtain and supporting documentation often missing.</p>	<p>That payroll errors go undetected and TWOG are unable to recover any overpayments or incorrect payments.</p>	<p>Improvements made include:</p> <p>More timely entry of payroll journals into ACCPAC.</p> <p>Review of variations from pay-to-pay now included in Payroll Committee information.</p>
<p><b>53.2007 Financial information security</b></p>		<p>Continues to be a risk. Treasury is</p>

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Recommendation	Risk	Management response
<p>Discussions with Treasury indicated that they were unable to backup its data on several occasions during 2007 due to viruses in the two TWOG servers.</p> <p>Treasury does have off-site back-up procedures currently in place for data; however, this does not cover application software.</p> <p>Given volatility of servers in the past, and possibility of future volatility, an effective data and application recovery plan is urgently required to safeguard the Treasury division from possible data loss. This should include a back-up server in an off-site location.</p>	<p>That financial records are lost in the event of disaster.</p>	<p>reviewing a Service Agreement with Enabling (ACCPAC vendor) to provide support services to address this finding</p>

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### Audit issues closed in 2010/11 audit

Finding Name	Finding Name
1.2009 Suppliers expense lack of Supporting Documentation	23.E.2007 Bank reconciliations
3.2009 Lack of supporting documentation surrounding revenues	26.2007 Interest bearing deposits and investments
4.2009 Usage of ACCPAC	35.2007 Immigration security bond
5.2009 Unknown payments journaling process	36.2007 Outer Island suspense accounts
6.2009 International Transfers	37.2007 Government loans and guarantees
4.2008 Tuvalu Development Fund reconciliation	38.2007 Equity
6.2008 Link between IRD and finance	40.2007 Dot TV revenue
10.2008 Double payment of invoices	41.2007 Fisheries revenue
2.2007 Consolidation of PEs	42 .2007 Sea cucumber business royalties
6.2007 Unlawful appropriations	44.2007 Taxation and customs revenue
7.2007 Staff availability and access to information	46.2007 Ministerial advances
9.2007 Format of financial information	49.2007 Medical treatment scheme
10.2007 Audit of budget assumptions	50.2007 Shared services
11.2007 ACCPAC	51.2007 Contingent assets and liabilities
12.2007 Foreign exchange and commodity price risk management	52.2007 Insurance
15.2007 Classification of Tuvalu Trust Fund contributions	
16.2007 Virements between expenditure heads	
20.2007 Food subsidy scheme	
23.A.2007 Bank reconciliations	
23.B.2007 Bank reconciliations	
23.C.2007 Bank reconciliations	
23.D.2007 Bank reconciliations	

**Appendix 1 of the REPORT OF THE AUDITOR-GENERAL ON  
THE ACCOUNTS OF THE TUVALU WHOLE OF  
GOVERNMENT for the years ended 31 December 2010 and  
31 December 2011**



**Part 1 - Tuvalu Whole of Government Financial Statements  
and Independent Audit Report for 2011**

**Part 2 - Tuvalu Whole of Government Financial Statements  
and Independent Audit Report for 2010**

**Part 3 - Tuvalu Whole of Government Financial Statements  
2009**

**Appendix 1: Part 1 - Tuvalu Whole of Government Financial  
Statements and Independent Audit Report for 2011**





Tuvalu Whole of Government Independent Audit Report for the year ended  
31 December 2011

To: Honourable Members of the Tuvalu Parliament

Basis for Disclaimer of Audit Opinion

**Prior year comparatives**

My audit report on the financial statements for the period ended December 31, 2010 was a Disclaimer of Audit Opinion. Due to deficiencies in controls and accounting records, there is uncertainty in relation to the 31 December 2010 balances of Cash and Cash Equivalents, Accounts Payable, and Tuvalu Development Fund in the Statement of Assets and Liabilities; Recurrent Expenditure in the Statement of Income and Expenditure, the Statement of Revenue and Expenditure by Heads, and the Comparative Statement of Actual and Estimated Recurrent Revenue by 'Sub Head'; relevant financial statement aggregate totals, including the Total Recurrent Expenditure, Recurrent Surplus/Deficit, Total Surplus/Deficit; and Net Surplus/(Deficit) for the period and the Accumulated Funds in the Statement of Changes in Equity.

I have not been able to obtain sufficient appropriate audit evidence to support these items. This constitutes a limitation of scope of the audit which is significant.

**End of year transactions effecting cash on hand, expenses and accounts payable**

A significant amount of expenses which were either incurred and paid, or paid during the 2012 period have been entered incorrectly into the 2011 financial year. Government officials continued to expend the 2011 budget during the 2012 year. This issue was formally raised with the Secretary for Finance and the Minister for Finance, however, the Ministry did not agree to adjust the expenditure into the correct period.

This effects the expense transactions, cash balance and accounts payable balance for 2011. The effect is an understatement of cash on hand in 2010 of \$358,385 and an overstatement of expenses of \$231,820 and accounts payable totalling to \$126,565.

Additionally a significant amount of expenses which were either incurred or paid during the 2011 period have been entered incorrectly into the 2010 financial year, in order to continue to expend the 2010 budget during the 2011 year. The affect of this is the understatement of expense in 2011. The maximum amount of the understatement is \$2.4 million. I was unable to quantify the amount. This issue was formally raised with the Secretary for Finance and the Minister for Finance, however, the Ministry did not agree to adjust the expenditure into the correct period.

The Recurrent Expenditure, component of the Statement of Income and Expenditure, the Statement of Receipts and Payments by Heads, and the Comparative Statements of Actual and Estimated Expenditure by 'Sub Head'; the Cash and Cash Equivalent component of the Statement of Assets and Liabilities; the Accounts Payable component of the Statement of Assets and Liabilities are mis-stated due to this disagreement with management.

**The non inclusion of fixed assets and inventory in the financial statements**

The Tuvalu Whole of Government's accounting policy is to expense all fixed assets in the period in which they are acquired. This is contrary to Generally Accepted Accounting Practice which requires assets to be depreciated over their useful life. No asset register is maintained by the Tuvalu Whole of Government, nor is there any depreciation charged.

Inventories are not disclosed as assets in the financial statements. They are expensed when purchased, rather than recorded as assets until consumed. There is no record of inventory, nor is there any management surrounding inventory.

I have not been able to obtain sufficient appropriate audit evidence to support the Assets portion of the Statement of Assets and Liabilities, the non inclusion of the Statement of Summaries of Unallocated Stores and Manufacturing Accounts, the non inclusion of Depreciation Expense part of the Statement of Income and Expenditure. This constitutes a limitation of scope of the audit which is significant.

#### **Tuvalu Development Fund**

I was unable to reconcile the transactions in the Tuvalu Development Fund to the underlying balance of the Tuvalu Development Fund's bank account. We were unable to verify the receipts and payments made from the Tuvalu Development Fund. Disclosure of this account and the aggregate receipts and payments has not been made, however, is required under the Public Finance Act.

I have not been able to obtain sufficient appropriate audit evidence to support the Tuvalu Development Fund in the Statement of Assets and Liabilities and corresponding disclosures.

#### **Accrual basis of accounting used when Cash Basis is required under the Public Finance Act**

The Statement of Unauthorised Expenditure is to be reported on a cash basis, as the budget is performed on a cash basis. The Statement of Unauthorised Expenditure was unable to be tested as the figures contain non cash transactions which could potentially overstate or understate the balances.

I have not been able to obtain sufficient appropriate audit evidence to support the Statement of Unauthorised Expenditure.

#### **Non preparation of Statement of Arrears of Revenue, Statement of Receipts and Payments and Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments**

The Public Finance Act Section 31(1)(ii) (xiv), and (xvi) requires that the Statement of Arrears of Revenue, Statement of Receipts and Payments and Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments be prepared as part of the public accounts. These statements were not prepared in 2011. Non preparation of these statements is a departure from the requirements of the Public Finance Act.

I have not been able to obtain sufficient appropriate audit evidence to support the non inclusion of the Statement of Arrears of Revenue, Statement of Receipts and Payments and Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments. This constitutes a limitation of scope of the audit which is significant.

#### **Summary of Basis for Disclaimer of Audit Opinion**

The disagreement with management which is significant arises from the Ministry of Finance not agreeing to adjust the financial statements for expenditure incurred and paid, or paid, outside the accounting period.

1. A lack of evidence to support:
  - a. the balances of Cash and Cash Equivalents, Accounts Payable, and Tuvalu Development Fund in the Statement of Assets and Liabilities;
  - b. the transactions which form Recurrent Expenditure in the Statement of Income and Expenditure, the Statement of Revenue and Expenditure by Heads, and the Comparative Statement of Actual and Estimated Recurrent Revenue by 'Sub Head';

Report of the Auditor-General on the Tuvalu Whole of Government Accounts:  
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- c. relevant financial statement aggregate totals, including the Total Recurrent Expenditure, Recurrent Surplus/Deficit, Total Surplus/Deficit;
  - d. all comparative information for 2010; and
  - e. Net Surplus/(Deficit) for the period and the Accumulated Funds in the Statement of Changes in Equity.
2. Non preparation of
- a. Fixed Assets and Inventories in the Statement of Assets and Liabilities and Depreciation in the Statement of Income and Expenditure;
  - b. Statement of Summaries of Unallocated Stores and Manufacturing Accounts;
  - c. Statement of Arrears of Revenue;
  - d. Statement of Receipts and Payments; and
  - e. Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments.

### Audit Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### Scope

I was engaged to audit the accompanying financial statements of the Tuvalu Whole of Government, which comprise the all statements required under section 31 of the Public Finance Act for the year ended 31 December 2011.

### The Financial Report and Finance Minister's Responsibility

The Minister of Finance is responsible for the preparation and true and fair presentation of the financial report in accordance with the Public Finance Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit Approach

I have conducted an independent audit in order to express an opinion on the financial report. I have audited the accounts of the Government of Tuvalu for the year ended 31 December 2011 in accordance with section 172 of the Constitution and section 32 of the Public Finance Act

My responsibility is to express an opinion on the financial report in accordance with International Standards of Supreme Audit Institutions. This responsibility arises under the Audit Act.

I planned and performed the audit to obtain all information and explanations I considered necessary in order to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. The audit involved performing procedures to test the information presented in the financial statements. I assessed the results of those procedures in forming my opinion.

Report of the Auditor-General on the Tuvalu Whole of Government Accounts:  
Years ended 31/12/2010 and 31/12/2011

Audit procedures include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Tuvalu Whole of Government;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

I did not examine every transaction, nor do I guarantee complete accuracy of the financial statements. I evaluated the overall adequacy of the presentation of information in the financial statements.

My opinion does not provide assurance:

- about the future viability of the Government,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of the Audit Act.

Sincerely,



Isaako K. Kine

**Auditor General for Tuvalu**

Funafuti

17 September 2012

# **TUVALU WHOLE OF GOVERNMENT**



## **FINANCIAL STATEMENTS**

**for the Year Ended 31 December 2011**

## STATEMENT OF RESPONSIBILITY

The Government is pleased to present the Financial Statements of the Government of Tuvalu for the Year Ended 31 December 2011

We hereby declare that:


- We have been responsible for the preparation of these Financial Statements and the judgments made in them.
- We are responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- In our opinion these Financial Statements fairly reflect the financial position and operations of the Government of Tuvalu for the Year Ended 31 December 2011

The Financial Statements were authorised for issue by the Minister of Finance.



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**Hon. Lotoala Metia**  
Minister of Finance & Economic  
Development



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**Mr Minute Taupo**  
Secretary for Finance and Economic  
Development

## STATEMENT OF INCOME AND EXPENDITURE

For the Year Ended 31/12/2011

The accompanying notes form part of these financial statements.

	Notes	<u>2011</u> <u>Actual</u>	<u>2011</u> <u>Budget</u>	<u>2010</u> <u>Actual</u>
<b><u>RECURRENT INCOME</u></b>				
Taxation	9	6,444,401	5,861,200	5,707,408
Interest, Dividends and Rent	10	1,520,430	3,016,629	1,880,821
Fisheries Licenses		5,683,624	5,360,000	7,151,855
.TV		1,876,980	2,850,000	2,025,950
External Assistance and Grants	11	8,086,961	11,816,000	5,686,649
Other Income	12	2,693,297	2,843,810	2,495,526
<b>TOTAL RECURRENT INCOME</b>		<b>26,305,692</b>	<b>31,747,639</b>	<b>24,948,209</b>
<b><u>RECURRENT EXPENDITURE</u></b>				
Wages, Salaries, and Allowances		10,985,474	11,241,803	10,819,215
Contributions to Tuvalu National Provident Fund		955,988	985,796	906,795
Travel		1,379,164	1,116,129	1,467,260
Fuel, Electricity and Communications		2,240,792	1,771,787	2,342,599
Maintenance		1,372,896	1,201,387	1,653,825
Loan Repayments & Bank Fees		497,611	518,000	1,199,162
Grants and Subsidies (incl. Scholarships Support)	13	5,989,489	8,589,157	8,699,796
Tuvalu Medical Treatment Scheme		2,132,755	1,804,600	2,203,277
Other Expenses	14	3,654,497	5,324,334	3,725,225
Special Development Expenditures		681,280	766,179	1,105,679
<b>TOTAL RECURRENT EXPENDITURE</b>		<b>29,889,946</b>	<b>33,319,173</b>	<b>34,122,833</b>
<b>RECURRENT SURPLUS / (DEFICIT)</b>		<b>(3,584,253)</b>	<b>(1,571,534)</b>	<b>(9,174,624)</b>
<b><u>OTHER REVENUE AND EXPENDITURE</u></b>				
Unrealised Gain (Loss) on Trust Fund Investment	4	912,549		3,584,832
Unrealised Gain (Loss) on Investment in Corporations	5	(562,502)		1,444,414
Unrealised Gain (Loss) on Currency Movement (Offshore Loans)	7	47,236		1,008,296
Doubtful Debts Expense	6	355		(145,241)
<b>TOTAL OTHER REVENUE AND EXPENDITURE</b>		<b>397,638</b>		<b>5,892,301</b>
<b>TOTAL SURPLUS / (DEFECIT)</b>		<b>(3,186,616)</b>		<b>(3,282,323)</b>

**STATEMENT OF ASSETS AND LIABILITIES**

Prepared in accordance with Public Finance Act s31(1)(i)

For the Year Ended 31/12/2011

The accompanying notes form part of these financial statements.

	Notes	<u>2011</u>	<u>2010</u>
<b><u>GOVERNMENT EQUITY</u></b>			
Surplus / (Deficit)		(3,186,616)	(3,282,323)
Retained Earnings		57,577,138	60,218,854
<b>TOTAL GOVERNMENT EQUITY</b>		<b>54,390,522</b>	<b>56,936,531</b>
<b>REPRESENTED BY:</b>			
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	1	(1,040,905)	(916,832)
Special Funds	2	1,750,374	1,941,347
Cash Investments	3	3,198,993	7,427,740
Prepayments		170,978	0
Debtors	6	1,290,014	2,500,139
<b>Total current assets</b>		<b>5,369,453</b>	<b>10,952,394</b>
<b>Non-Current Assets</b>			
Tuvalu Trust Fund	3 & 4	46,947,827	46,035,278
Tuvalu Development Fund	3	1,369,277	427,769
Investments in Corporations	3 & 5	11,474,370	12,036,872
<b>Total Non-Current Assets</b>		<b>59,791,474</b>	<b>58,499,919</b>
<b>Total Clearing account balances</b>		<b>0</b>	<b>0</b>
<b>TOTAL ASSETS</b>		<b>65,160,927</b>	<b>69,452,313</b>
<b><u>LIABILITIES</u></b>			
<b>Less Current Liabilities</b>			
Accounts Payable		646,145	352,996
Accounts Payable - Tuvalu Provident Fund		329,740	337,283
Accounts Payable - Payroll Clearance		41,500	85,857
Tuvalu Police Fund		1,196	763
<b>Total current liabilities</b>		<b>1,018,581</b>	<b>776,899</b>
<b>Non-Current Liabilities</b>			
Offshore Loans	7	7,119,554	7,454,291
Domestic Loans	7	2,632,269	4,284,592
<b>Total non-current liabilities</b>		<b>9,751,823</b>	<b>11,738,883</b>
<b>TOTAL LIABILITIES</b>		<b>10,770,404</b>	<b>12,515,782</b>
<b>TOTAL NET ASSETS</b>		<b>54,390,522</b>	<b>56,936,531</b>



**STATEMENT OF CHANGES IN EQUITY****For the Year Ended 31/12/2011**

*The accompanying notes form part of these financial statements.*

	Notes	<u>2011</u>	<u>2010</u>
<b>Retained Earnings as at 1 January</b>		<b>56,936,531</b>	<b>59,340,952</b>
<b>Movements reflected on Income Statement</b>			
Net Surplus/(Deficit) for the period		(3,584,253)	(9,174,624)
Other Unrealised Gain (Loss) for the period		397,638	5,892,301
<b>Movements not reflected on Income Statement</b>			
Reduction in Offshore Debt - Principal Repaid		287,350	946,436
Increase (Decrease) in Tuvalu Development Fund Holding		353,257	(68,534)
<b>Accumulated Funds as at 31 December</b>		<b><u>54,390,522</u></b>	<b><u>56,936,531</u></b>

**STATEMENT OF REVENUE AND EXPENDITURE BY HEADS**  
**Prepared in accordance with Public Finance Act s31(1)(ii)**  
**For the Year Ended 31/12/2011**

*The accompanying notes form part of these financial statements.*

**Budget Approved on Cash Basis**

<u>Head</u>	<u>Head of Expenditure / Government Function</u>	<u>2011 Actual</u>	<u>2011 Original Budget</u>	<u>Variance (Bud - Act)</u>
<b>RECURRENT REVENUE</b>				
A	Office of the Governer General	0	0	0
B	Office of the Prime Minister	167,751	230,000	62,249
C	Legal Services	83,616	57,000	(26,616)
D	Parliament	0	0	0
E	Office of the Auditor General	(7,205)	32,550	39,755
F	Finance and Economic Development	15,368,127	18,018,106	2,649,979
G	Public Utilities	88,824	1,412,000	1,323,176
H	Health	13,715	31,000	17,285
I	Natural Resources	6,223,402	6,442,650	219,248
J	Home Affairs	95,057	99,200	4,143
K	Police and Prison Services	530,441	38,700	(491,741)
L	Transport and Communications	3,673,969	5,271,200	1,597,231
M	Education, Youth and Sports	44,959	65,000	20,042
N	Judiciary	4,742	4,800	58
O	Foreign Affairs, Trade, Tourism, Environment & Labour	18,295	45,433	27,138
<b>TOTAL RECURRENT REVENUE</b>		<b>26,305,692</b>	<b>31,747,639</b>	<b>5,441,947</b>
<b>RECURRENT EXPENDITURE</b>				
A	Office of the Governer General	135,217	140,662	5,445
B	Office of the Prime Minister	2,412,786	2,410,829	(1,957)
C	Legal Services	204,841	219,643	14,802
D	Parliament	516,538	441,396	(75,142)
E	Office of the Auditor General	145,516	163,365	17,849
F	Finance and Economic Development	1,863,481	3,822,366	1,958,884
G	Public Utilities	1,443,315	2,719,704	1,276,389
H	Health	5,012,322	4,885,114	(127,208)
I	Natural Resources	1,810,302	1,920,998	110,696
J	Home Affairs	3,350,543	3,364,093	13,550
K	Police and Prison Services	871,753	884,342	12,589
L	Transport and Communications	4,082,208	3,788,537	(293,672)
M	Education, Youth and Sports	6,039,416	6,538,384	498,968
N	Judiciary	131,591	100,890	(30,701)
O	Foreign Affairs, Trade, Tourism, Environment & Labour	1,870,115	1,918,849	48,734
<b>TOTAL RECURRENT EXPENDITURE</b>		<b>29,889,946</b>	<b>33,319,173</b>	<b>3,429,227</b>
<b>RECURRENT SURPLUS / (DEFICIT)</b>		<b>(3,584,253)</b>	<b>(1,571,534)</b>	<b>2,012,720</b>
<b>OTHER REVENUE AND EXPENDITURE</b>				
	Unrealised Gain (Loss) on Trust Fund Investment	912,549		
	Unrealised Gain (Loss) on Investment in Corporations	(562,502)		
	Unrealised Gain (Loss) on Currency Movement (Offshore Loans)	47,236		
	Doubtful Debts Expense	355		
<b>TOTAL OTHER REVENUE AND EXPENDITURE</b>		<b>397,638</b>		
<b>TOTAL SURPLUS / (DEFECIT)</b>		<b>(3,186,616)</b>		

**COMPARATIVE STATEMENT OF ACTUAL AND ESTIMATED RECURRENT REVENUE by 'SUB HEAD'**

Prepared in accordance with Public Finance Act s 31 (1)(iii)  
For the Year Ended 31/12/2011

*The accompanying notes form part of these financial statements.*

**Budget Approved on Cash Basis**

<u>Head of Revenue / Government Function</u>	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>Variance (Bud - Act)</u>
<b>RECURRENT REVENUE</b>			
<b>Office of the Governor General</b>			
<b>Office of the Prime Minister</b>			
B01 Corporate Services - Office of the Prime Minister	1,166	0	(1,166)
B04 Personnel and Training	130,413	127,000	(3,413)
B08 Tuvalu Media Department	36,172	103,000	66,828
<b>Legal Services</b>			
C01 Office of the Attorney General	83,616	57,000	(26,616)
<b>Parliament</b>			
<b>Office of the Auditor General</b>			
E01 Office of the Auditor General	(7,205)	32,550	39,755
<b>Finance and Economic Development</b>			
F01 Corporate Services - Finance	9,081,477	12,292,196	3,210,719
F02 Planning and Budget	30	0	(30)
F03 Central Statistics Division	340	50	(290)
F04 Customs	2,508,690	2,392,000	(116,690)
F05 Postal	42,168	24,300	(17,868)
F06 Treasury	(135,120)	0	135,120
F07 Inland Revenue	3,862,281	3,301,200	(561,081)
F09 Industries	8,260	8,360	100
<b>Public Utilities</b>			
G01 Corporate Services - Public Utilities	0	1,250,000	1,250,000
G02 Energy	3,632	15,500	11,868
G03 Public Works Department	85,192	146,500	61,308
<b>Health</b>			
H02 Health Administration	6,085	0	(6,085)
H03 Curative	5,564	26,000	20,436
H04 Preventative Primary and Preventative Health Services	2,066	5,000	2,934
<b>Natural Resources</b>			
I02 Agriculture	10,066	10,200	134
I03 Fisheries	6,186,365	6,373,000	186,635
I04 Lands and Surveys	26,971	59,450	32,479
<b>Home Affairs</b>			
J01 Corporate Services - Home Affairs	18,165	31,200	13,035
J06 Immigration	76,892	68,000	(8,892)
<b>Police and Prison Services</b>			
K01 Police and Prison Services	530,441	38,700	(491,741)
<b>Transport and Communications</b>			
L01 Corporate Services - Communications and Transport	1,876,980	2,850,000	973,020
L02 Marine	1,542,499	2,101,000	558,501
L03 Aviation	253,095	300,000	46,905
L04 Information, Communication and Technology	505	20,000	19,495
L07 Meteorological Office	890	200	(690)
<b>Education, Youth and Sports</b>			
M04 EFA Secondary School	43,624	65,000	21,376
M05 Library	1,335	0	(1,335)
<b>Judiciary</b>			
N01 Judiciary	4,742	4,800	58
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>			
O02 Labour	4,431	23,000	18,569
O03 Suva Mission	13,864	22,333	8,469
O04 Permanent Mission of Tuvalu to the UN	0	100	100
<b>TOTAL RECURRENT REVENUE</b>	<b>26,305,692</b>	<b>31,747,639</b>	<b>5,441,947</b>

**COMPARATIVE STATEMENT OF ACTUAL AND ESTIMATED RECURRENT EXPENDITURE by 'SUB HEAD'**

Prepared in accordance with Public Finance Act s 31 (1)(iv)

For the Year Ended 31/12/2011

*The accompanying notes form part of these financial statements.*

**Budget Approved on Cash Basis**

<b><u>Head of Expenditure / Government Function</u></b>	<b><u>2011 Actual</u></b>	<b><u>2011 Original Budget</u></b>	<b><u>Variance (Bud - Act)</u></b>
<b>RECURRENT EXPENDITURE</b>			
<b>Office of the Governor General</b>			
A01 Office of the Governor General	135,217	140,662	5,445
<b>Office of the Prime Minister</b>			
B01 Corporate Services - Office of the Prime Minister	833,195	704,889	(128,306)
B04 Personnel and Training	1,120,139	1,292,676	172,537
B08 Tuvalu Media Department	459,453	413,265	(46,188)
<b>Legal Services</b>			
C01 Office of the Attorney General	146,900	163,121	16,222
C02 People's Lawyer	57,942	56,522	(1,419)
<b>Parliament</b>			
D01 Office of the Parliament	516,538	441,396	(75,142)
<b>Office of the Auditor General</b>			
E01 Office of the Auditor General	145,516	163,365	17,849
<b>Finance and Economic Development</b>			
F01 Corporate Services - Finance	550,262	2,624,564	2,074,302
F02 Planning and Budget	217,164	169,407	(47,757)
F03 Central Statistics Division	78,698	80,438	1,740
F04 Customs	159,991	170,063	10,072
F05 Postal	67,777	78,997	11,220
F06 Treasury	506,611	299,043	(207,568)
F07 Inland Revenue	80,235	78,806	(1,429)
F09 Industries	202,743	321,048	118,305
<b>Public Utilities</b>			
G01 Corporate Services - Public Utilities	208,595	1,595,652	1,387,057
G02 Energy	44,296	45,462	1,166
G03 Public Works Department	1,190,424	1,078,590	(111,834)
<b>Health</b>			
H01 Corporate Service - Health	2,516,983	2,358,914	(158,069)
H02 Health Administration	455,754	370,773	(84,980)
H03 Curative	1,519,954	1,594,489	74,535
H04 Preventative Primary and Preventative Health Services	519,631	560,938	41,307
<b>Natural Resources</b>			
I01 MNRE Headquarters	149,212	177,338	28,126
I02 Agriculture	331,802	297,522	(34,280)
I03 Fisheries	446,818	512,386	65,567
I04 Lands and Surveys	882,470	933,753	51,283
<b>Home Affairs</b>			
J01 Corporate Services - Home Affairs	453,081	425,464	(27,616)
J02 Department of Rural Development	2,340,067	2,187,522	(152,544)
J03 Community Affairs	247,100	260,473	13,374
J04 Women Development	55,699	63,440	7,741
J05 Culture	17,557	20,125	2,569
J06 Immigration	93,183	94,587	1,404
J08 Solid Waste Agency of Tuvalu (SWAT)	143,857	312,480	168,623

**Continued on next page**

Continued from previous page

**Head of Expenditure / Government Function**

		<b><u>2011</u></b> <b><u>Actual</u></b>	<b><u>2011</u></b> <b><u>Original</u></b> <b><u>Budget</u></b>	<b><u>Variance</u></b> <b><u>between</u></b> <b><u>Actual and</u></b> <b><u>Budget</u></b>
<b>Police and Prison Services</b>				
K01	Police and Prison Services	871,753	884,342	12,589
<b>Transport and Communications</b>				
L01	Corporate Services - Communications and Transport	65,062	246,315	181,253
L02	Marine	3,444,763	2,905,323	(539,441)
L03	Aviation	184,789	214,896	30,108
L04	Information, Communication and Technology	210,484	226,278	15,794
L07	Meteorological Office	177,110	195,725	18,615
<b>Education, Youth and Sports</b>				
M01	Corporate Services - Educations, Youth and Sports	1,111,390	1,131,291	19,901
M02	Education Department	237,956	228,027	(9,929)
M03	Primary Education	1,342,087	1,344,697	2,610
M04	EFA Secondary School	1,368,992	1,490,726	121,734
M05	Library	72,169	82,210	10,041
M06	Sports	170,264	68,283	(101,981)
M07	Pre-service Scholarships	1,621,649	2,058,218	436,569
M08	Youth	21,470	16,180	(5,290)
M09	Early Childhood Care and Education	93,438	118,751	25,313
<b>Judiciary</b>				
N01	Judiciary	131,591	100,890	(30,701)
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>				
O01	MFAETLT Headquarter	205,247	151,762	(53,485)
O02	Labour	273,419	328,862	55,443
O03	Suva Mission	269,805	286,158	16,353
O04	Permanent Mission of Tuvalu to the UN	436,036	484,317	48,281
O05	Brussels Mission	399,919	375,346	(24,573)
O06	Environment	86,201	97,143	10,942
O07	Tuvalu Consulate in Auckland	151,432	144,906	(6,526)
O08	Trade Office	11,018	9,606	(1,413)
O09	Tourism	37,039	40,749	3,710
<b>TOTAL RECURRENT EXPENDITURE</b>		<b><u>29,889,946</u></b>	<b><u>33,319,173</u></b>	<b><u>3,429,227</u></b>

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2011**

#### **1            REPORTING ENTITY**

##### **1.0            GOVERNMENT OF TUVALU**

The Financial Statements of the Government of Tuvalu represent the financial activities undertaken by Government Departments including entities which operate on the outer islands and in Foreign diplomatic posts.

Tuvalu Public Enterprises, including the Tuvalu Electricity Corporation, Vaiaku Lagi Hotel, National Bank of Tuvalu, Development Bank of Tuvalu, National Fisheries Corporation of Tuvalu (NAFICOT), Tuvalu Philatelic Bureau, Tuvalu Maritime Training Institute (TMTI) and Tuvalu Telecommunications Corporation are not consolidated into the Government of Tuvalu Accounts. The Government's investment in these enterprises is included on the Statement of Assets and Liabilities.

The joint ventures in commercial fishing operations entered into by NAFICOT on behalf of the Government of Tuvalu are not included in these accounts.

##### **1.1            TUVALU TRUST FUND**

In 1987 under the Tuvalu Trust Fund (Finance and Information) Act, the Government of Tuvalu established the Tuvalu Trust Fund (TTF) to contribute to the long term financial stability and viability of Tuvalu by enabling it to meet financial commitments from the proceeds of investments. The Trustees represent the Governments of Tuvalu, New Zealand and Australia, which are the main contributors to the Trust Fund.

Despite being the sole beneficiary of the TTF, the Government of Tuvalu does not control the TTF. The complete Financial Statements of the TTF are not consolidated in these Financial Statements of Government. The market value of the Government of Tuvalu's contribution to the TTF is included in these Financial Statements on the Statement of Assets and Liabilities, and the remaining balance of the TTF is contained in the notes to these Financial Statements as a contingent asset.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2011**

#### **2 BASIS OF PREPARATION**

The Statement of Income and Expenditure and the Statement of Assets and Liabilities are prepared on an accrual basis, and include non-cash items such as accruals and provisions.

The Financial Statements are presented in Australian dollars, and all monetary values are rounded to whole dollars, unless mentioned otherwise.

#### **2.1 STATEMENT OF COMPLIANCE**

These Financial Statements are prepared pursuant to the Public Finance Act and are consistent with prior financial years. The Statements are in accordance with generally accepted accounting practice in Tuvalu (Tuvalu GAAP) as determined by the Government of Tuvalu. Where necessary Tuvalu GAAP looks to the International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) to guide general accounting policy.

#### **2.2 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS**

Both the functional and presentation currencies of the Government of Tuvalu are the Australian dollar. Transactions in foreign currencies are initially recorded in the Australian dollar at the exchange rates provided by the National Bank of Tuvalu on the dates of the transactions. At balance date, monetary assets and liabilities held in Foreign Currency are translated at the exchange rates ruling at the balance date. Resulting exchange differences are recognised in the Income Statement.

#### **2.3 BUDGET AMOUNTS**

The Financial Statements show as comparatives the amounts appropriated by the original annual Appropriation Act that relates to the current financial year. Appropriations are on a cash basis.

#### **2.4 CHANGES IN ACCOUNTING POLICIES**

Changes in accounting policies are applied retrospectively, and comparatives are restated. The effect of these changes, if any, is disclosed in item 4.1, below.

New accounting policies may be adopted for types of transactions that have become material to the Financial Statements for the first time. These are not considered changes in accounting policies. Likewise, some accounting policies may be reworded to better reflect the treatment of transactions; such rewording is also not considered a change in accounting policies.

#### **2.5 MATERIAL PRIOR YEAR ERRORS**

If errors are detected that have a material impact on prior years, then these are applied retrospectively, and comparatives are restated. There were no material prior year errors identified in the preparation of these accounts.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2011**

#### **3 ACCOUNTING POLICIES**

##### **3.0 BASIS OF PREPERATION**

The Statement of Income and Expenditure and the Statement of Assets and Liabilities are prepared on an accrual basis, and include non-cash items such as accruals and provisions.

##### **3.1 REVENUE**

Revenue is recognised when earned or becomes receivable. Revenue is measured at the fair value of consideration received or receivable.

###### **Accrued Revenue**

Accrued revenue is recorded for items where revenue is earned or becomes receivable prior to the creation of an invoice.

###### **Tuvalu Trust Fund (TTF) Disbursement Revenue**

Disbursement revenue from the TTF is recognised at the time of receipt into the Government's Consolidated Investment Fund account. Transfers from the Consolidated Investment Fund Account to the Government General Account are recorded as a transfer of funds and are not treated as Government Revenue.

###### **Taxation Revenue**

Taxation Revenue is recognised at the earlier of receipt, invoice or filing of return, and includes: Income Tax – a tax on salaries and wages of workers in the economy as outlined in the Income Tax Act.

Company Tax – Taxes on the profits of large businesses. (Note: Small companies are subject to Presumptive Tax classified under “Other Taxes”).

Tuvalu Consumption Tax – A tax on goods and services set at a rate of 4% of the value of the good or service.

Import Duties – Taxes, normally at percentage of the cost of the imported good based on cost plus insurance plus freight, placed on imports to Tuvalu and levied at the port of entry.

Excise Duties – Special taxes on imported goods that the Government may wish to discourage consumption of such as alcohol, and cigarettes.

Other Taxes - Include Hotel Room Tax, Departure Tax, Presumptive Tax.



## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2011**

#### **Interest, Dividends, and Rent**

Revenue related to interest on Government accounts, dividends received from profits of companies in which the Government holds a share, and rental revenue from Government houses and buildings is recorded in the period it relates to.

#### **Fishing Licenses**

Revenue related to the granting of Fishing Licenses to foreign fishing vessels fishing in Tuvalu's Exclusive Economic Zone is recorded in the period it relates to.

#### **.TV Revenue**

Revenue related to the license agreement with Verisign for the marketing of Tuvalu's top level internet domain ".tv" is recorded in the period it relates to.

#### **Other Income**

Other revenue related to vessel registrations, operation of maritime services (Nivaga II & Manu Folau), stevedoring and wharfage, and other operational activities is recorded in the period it relates to.

### **3.2 AID ACCOUNTING**

#### **External Assistance and Grants**

Direct budget support grant funding from donors is recognised at the time of receipt. Aid funding received from donor agencies for projects in the Tuvalu Development Fund is recognised as revenue within the Tuvalu Development Fund account, distinctly separate to the Government Consolidated Fund at time of receipt.

#### **Grants in Kind**

Tuvalu often receives grants in kind. These are often in the form of technical assistance, office equipment, investments in major infrastructure projects and property plant and equipment which are beyond the financial resources of the Government of Tuvalu.

These grants in kind are not recognised within these accounts, however where value is known, these amounts are recorded in the Government of Tuvalu's annual Budget documentation as external budgetary assistance.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2011**

#### **3.3 EXPENDITURE**

Expenditure is recognised when incurred. This is generally upon receipt of goods or receipt of invoice.

##### **Wages and Salaries**

Wage and salary expenses are recognised in the period incurred.

##### **Contributions to Tuvalu National Provident Fund**

Contributions to the Tuvalu National Provident fund are recognised for the period to which they apply.

##### **Loan repayments, bank and interest fees**

Loan Principle and Interest repayments are recognised as expenditure in the period they relate to.

##### **Grants and Subsidies**

Grant Expenses in relation to grants provided to Tuvaluans and Non-Government Organisations (NGOs) are recognised at the point that Funds are paid to the grant recipient.

The Grants provided by Government include:

General Grants and Subsidies - provided to non-Government entities to assist them in providing goods or services, to civil servants for private housing rent subsidies, and to local councils and government.

Overseas Contributions – Payments to international organizations of which the Government is a member of (e.g. United Nations, University of the South Pacific (USP), Forum Secretariat).

Scholarships and support - Expenditure incurred supporting the Government's scholarship program.

Outer Island Projects grants - Special development spending on projects for the outer islands.

Japan Fuel Grant Counterpart Fund - Payments made to the Japan Fuel Grant Counterpart Fund as a contribution to recognise Japan's assistance for fuel purchasing.

##### **Tuvalu Medical Treatment Scheme**

Expenditure incurred in the operation of the Government's overseas medical referral scheme recognised in the period incurred.

##### **Other Expenditure**

Other expenditure related to advertising, purchasing of provisions, purchasing supplies, minor equipment, social welfare payments such as the Senior Citizen Scheme, payments for land rent to traditional landowners for Government leased land, and rent of properties by the Government is recorded in the period which it relates to.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2011**

#### **Special Development Expenditure (Capital Expenditure)**

Special Development Expenditure records a range of normally non-recurrent expenditures that include Government contributions to donor-funded projects, equipment purchases, small projects, and arrears payments.

The current policy is to expense all infrastructure assets and property, plant and equipment in the period they are acquired. These capital expenditures are classified as Special Development Expenditures (SDE) in the annual budget documentation.

#### **3.4 ASSETS**

The Government of Tuvalu currently records only Financial Assets in these accounts. Special Development Expenditure for Property Plant and Equipment purchases, and major infrastructure investment are not reflected on the Balance Sheet, and depreciation of these assets is not reflected on the Statement of Income and Expenditure.

##### **Current Assets**

An asset is deemed to be current if it is liquid or expected to be made liquid within 12 months.

##### **Cash & Cash Equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

##### **Debtors**

Debtors are measured at their expected realisable value, which is generally the original amount less a provision for amounts uncollected after 365 days. Bad debts are written off when approved by Parliament.

##### **Non-Current Assets**

Non-Current Assets are presented at their fair value.

The Tuvalu Development Fund is recognised as a Non-Current Asset, reflecting the Government's agreement with donor partners to utilise development funds in line with approved donor agreements.

##### **Other Investments**

Other Investments include investments in subsidiaries, other associated parties and investments in shares in non controlled entities.

Investments are measured at the lower of cost and impaired value.

## **STATEMENT OF ACCOUNTING POLICIES for the Year Ended 31 December 2011**

### **3.5 LIABILITIES**

#### **Creditors**

Creditors are recognised on receipt of an approved invoice.

#### **Accrued Expenditure**

Accrued expenditure is recorded for items where expenditure is incurred prior to the receipt of an approved invoice.

#### **Employee Entitlements**

The Government does not recognise employee entitlement liabilities such as annual leave in these accounts.

#### **Public Debt**

All Public Debt is measured and presented at fair value.

## **4 EVENTS AND DECISIONS WITH SIGNIFICANT ACCOUNTING IMPACTS**

### **4.1 CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies for the Year Ended 31 December 2011, however, the summary of Accounting Policies has been introduced to reflect the treatment of transactions.

This has no effect on the transactions and balances in the Financial Statements, which have themselves been prepared on a basis consistent with previous years.

The format of the Financial Statements has been revised in order to improve readability and international comparability. Fundamental changes include:

- Introduction of a statement of income and expenditure to present the financial performance by nature of expense and revenue.
- Introduction of Notes to the Financial Statements
- Revised structure of statements to improve readability, and movement of some details to these Notes.

The revision of the format has no impact on surplus or deficit, nor on total Equity.

### **4.2 SUBSEQUENT EVENTS**

No events have occurred since balance date which would materially affect the Government of Tuvalu's Financial Statements for the year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the Year Ended 31 December 2011**

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1

#### STATEMENT OF BALANCES ON DEPOSIT ACCOUNTS

Prepared in accordance with Public Finance Act s31(1)(ix)  
For the Year Ended 31/12/2011

	<b>Financial Year Ending</b>	
	<b><u>31/12/2011</u></b>	<b><u>31/12/2010</u></b>
<b>Consolidated Fund Accounts</b>		
General Current Account	(2,087,017)	(1,623,443)
Government Call Account - 01-420002-02	59,408	58,432
Intellectual Property Account - 170955-30 - AGs	114,190	252,163
Miscellaneous Passbook a/c - 01-420002-34	1,542	1,542
<i>Total Consolidated Fund Cash account balances</i>	<b><u>(1,911,876)</u></b>	<b><u>(1,311,306)</u></b>
<b>Foreign Mission Accounts</b>		
Cash on Hand - UN Mission	98,893	62,282
Cash on Hand Brussel Mission	104,720	83,106
Cash in transit - Brussel Mission	6,595	0
Cash on hand - Suva Embassy	54,491	16,855
Cash in transit - Tuvalu High Commission (Suva)	384,023	114,751
Cash on Hand New Zealand Consulate Office	72,883	63,057
Cash in transit New Zealand Consulate Office	23,039	0
<i>Total Foreign Mission Cash account balances</i>	<b><u>744,644</u></b>	<b><u>340,050</u></b>
<b>Outer Island General Accounts</b>		
Cash on Hand Nanumaga	1,133	854
Cash on Hand Nanumea	10,509	10,895
Cash on Hand Niutao	12,010	10,455
Cash on Hand Nui	6,696	4,200
Cash on Hand Nukufetau	65,697	12,817
Cash on Hand Nukulaelae	7,709	3,825
Cash on Hand Vaitupu	22,574	11,378
<i>Total Outer Island Cash account balances</i>	<b><u>126,327</u></b>	<b><u>54,424</u></b>
<b>Total Cash Balances as at 31/12/2011</b>	<b><u>(1,040,905)</u></b>	<b><u>(916,832)</u></b>

**NOTE 2**

**STATEMENT OF SPECIAL FUND BALANCES**

Prepared in accordance with Public Finance Act s31(1)(v)  
For the Year Ended 31/12/2011

Special Funds	Financial Year Ending	
	31/12/2011	31/12/2010
<b>Business/Passport Investment Scheme - 01-420002-31</b>		
Opening Balance	182,914	180,213
Interest Earnings	2,558	2,701
Bank error corrected in 2012	5,000	
Transfer - Government General Account	(100,000)	
Closing Balance	<u>90,472</u>	<u>182,914</u>
<b>IBD - Coinage Security - 01-420002-07</b>		
Opening Balance	178,162	261,834
Proceeds of sales of coins & royalties	178,547	216,329
Transfer - Government General Account	(317,000)	(300,000)
Closing Balance	<u>39,709</u>	<u>178,162</u>
<b>IBD - Housing Repurchasing - 01-420002-46</b>		
Opening Balance	237,702	231,839
Interest Earnings	6,011	5,863
Closing Balance	<u>243,713</u>	<u>237,702</u>
<b>IBD - Insurance Fund - 01-420002-48</b>		
Opening Balance	376,403	367,138
Interest Earnings	9,499	9,265
Closing Balance	<u>385,901</u>	<u>376,403</u>
<b>IBD - NBT Insurance - 01-680824-40</b>		
Opening Balance	566,550	552,576
Interest Earnings	14,327	13,974
Closing Balance	<u>580,877</u>	<u>566,550</u>
<b>IBD - Rehabilitation - 01-420002-45</b>		
Opening Balance	16,737	16,324
Interest Earnings	423	413
Closing Balance	<u>17,160</u>	<u>16,737</u>
<b>IBD -Tuvalu Parliament Building - 01-420002-42</b>		
Opening Balance	72,194	70,417
Interest Earnings	1,822	1,777
Closing Balance	<u>74,016</u>	<u>72,194</u>
<b>Investment in Education Office - 01-420061-44</b>		
Opening Balance	139,910	136,467
Interest Earnings	3,531	3,444
Closing Balance	<u>143,441</u>	<u>139,910</u>
<b>IBD-Funds for Tuvalu Development - 01-751389-40</b>		
Opening Balance	170,775	166,572
Interest Earnings	4,310	4,203
Closing Balance	<u>175,085</u>	<u>170,775</u>
<b>Total Special Funds balance as at 31/12/2011</b>	<u><u>1,750,374</u></u>	<u><u>1,941,347</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3**

**STATEMENT OF INVESTMENTS**

Prepared in accordance with Public Finance Act s31(1)(xi)

For the Year Ended 31/12/2011

	Notes	Financial Year Ending	
		<u>31/12/2011</u>	<u>31/12/2010</u>
<b>Cash Investments</b>			
Consolidated Investment Fund		3,154,955	7,384,789
Government Air Pacific Bank Guarantee - 01-420002-40		44,038	42,952
<b>Total Cash Investments as at 31/12/2011</b>		<b><u>3,198,993</u></b>	<b><u>7,427,740</u></b>
<b>Non-Current Investments</b>			
Tuvalu Trust Fund - GOT Contribution	4	46,947,827	46,035,278
Tuvalu Development Fund		1,369,277	427,769
Capital in Corporations (total)	5	11,474,370	12,036,872
<b>Total Non-current Investments as at 31/12/2011</b>		<b><u>59,791,474</u></b>	<b><u>58,499,919</u></b>
<b>Total Investments of Government as at 31/12/2011</b>		<b><u>62,990,467</u></b>	<b><u>65,927,659</u></b>



## NOTE 4

### STATEMENT OF CONTINGENT ASSETS

Prepared in accordance with Public Finance Act s31(1)(x)

For the Year Ended 31/12/2011

#### TUVALU TRUST FUND (TTF)

Given the nature of the TTF and the fact that Tuvalu is the sole beneficiary of the TTF, it is anticipated that in the event of any 'wind up' of the TTF, the market value of all TTF balances would be available to the Government of Tuvalu.

The market value of Government of Tuvalu contribution balance of the TTF is disclosed on the Statement of Assets and Liabilities.

The market value of contribution balances from other parties to the TTF are classified as a contingent asset of the Government. There is no existing 'wind up' provision within the TTF legislation.

#### Tuvalu Trust Fund Balance

\$'000	Market Value (MV) (TTF) as at 31 December	Total TTF Contribution Balance	GOT Contribution Balance	GOT % of Contributions	Disclosed as GOT Asset (% cont. x MV)	GOT Contingent Asset
2008 Closing Balance	\$ 95,026	\$ 71,996	\$ 31,885	44%	\$ 42,084	\$ 52,942
2009 Closing Balance	\$ 97,561	\$ 73,279	\$ 31,885	44%	\$ 42,450	\$ 55,111
2010 Closing Balance	\$ 110,610	\$ 76,611	\$ 31,885	42%	\$ 46,035	\$ 64,575
<b>2011 Closing Balance</b>	<b>\$ 118,692</b>	<b>\$ 80,611</b>	<b>\$ 31,885</b>	<b>40%</b>	<b>\$ 46,948</b>	<b>\$ 71,744</b>

#### Tuvalu Trust Fund Contribution Balances

\$'000	2008	2009	2010	2011
GOT	31,885	31,885	31,885	31,885
UK	8,450	8,450	8,450	8,450
Australia	18,319	19,570	22,901	26,901
NZ	12,579	12,579	12,579	12,579
Japan	695	695	695	695
South Korea	69	101	101	101
<b>Total Contributions</b>	<b>71,996</b>	<b>73,279</b>	<b>76,611</b>	<b>80,611</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5

#### GOVERNMENT INVESTMENT IN CORPORATIONS For the Year Ended 31/12/2011

Tuvalu Public Enterprises are not consolidated into the Government of Tuvalu Accounts. The net asset positions of Public Enterprises listed below are included on the Statement of Assets and Liabilities as an Investment in Corporations, in addition to Government investments in non-Government corporations.

<u>Corporation</u>	2008		2009		2010		2011	
	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>
Tuvalu Maritime Training Institute <sup>4</sup>	1,601,239	1,601,239	1,561,649	1,561,649	1,561,649	1,561,649	1,561,649	1,561,649
National Fisheries Corporation of Tuvalu <sup>5</sup>	0	0	0	0	0	0	0	0
Development Bank of Tuvalu <sup>3</sup>	1,052,096	1,052,096	2,086,000	2,086,000	2,489,000	2,489,000	2,410,843	2,410,843
Vaiaku Lagi Hotel <sup>3</sup>	159,333	159,333	136,000	136,000	90,311	90,311	29,283	29,283
National Bank of Tuvalu <sup>3</sup>	4,821,375	4,821,375	6,608,000	6,608,000	7,791,618	7,791,618	7,377,037	7,377,037
Philatelic Bureau <sup>3</sup>	-134,540	0	-137,000	0	-188,000	0	-157,170	0
Tuvalu Electricity Corporation <sup>3</sup>	-659,403	0	-1,064,000	0	-1,037,761	0	-937,572	0
Tuvalu Telecommunications Corporation <sup>3</sup>	420,952	420,952	-543,000	0	-694,560	0	-984,335	0
Air Fiji Limited <sup>1</sup>	4,651,590	0	0	0				
Pacific Forum Lines <sup>2</sup>	20,064,000	468,655	8,597,000	200,809	4,465,000	104,293	4,091,000	95,558
	<b><u>8,523,650</u></b>		<b><u>10,592,458</u></b>		<b><u>12,036,871</u></b>		<b><u>11,474,370</u></b>	

<sup>1</sup>The Tuvalu Government owned 44% of issued capital of AIL which in turn owned 98% of the issued capital of Air Fiji limited.

Air Fiji ceased operations in 2009 and all assets of the company were liquidated. The value of Air Fiji holdings was written down to \$0 in the 2008 Financial Statements.

<sup>2</sup>Tuvalu Government owns a shareholding of 488,405 shares in PFL dating back to 1993. This represents 2.3358% of the total issued capital of the shipping line.

<sup>2</sup> PFL net assets represent the reported March end of year result from the following financial year.

<sup>3</sup>2011 Net Asset Values for Tuvalu Public Enterprises have been sourced from 2011 unaudited Financial Statements.

<sup>4</sup>The Tuvalu Maritime Training Institute has not prepared accounts since 2009.

<sup>5</sup>The National Fisheries Corporation of Tuvalu has not prepared a set of accounts since 1999, Government recognises the debt of NAFICOT as a liability.

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6**

**DEBTORS**

**For the Year Ended 31/12/2011**

	<u><b>2011</b></u>	<u><b>2010</b></u>
Classification		
Claimed Debts Control Account	490,144	490,144
Other Debtors Control Account	1,486,413	2,720,236
Other Debtors NBT	18,784	18,784
Personal Loan Control Account	18,169	5,146
Special Imprest Control Account	7,184	(1,784)
Accounts Receivable Clearing Account (Imprest Matching)	368,720	367,368.65
<b>DEBTORS</b>	<u>2,389,415</u>	<u>3,599,895</u>
Less Allowance for Doubtful Debts		
Provision for Doubtful Debts	(1,099,401)	(1,099,756)
<b>TOTAL DEBTORS</b>	<u>1,290,014</u>	<u>2,500,139</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7**

**STATEMENT OF PUBLIC DEBT**

Prepared in accordance with Public Finance Act s31(1)(xiii)

For the Year Ended 31/12/2011

	<u>Agency</u>	<u>Original debt</u>	<u>2007 Debt Balance</u>	<u>2008 Debt Balance</u>	<u>2009 Debt Balance</u>	<u>2010 Debt Balance</u>	<u>2011 Debt Balance</u>	<u>Start</u>	<u>Term</u>	<u>Grace period</u>	<u>Interest Rate</u>	<u>Principle repayments</u>
<b>Government Offshore Loans</b>												
<b>Falekaupule Trust Fund</b>	Asian Dev. Bank - LN1693	US\$3.972m	4,535,627	5,034,568	3,874,715	3,175,245	2,933,016	Nov-99	24yrs, 16 yrs repayment	8 yrs - start Feb 2008	1% in grace, then 1.5%	USD124,115 semi annual
	<i>Interest Payment</i>				76,539	36,757	53,731					
	<i>Principle Repayment</i>				359,611	293,758	248,230					
	<i>Unrealised Gain (Loss) on Currency Movement</i>				800,243	405,712	-6,001					
<b>TMTI Original Loan</b>	Asian Dev. Bank - LN1921	SDR1.394m	2,552,052	2,522,824	2,120,079	1,873,844	1,789,948	Nov-02	32yrs, 24 yrs repayment	8 yrs - start Feb 2011	1% in grace, then 1.5%	SDR29,041 Semi annual
	<i>Interest Payment</i>						26,843					
	<i>Principle Repayment</i>						39,271					
	<i>Unrealised Gain (Loss) on Currency Movement</i>				402,745	246,236	44,625					
<b>TMTI Supplementary Loan</b>	Asian Dev. Bank - LN2088	SDR1.353m	2,476,993	2,448,624	2,280,858	2,012,892	2,014,279	Aug-04	32yrs, 24 yrs repayment	8 yrs - start Feb 2012	1% in grace, then 1.5%	SDR28,186 Semi annual
	<i>Interest Payment</i>											
	<i>Principle Repayment</i>											
	<i>Unrealised Gain (Loss) on Currency Movement</i>				167,765	267,967	-1,387					
<b>DBT Equity Injection</b>	European Invst. Bank	EUR0.3m	503,609	612,690	480,692	392,311	382,312	Jan-03	15 yrs	1 repayment 2018	2%	Eur0.3m in 2018
	<i>Unrealised Gain (Loss) on Currency Movement</i>				131,998	88,381	9,999					
<b>Air Fiji O/D Guaranteed by Govt</b>	Bank of Baroda			0	361,841	0	0					
	<i>Principle Repayment</i>					361,841	-134,041					
	<i>Call on Government Guarantee Expense</i>				361,841		-134,041					
<b>Air Fiji O/D Guaranteed by Govt</b>	Fiji Dev. Bank			0	290,858	0	0					
	<i>Principle Repayment</i>					290,858						
	<i>Call on Government Guarantee Expense</i>				290,858							
<b>TOTAL GOVERNMENT OFFSHORE DEBT</b>			<b>10,068,281</b>	<b>10,618,706</b>	<b>9,409,044</b>	<b>7,454,291</b>	<b>7,119,555</b>					
<b>Government Domestic Debt</b>												
<b>Air Fiji O/D Guaranteed by Govt</b>	National Bank of Tuvalu			604,295	690,984	774,984	895,289					No payments made
	<i>Call on Government Guarantee Expense</i>			604,295								
	<i>Interest Expense</i>				86,689	84,000	120,305					
<b>NAFICOT Loan Guaranteed by Government</b>	National Bank of Tuvalu	AUD1.308m	1,308,100	1,308,100	1,308,100	1,308,100	1,308,100	Nov-03	129 months from Aug 07		8% from 1st repayment	No payments made
<b>Outer Island Suspense Account</b>	National Bank of Tuvalu	AUD4.923m	4,923,734	3,584,787	2,071,370	2,071,391	298,763	Aug-07			No interest	Unscheduled
<b>TMC - Tuvalu Media Corporation Loan absorbed by Government</b>	National Bank of Tuvalu	AUD0.127m	126,919	130,117	130,117	130,117	130,117	Dec-07			No interest	No payments made
<b>TOTAL GOVERNMENT DOMESTIC DEBT</b>			<b>6,418,478</b>	<b>5,627,299</b>	<b>4,200,571</b>	<b>4,284,592</b>	<b>2,632,269</b>					
<b>TOTAL PUBLIC DEBT</b>			<b>16,486,759</b>	<b>16,246,005</b>	<b>13,609,615</b>	<b>11,738,883</b>	<b>9,751,824</b>					

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8**

**STATEMENT OF CONTINGENT LIABILITIES**

Prepared in accordance with Public Finance Act s31(1)(x)

For the Year Ended 31/12/2011

Loans guaranteed by the Government of Tuvalu, whereby commitment is made by government to repay unpaid amounts upon non payment.

Refer Government Borrowing and Guarantee Act

<u>Name</u>	<u>Agency</u>	<u>Original Guarantee</u>	<u>2007 Guarantee</u>	<u>2008 Guarantee</u>	<u>2009 Guarantee</u>	<u>2010 Guarantee</u>	<u>2011 Guarantee</u>
TCS Guarantee	TCS Suppliers	AUD0.5m				500,000	500,000
Air Pacific Guarantee (NBT Guarantee on Travel Office operations)	National Bank of Tuvalu	AUD40,000		40,000	40,000	40,000	40,000
DBT Global Loan 1 - Guarantee	European Invst. Bank	EUR0.5m	839,348	871,649	0	0	0
DBT Global Loan 2 - Guarantee	European Invst. Bank	EUR0.7m	1,175,088	1,220,309	1,118,794	809,844	667,441
International Monetary Fund (IMF) - Promissory Note	IMF - World Bank	AUD2.1m				2,128,870	2,128,870
			<b>2,014,436</b>	<b>2,131,959</b>	<b>1,158,794</b>	<b>3,478,714</b>	<b>3,336,311</b>

**Exchange Rates applied to Public Debt Balances at year end (Reserve Bank of Australia Website)**

<u>CURRENCY</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$AUD - \$EU	0.4896	0.6241	0.7647	0.7847
\$AUD - \$USD	0.6903	0.8969	1.0163	1.0156
\$AUD - Special Drawing Rights		0.5742	0.6599	0.6636

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 9

#### TAXATION

	<u>2011</u> Actual	<u>2011</u> Budget	<u>2010</u> Actual
Income Tax	2,127,870	1,800,000	1,959,829
Company Tax	1,648,432	1,300,000	1,183,039
Sales Tax	18	100,000	8,949
Tuvalu Consumption Tax	52,202	150,000	41,566
Import Duty	1,865,205	1,900,000	1,730,157
Import Levy & Excise	619,137	450,000	591,705
Other Taxes	131,537	161,200	192,162
	6,444,401	5,861,200	5,707,408

### NOTE 10

#### INTEREST, DIVIDENDS & RENT

	<u>2011</u> Actual	<u>2011</u> Budget	<u>2010</u> Actual
Interest and Dividends	1,299,349	2,515,096	1,669,737
Lease, rent and hire	221,081	501,533	211,085
	1,520,430	3,016,629	1,880,821

### NOTE 11

#### EXTERNAL ASSISTANCE & GRANTS

	<u>2011</u> Actual	<u>2011</u> Budget	<u>2010</u> Actual
EU - V-flex Grant	0	2,000,000	0
Republic of China (Taiwan)	6,252,292	6,500,000	5,415,294
New Zealand (CIF)	53,438	0	193,368
World Bank, IMF, ADB	1,772,778	1,910,000	0
Project Development Fund (PDF)	0	156,000	0
Other Donors	8,453	1,250,000	77,987
	8,086,961	11,816,000	5,686,649

### NOTE 12

#### OTHER INCOME

	<u>2011</u> Actual	<u>2011</u> Budget	<u>2010</u> Actual
Vessel Registrations	777,782	700,000	837,473
Marine Services (Nivaga II & Manu Folau)	494,709	830,000	708,755
Stevedoring and Wharfage	237,271	299,500	249,965
Provision of Goods and Services	675,838	718,410	646,494
Other Charges	507,696	295,900	52,839
	2,693,297	2,843,810	2,495,526

### NOTE 13

#### GRANTS AND SUBSIDIES (incl. Scholarship Support)

	<u>2011</u> Actual	<u>2011</u> Budget	<u>2010</u> Actual
Grants and Subsidies	1,842,862	3,680,454	3,331,418
Outer Island Projects (SDE)	1,332,706	1,200,000	1,906,962
Scholarships and Support	2,142,697	2,761,427	2,189,148
Contribution to Japan Grant Counterpart Fund	95,724	274,205	287,172
Overseas Contributions	575,499	673,071	985,096
	5,989,489	8,589,157	8,699,796

### NOTE 14

#### OTHER EXPENDITURE

	<u>2011</u> Actual	<u>2011</u> Budget	<u>2010</u> Actual
Advertising and Provisions	897,670	824,075	924,650
Supplies and Equipment	1,658,086	3,355,944	1,660,798
Senior Citizen Scheme / Pension	238,491	234,171	215,671
Land & Property Rent	860,250	910,144	924,106
	3,654,497	5,324,334	3,725,225

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15

#### Requirements of the Public Finance Act with no balance

Statement of Other Leger Balances

Statement of Balances on Advances Accounts from Deposits

Statement of Outstanding Loans made from the Consolidated Revenue Fund

Tabulated summaries of unallocated stores and manufacturing accounts

Statement of balances on remittance account

### NOTE 16

#### Events & Decisions with Significant Accounting Impacts

##### Changes in accounting policies

This has no effect on the transactions and balances in the Financial Statements, which have themselves been prepared on a basis consistent with previous years, except for the following and except for changes in accounting estimates and adjustments of prior year errors.

The format of the Financial Statements has been revised in order to improve readability and international comparability. Fundamental changes include:

- Introduction of a statement of income and expenditure to present the financial performance by nature of expense and revenue.
- Introduction of Notes to the Financial Statements
- Revised structure of statements to improve readability, and movement of some details to these Notes.

The revision of the format has no impact on surplus or deficit, nor on total Equity.

##### Recognition of Unrealised Gains and Losses

Prior to the 2009 accounts, Unrealised Gains and Losses were included only on the Balance sheet. Through the 2009, 2010, and 2011 accounts, Unrealised gains are now reflected as 'Other Income/Expenditure' on the Income Statement.

This primarily applies to:

- Unrealised Market Gains in Tuvalu's Contributions into the Tuvalu Trust Fund;
- Unrealised Gains/Losses in the Net Asset Values and Government Share of Investments in Corporations;
- and
- Unrealised Currency Gains/Losses in relation to Offshore Loans

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 17**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**  
 Prepared in accordance with Public Finance Act s31 (xviii)  
 Government of Tuvalu for the Year Ended 31/12/2011  
 Budget Approved on the Cash Basis

<u>Head of Expenditure / Government Function</u>				<u>2011</u> <u>Actual</u>	<u>Final Budget</u> <u>Provision as at</u> <u>31/12/2011</u>	<u>Excess of</u> <u>Expenditure</u> <u>over provision</u>
<b>CASH OUTFLOWS</b>						
<b>Office of the Governor General</b>						
A01	Office of the Governor General	711110	Salaries	26,432	23,535	2,897
A01	Office of the Governor General	712130	TNPF Housemaids	1,691	1,561	130
A01	Office of the Governor General	719200	TNPF Statutory	3,213	3,204	9
A01	Office of the Governor General	721200	Statutory Travel	13,533	1,000	12,533
A01	Office of the Governor General	72120A	GG's Travel	23,324	15,000	8,324
A01	Office of the Governor General	722500	Vehicle Maintenance	520	500	20
A01	Office of the Governor General	723320	Fuel & Oil Vehicles	1,772	1,500	272
A01	Office of the Governor General	723430	Queens Birthday	5,454	5,000	454
A01	Office of the Governor General	723510	Office Expenses	982	300	682
A01	Office of the Governor General	723740	Household Items	2,964	2,500	464
A01	Office of the Governor General	723910	Electricity	8,561	1,717	6,844
<b>Office of the Prime Minister</b>						
B01	Corp. Services - Office of the PM	711110	Salaries	208,993	202,357	6,636
B01	Corp. Services - Office of the PM	711120		19,889	13,849	6,040
B01	Corp. Services - Office of the PM	711210	PM's Salary	36,169	35,946	223
B01	Corp. Services - Office of the PM	711240	PM's TNPF	3,617	3,594	23
B01	Corp. Services - Office of the PM	711290	Housemaids Overtime Allowances	2,749	450	2,299
B01	Corp. Services - Office of the PM	712110	PM's Local Entertainment	7,211	6,000	1,211
B01	Corp. Services - Office of the PM	719100	TNPF	23,194	21,621	1,573
B01	Corp. Services - Office of the PM	719200	PM's Utilities	5,384	5,040	344
B01	Corp. Services - Office of the PM	721110	Leave Travel Entitlements	3,777	2,500	1,277
B01	Corp. Services - Office of the PM	72120A	PM's Travel	20,737	15,000	5,737
B01	Corp. Services - Office of the PM	72120C	PM's Statutory Travel Spouse	6,600	0	6,600
B01	Corp. Services - Office of the PM	722350	Renovate GG's PM's Minister's Resid	38,204	32,000	6,204
B01	Corp. Services - Office of the PM	722500	Vehicle Maintenance	2,002	1,600	402
B01	Corp. Services - Office of the PM	723020	Disaster Awareness Program	2,662	2,550	112
B01	Corp. Services - Office of the PM	723320		3,382	2,000	1,382
B01	Corp. Services - Office of the PM	723420	Hospitality	19,493	18,000	1,493
B01	Corp. Services - Office of the PM	723470	Election	1,437	0	1,437
B01	Corp. Services - Office of the PM	723510	Office Expenses	2,464	2,050	414
B04	Personnel and Training	711110	Salaries	125,444	110,019	15,425
B04	Personnel and Training	71112B	PSC Meeting Allowances	6,420	6,170	250
B04	Personnel and Training	712900	Staff Relieving Fund centr'd	33,643	20,000	13,642
B04	Personnel and Training	719100	TNPF	15,518	12,942	2,576
B04	Personnel and Training	72110A	Local Travel and Subsistence	725	500	225
B04	Personnel and Training	723510	Office Expenses	27,237	13,000	14,237
B04	Personnel and Training	723530	Computer Supply	1,660	1,000	660
B04	Personnel and Training	782530	Scholarships Students Ongoing	480,935	345,355	135,580
<b>Legal Services</b>						
C01	Office of the Attorney General	711210	Attorney General's Salary	28,464	0	28,464
C01	Office of the Attorney General	719200	TNPF Statutory	2,856	0	2,856
C01	Office of the Attorney General	723510	Office Expenses	2,302	2,266	36
C01	Office of the Attorney General	723540	Office Stationery	815	734	81
C02	People's Lawyer	711110	Salaries	46,764	41,512	5,252
C02	People's Lawyer	719100	TNPF	4,686	4,151	535
<b>Parliament</b>						
D01	Office of the Parliament	711120	Allowances	3,274	3,000	274
D01	Office of the Parliament	711210	Speaker's Salary	31,430	31,121	309
D01	Office of the Parliament	71121A	Parliamentarians Salaries	146,259	125,028	21,231
D01	Office of the Parliament	711250	Parliamentarians Local Entertainme	8,499	3,500	4,999
D01	Office of the Parliament	711280	Parliamentarians Overseas Entertain	8,219	2,500	5,719
D01	Office of the Parliament	712110	Speaker's Houseboy Salary & PF	6,278	4,338	1,940
D01	Office of the Parliament	719200	TNPF Statutory	3,143	3,112	31
D01	Office of the Parliament	71920A	MPs' TNPF	14,626	12,503	2,123
D01	Office of the Parliament	721110	Leave Travel	1,436	1,017	419
D01	Office of the Parliament	721200	Statutory Travel Spouse	72,633	1,000	71,633
D01	Office of the Parliament	72120A	Speaker's Travel	34,017	15,000	19,017
D01	Office of the Parliament	721300	Telecom & Internet	995	700	295
D01	Office of the Parliament	722100	Office Maintenance	1,536	1,000	536
D01	Office of the Parliament	722250	Equipment Maintenance	280	100	180
D01	Office of the Parliament	723220	Sessions & Committe Refreshm't	11,432	9,605	1,827



## NOTES TO THE FINANCIAL STATEMENTS

### STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM

Prepared in accordance with Public Finance Act s31 (xviii)

Government of Tuvalu for the Year Ended 31/12/2011

Budget Approved on the Cash Basis

				<u>2011</u>	<u>Final Budget</u>	<u>Excess of</u>
				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
<u>Head of Expenditure / Government Function</u>				<u>31/12/2011</u>	<u>over provision</u>	
D01	Office of the Parliament	723320	Petrol & Oil	360	0	360
D01	Office of the Parliament	723510	Office Expenses	1,779	1,600	179
D01	Office of the Parliament	723540	Office Stationery	3,593	1,600	1,993
D01	Office of the Parliament	762100	Overseas Contributions	21,965	20,330	1,635
D01	Office of the Parliament	791240		16,762	0	16,762
<b>Office of the Auditor General</b>						
E01	Office of the Auditor General	711210	Auditor General Salary	26,365	0	26,365
E01	Office of the Auditor General	719200	TNPF Statutory	2,636	0	2,636
E01	Office of the Auditor General	723320	Petrol & Oil	274	172	102
E01	Office of the Auditor General	723510	Office Expenses	4,059	3,955	104
<b>Finance and Economic Development</b>						
F01	Corp. Services - Finance	711210	Minister's Salary	30,483	30,196	287
F01	Corp. Services - Finance	711250	Local Entertainment	6,916	3,500	3,415
F01	Corp. Services - Finance	712110	Housemaid Salary PF and Leave	6,889	4,403	2,486
F01	Corp. Services - Finance	719200	TNPF Statutory	3,048	3,020	28
F01	Corp. Services - Finance	721200	Statutory Travel	13,617	1,000	12,617
F01	Corp. Services - Finance	723510	Office Expenses	2,095	1,350	745
F01	Corp. Services - Finance	72391A	Electricity	138,600	0	138,600
F01	Corp. Services - Finance	773200	Pension	9,841	9,120	721
F02	Planning and Budget	711120		4,580	3,440	1,140
F02	Planning and Budget	719100	TNPF	10,903	9,810	1,094
F02	Planning and Budget	721110	Leave Travel Entitlements	1,951	949	1,002
F02	Planning and Budget	722450	MIS Maintenance	48	0	48
F02	Planning and Budget	723530	Computer Supply	474	0	474
F02	Planning and Budget	723540	Office Stationery	257	0	257
F03	Central Statistics Division	711120	Allowances	3,632	2,752	880
F03	Central Statistics Division	719100	TNPF	4,826	4,820	5
F03	Central Statistics Division	721300	Telecom & Internet	300	180	120
F03	Central Statistics Division	723460		20	0	20
F03	Central Statistics Division	723510	Office Expenses	281	100	181
F03	Central Statistics Division	782260	2012 Census Gov't Contribution DO	22,309	0	22,309
F04	Customs	711120		6,816	4,400	2,416
F04	Customs	719100	TNPF	12,375	12,373	2
F04	Customs	721300	Telecom & Internet	566	500	66
F04	Customs	723510	Office Expenses	1,563	1,500	63
F04	Customs	723540	Office Stationery	707	0	707
F05	Postal	711120		4,243	1,000	3,243
F05	Postal	721100	Overseas Travel & Subsistence	2,560	2,420	140
F05	Postal	721300	Telecom & Internet	103	100	3
F05	Postal	723540	Office Stationery	1,350	1,150	200
F06	Treasury	711110	Salaries	175,752	175,676	76
F06	Treasury	711120		5,017	5,000	17
F06	Treasury	719100	TNPF	17,711	16,517	1,194
F06	Treasury	723510	Office Expenses	561	500	61
F06	Treasury	723820	ACCPAC Maintenance	29,384	29,192	192
F06	Treasury	742100	Bank Charge & Interests	254,801	70,000	184,801
F06	Treasury	742110	Foreign Exchange Cost	13,072	3,000	10,072
F07	Inland Revenue	711110	Salaries	51,878	51,675	203
F07	Inland Revenue	711120		169	33	136
F07	Inland Revenue	719100	TNPF	5,345	3,897	1,448
F07	Inland Revenue	721100	Overseas Travel & Subsistence	491	475	16
F07	Inland Revenue	72110A	Local Travel & Subsistence	6,715	0	6,715
F07	Inland Revenue	721300	Telecom & Internet	225	113	112
F07	Inland Revenue	723320	Petrol & Oil	400	300	100
F07	Inland Revenue	723510	Office Expenses	5,830	300	5,530
F07	Inland Revenue	723540	Office Stationery	605	500	105
F09	Industries	711110	Salaries	49,885	47,362	2,523
F09	Industries	719100	TNPF	5,079	4,851	228
F09	Industries	721100	Overseas Travel Subsistence	6,119	2,054	4,065
F09	Industries	723010	Advertising & Publication Costs	429	68	361
F09	Industries	723460	Workshop Expenses	470	0	470
F09	Industries	723530	Computer Supply	204	188	16
F09	Industries	723540	Office Stationery	337	163	174
F09	Industries	732020	Awareness	2,304	0	2,304
F09	Industries	74210A	Support to Coconut produce	5,000	3,750	1,250
F09	Industries	782290	Grant to TNPSO	10,000	0	10,000
<b>Public Utilities</b>						
G02	Energy	711120		1,005	251	754
G02	Energy	719100	TNPF	4,002	3,942	60

**NOTES TO THE FINACIAL STATEMENTS**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**  
**Prepared in accordance with Public Finance Act s31 (xviii)**  
**Government of Tuvalu for the Year Ended 31/12/2011**  
**Budget Approved on the Cash Basis**

				<u>2011</u>	<u>Final Budget</u>	<u>Excess of</u>	
<u>Head of Expenditure / Government Function</u>				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>	
					<u>31/12/2011</u>	<u>over provision</u>	
G02	Energy	723510	Office Expenses	80	0	80	
G03	Public Works Department	711120		55,111	32,667	22,444	
G03	Public Works Department	722101	Female Prison Maintenance	4,387	0	4,387	
G03	Public Works Department	722200	Desalination Maintenance	68,777	18,000	50,777	
G03	Public Works Department	722250	Equipment Maintenance	8,587	7,000	1,587	
G03	Public Works Department	722350	Civil Servant House Maintenanc	178,408	175,002	3,406	
G03	Public Works Department	722660	Electrical Maintenance Rewiring	12,810	9,000	3,810	
G03	Public Works Department	723320	Petrol & Oil	26,952	24,500	2,452	
G03	Public Works Department	723750	Supplies	12,264	6,000	6,264	
G03	Public Works Department	723760	Tools	1,019	1,000	19	
G03	Public Works Department	726030	Safety Gears	1,864	1,800	64	
G03	Public Works Department	791220		3,907	0	3,907	
G03	Public Works Department	791240		2,650	0	2,650	
<b>Health</b>							
H01	Corporate Service - Health	711250	Local Entertainment	6,908	3,500	3,408	
H01	Corporate Service - Health	711290	Statutory Utilities	5,952	5,040	912	
H01	Corporate Service - Health	712110	Housemaid Salary & leave	4,886	4,403	483	
H01	Corporate Service - Health	719200	TNPF Statutory	3,048	3,020	28	
H01	Corporate Service - Health	721100	Overseas Travel & Subsistence	34,617	22,000	12,617	
H01	Corporate Service - Health	721101	Local Travel and Subsistence	100	0	100	
H01	Corporate Service - Health	721202	Statutory Travel Spouse	480	0	480	
H01	Corporate Service - Health	72120A	Minister's Travel	35,104	15,000	20,104	
H01	Corporate Service - Health	722250	Equipment Maintenance	1,043	1,000	43	
H01	Corporate Service - Health	722500	Vehicle Maintenance	1,541	1,500	41	
H01	Corporate Service - Health	723320	Petrol & Oil	29,901	1,000	28,901	
H01	Corporate Service - Health	723510	Office Expenses	892	676	216	
H01	Corporate Service - Health	723540	Office Stationeries	2,453	2,000	453	
H01	Corporate Service - Health	782310		55,000	50,000	5,000	
H02	Health Administration	711120	Allowances	7,754	7,112	642	
H02	Health Administration	712120	Cuban Doctors Maintenance Allowa	14,190	14,060	130	
H02	Health Administration	721300	Telecom & Internet	5,720	5,400	320	
H02	Health Administration	722700	Maintenance of PMH	8,615	8,500	115	
H02	Health Administration	723330	Petrol & Oil	5,641	4,500	1,141	
H02	Health Administration	723540	Office Stationeries	7,426	6,500	926	
H03	Curative	711110	Salaries	641,793	605,560	36,233	
H03	Curative	723210	Ration	100,402	84,477	15,925	
H03	Curative	723710		6,013	5,000	1,013	
H03	Curative	725030	Medical Centre Linen	2,135	2,000	135	
H04	Preventative Primary and Health Services	722650	Gas Refrigerator Maintenance	1,033	1,000	33	
H04	Preventative Primary and Health Services	723460	Healthy Islands Program	5,359	5,000	359	
<b>Natural Resources</b>							
I01	MNRE Headquarters	712110	Housemaid's Salary and Leave	5,651	4,680	971	
I01	MNRE Headquarters	723540	Office Stationery	1,437	1,200	237	
I03	Fisheries	721110	Leave Travel Entitlements	5,342	0	5,342	
I03	Fisheries	722100	CFC Renovation	501	0	501	
I03	Fisheries	722250	Equipment Maintenance	1,673	1,300	373	
I03	Fisheries	722550		8,189	7,470	719	
I03	Fisheries	723540	Office Stationery	2,119	1,456	663	
I03	Fisheries	723910	Electricity	25,560	21,800	3,760	
I03	Fisheries	726100	Pearl Oyster	19,512	0	19,512	
I03	Fisheries	729990		7,287	0	7,287	
<b>Home Affairs</b>							
J01	Corporate Services - Home Affairs	711120	Allowances	5,645	4,000	1,646	
J01	Corporate Services - Home Affairs	711210	Minister's Salary	10,310	0	10,310	
J01	Corporate Services - Home Affairs	711250	Local Entertainment	2,949	0	2,949	
J01	Corporate Services - Home Affairs	711290	Statutory Utilities	868	0	868	
J01	Corporate Services - Home Affairs	711310	ADLC	697	500	197	
J01	Corporate Services - Home Affairs	712110	Housemaid Salary	7,212	0	7,212	
J01	Corporate Services - Home Affairs	712130	Housemaid TNPF	743	0	743	
J01	Corporate Services - Home Affairs	719200	TNPF Statutory	1,066	0	1,066	
J01	Corporate Services - Home Affairs	721100	Overseas Travel & Subsistence	16,990	15,000	1,990	
J01	Corporate Services - Home Affairs	72120A	Minister Travel	1,659	0	1,659	
J01	Corporate Services - Home Affairs	723320	Petrol & Oil	1,362	1,000	362	
J01	Corporate Services - Home Affairs	723540	Office Stationeries	3,471	1,000	2,471	
J01	Corporate Services - Home Affairs	723910	Waste management project electric	1,416	0	1,416	
J01	Corporate Services - Home Affairs	782430	Support Waste Management Projec	4,245	0	4,245	
J02	Department of Rural Development	711120		1,811	500	1,311	
J02	Department of Rural Development	719100	TNPF	6,211	6,164	47	
J02	Department of Rural Development	722250	Equipment Maintenance	88	50	38	

**NOTES TO THE FINACIAL STATEMENTS**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**  
**Prepared in accordance with Public Finance Act s31 (xviii)**  
**Government of Tuvalu for the Year Ended 31/12/2011**  
**Budget Approved on the Cash Basis**

				<u>2011</u>	<u>Final Budget</u>	<u>Excess of</u>
<u>Head of Expenditure / Government Function</u>				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2011</u>	<u>over provision</u>
J02	Department of Rural Development	782240	TSSTP GoT Contributions	90	0	90
J02	Department of Rural Development	782250	Falekaupule Act Grant	462,129	434,408	27,720
J02	Department of Rural Development	782390	Tied Grant	130,432	125,681	4,751
J02	Department of Rural Development	782410	Outer Islands Projects	1,332,706	1,200,000	132,706
J03	Community Affairs	721300	Telecom & Internet	199	150	49
J03	Community Affairs	773210	Senior Citizens Scheme	228,650	225,000	3,650
J04	Women Development (Inactive)	723510	Office Expenses	357	200	157
J05	Culture	711110	Salaries	16,100	16,055	45
J05	Culture	711120	Allowances	604	100	504
J05	Culture	719100	TNPF	1,670	1,616	54
J06	Immigration (Inactive)	711120	Allowances	2,580	1,000	1,580
J06	Immigration (Inactive)	719100	TNPF	3,568	3,491	77
J06	Immigration (Inactive)	723540		47,879	1,828	46,051
J06	Immigration (Inactive)	762100	Overseas contribution PIDC	1,035	1,000	35
J06	Immigration (Inactive)	791220	Office Equipment	3,466	1,000	2,466
<b>Police and Prison Services</b>						
K01	Police and Prison Services	711120		86,618	51,105	35,513
K01	Police and Prison Services	711210	Commissioner's Salary	26,365	0	26,365
K01	Police and Prison Services	719100	TNPF	68,179	58,241	9,938
K01	Police and Prison Services	721100	Overseas Travel & Subsistence	4,713	3,100	1,613
K01	Police and Prison Services	72110A	Local Travel & Subsistence	4,147	0	4,147
K01	Police and Prison Services	721300	Telecom & Internet	4,236	4,000	236
K01	Police and Prison Services	722100		845	585	260
K01	Police and Prison Services	72250A	Vessel Maintenance	10,617	8,800	1,817
K01	Police and Prison Services	722650	Prison Maintenance	367	330	37
K01	Police and Prison Services	723210	Victualling	9,051	8,000	1,051
K01	Police and Prison Services	723510	Office Expenses	3,091	2,415	676
K01	Police and Prison Services	723820	to	10,929	8,500	2,429
K01	Police and Prison Services	723910	Electricity	26,499	25,200	1,299
K01	Police and Prison Services	726050	Ship & Workshop Expenses	1,072	1,000	72
<b>Transport and Communications</b>						
L01	Corp. Services - Comm. and Trans	711120		11,849	9,514	2,335
L01	Corp. Services - Comm. and Trans	711250	Minister's Local Entertainment	12,270	3,500	8,770
L01	Corp. Services - Comm. and Trans	719100	TNPF	8,673	8,574	99
L01	Corp. Services - Comm. and Trans	72120A	Minister's Travel	21,942	15,000	6,942
L01	Corp. Services - Comm. and Trans	721300	Telecom & Internet	2,804	2,500	304
L01	Corp. Services - Comm. and Trans	723320	Petrol & Oil	2,962	2,500	462
L01	Corp. Services - Comm. and Trans	723540	Office Stationery	3,699	3,496	203
L02	Marine	711120		315,485	282,889	32,596
L02	Marine	712900	Relieving Fund	52,885	30,000	22,885
L02	Marine	719100	TNPF	83,762	72,957	10,805
L02	Marine	721100	Overseas Travel and Subsistence	1,521	1,200	321
L02	Marine	722100	Building Maintenance	15,135	6,000	9,135
L02	Marine	722250	Equipment Maintenance	1,123	1,000	123
L02	Marine	723210	Victualling	280,796	252,164	28,632
L02	Marine	723330	Vessel Fuel	1,006,867	984,000	22,867
L02	Marine	723530	Computer Supply	249	241	8
L02	Marine	723910	Electricity	57,835	46,396	11,439
L02	Marine	723920	Water	13,123	4,000	9,123
L02	Marine	726030	Safety Gear	8,014	7,704	310
L02	Marine	726080	Vessel Canteen	2,488	2,140	348
L03	Aviation	711120		8,081	5,600	2,481
L03	Aviation	719100	TNPF	10,155	9,872	283
L03	Aviation	722250	Maintenance	23,393	22,000	1,393
L03	Aviation	723510	Office Expenses	3,735	3,500	235
L04	Information, Comm. and Technology	721300	Telecom & Internet	999	750	249
L04	Information, Comm. and Technology	722150	Computer Maintenance	7,417	4,000	3,417
L04	Information, Comm. and Technology	723570	ISP Operating Expenses	23,866	5,000	18,866
L04	Information, Comm. and Technology	791210	Computer Equipments	15,023	8,000	7,023
L04	Information, Comm. and Technology	791220	Satellite Link	101,550	100,000	1,550
L04	Information, Comm. and Technology	791340	Software Patches & Securities	5,487	5,000	487
L07	Meteorological Office	721100	Overseas Travel & Subsistence	1,662	1,500	162
L07	Meteorological Office	722100		10,286	9,500	786
L07	Meteorological Office	722250	Equipment Maintenance	2,663	2,500	163
L07	Meteorological Office	722500	Vehicle Maintenance	710	351	359
L07	Meteorological Office	723510	Office Expenses	3,449	2,320	1,129
L07	Meteorological Office	723750	Store Supplies	2,783	351	2,432
<b>Education, Youth and Sports</b>						
M02	Education Department	721100	Overseas Travel & Subsistence	5,194	5,000	194

## NOTES TO THE FINANCIAL STATEMENTS

### STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM

Prepared in accordance with Public Finance Act s31 (xviii)

Government of Tuvalu for the Year Ended 31/12/2011

Budget Approved on the Cash Basis

				<u>2011</u>	<u>Final Budget</u>	<u>Excess of</u>
<u>Head of Expenditure / Government Function</u>				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2011</u>	<u>over provision</u>
M02	Education Department	72110A	Local Travel & Subsistence	4,293	2,500	1,793
M02	Education Department	723540	Office Stationery	14,126	1,000	13,126
M02	Education Department	723830	Examination Admin	32,510	28,180	4,330
M02	Education Department	782380	Pre School Support	13,092	0	13,092
M03	Primary Education	711110	Salaries	1,077,011	1,010,518	66,493
M03	Primary Education	711120		6,833	5,008	1,825
M03	Primary Education	712900	Relieving Teachers	10,260	10,000	260
M03	Primary Education	721100	Overseas Travel & Subsistence	986	500	486
M03	Primary Education	72110A	Local Travel and Subsistence	3,281	1,500	1,781
M03	Primary Education	721110	Leave Travel	9,958	7,811	2,147
M03	Primary Education	723520	Journals & Library Books	2,350	2,000	350
M03	Primary Education	782370	Support to Primary Schools EU	30,725	30,000	725
M04	EFA Secondary School	712110	Casual Workers	8,824	4,500	4,324
M04	EFA Secondary School	72110A	Students' Travel	1,570	1,500	70
M04	EFA Secondary School	722250	Equipment Maintenance	2,560	2,000	560
M04	EFA Secondary School	722500	Vehicle Maintenance	438	0	438
M04	EFA Secondary School	723420	Visitor's Entertainment	541	200	341
M04	EFA Secondary School	723540	Office Stationery	325	200	125
M04	EFA Secondary School	723560	Text Books	20,010	20,000	10
M04	EFA Secondary School	723710	Cleaning Supplies	11,001	5,200	5,801
M05	Library	721300	Telecom & Internet	1,442	800	642
M05	Library	722250	Equipment Maintenance	1,005	500	505
M05	Library	723510	Office Expenses	230	151	79
M06	Sports	721100		161,518	160,700	819
M08	Youth	711110	Salaries	7,669	5,150	2,519
M08	Youth	719100	TNPF	767	515	252
M08	Youth	723540	Office Stationery	2,580	151	2,429
M08	Youth	782290	Grant to TNVC	10,000	5,000	5,000
M09	Early Childhood Care and Education	711110	Salaries	21,964	16,840	5,124
M09	Early Childhood Care and Education	712120	Allowances Pre Sch salaries	61,428	0	61,428
<b>Judiciary</b>						
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>						
O01	MFAETLT Headquarter	711120		6,391	4,514	1,877
O01	MFAETLT Headquarter	711250	Local Entertainment	3,773	3,500	273
O01	MFAETLT Headquarter	712110	Housemaid salary and leave entitlement	12,788	4,403	8,385
O01	MFAETLT Headquarter	719200	TNPF	3,619	1,007	2,612
O01	MFAETLT Headquarter	721200	Statutory Travel Spouse	21,941	1,000	20,941
O01	MFAETLT Headquarter	72120A	Minister's Travel	39,802	15,000	24,802
O01	MFAETLT Headquarter	721300	Telecom and Internet	2,022	1,750	272
O01	MFAETLT Headquarter	723510		575	500	75
O02	Labour	721100		33,440	20,000	13,440
O02	Labour	723220	VIP Lounge Supplies	1,146	1,000	146
O02	Labour	723540	Office Stationeries	511	500	11
O03	Suva Mission	712610	Staff relieving fund	1,898	1,333	565
O03	Suva Mission	721100	Overseas Travel and Subsistence	22,146	15,256	6,890
O03	Suva Mission	723510	Office Expenses	38,612	9,000	29,612
O03	Suva Mission	723740	Household Items	3,468	2,882	586
O04	Permanent Mission of Tuvalu to the UN	712110	Support Staff Salary	6,169	0	6,169
O04	Permanent Mission of Tuvalu to the UN	721100	Overseas Travel and Subsistence	27,090	19,452	7,638
O04	Permanent Mission of Tuvalu to the UN	721300	Telecom & Internet	7,559	7,000	559
O04	Permanent Mission of Tuvalu to the UN	723510	Office Expenses	3,806	0	3,806
O04	Permanent Mission of Tuvalu to the UN	723550	Photocopy & Printing	1,502	1,500	2
O04	Permanent Mission of Tuvalu to the UN	791240	Vehicle	48,907	0	48,907
O05	Brussels Mission	711110	Salaries	88,282	77,666	10,616
O05	Brussels Mission	721100		33,350	15,000	18,350
O05	Brussels Mission	722500	Vehicle Maintenance	1,859	1,504	355
O05	Brussels Mission	723440	Representations	77,328	15,042	62,286
O05	Brussels Mission	723740	Household Items	3,356	752	2,604
O05	Brussels Mission	781100	Rent for Ambassador's Residence	41,227	36,100	5,127
O05	Brussels Mission	791220	Office Equipment	3,243	3,000	243
O06	Environment	711110	Salaries	49,005	46,587	2,418
O06	Environment	723010	Advertising & Publication Costs	140	100	40
O06	Environment	723320	Petrol and Oil	80	0	80
O06	Environment	723540	Office Stationery	825	700	125
O07	Tuvalu Consulate in Auckland	711120		6,544	5,539	1,005
O07	Tuvalu Consulate in Auckland	721100	Overseas Travel and Subsistence	9,444	0	9,444
O07	Tuvalu Consulate in Auckland	721101	Local Travel and Subsistence	7,298	2,514	4,784
O07	Tuvalu Consulate in Auckland	721110	Leave Travel Entitlement	440	0	440
O07	Tuvalu Consulate in Auckland	721300	Telecommunications	4,373	2,011	2,362

**NOTES TO THE FINANCIAL STATEMENTS**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**

Prepared in accordance with Public Finance Act s31 (xviii)

Government of Tuvalu for the Year Ended 31/12/2011

Budget Approved on the Cash Basis

<u>Head of Expenditure / Government Function</u>				<u>2011</u>	<u>Final Budget</u>	<u>Excess of</u>
				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2011</u>	<u>over provision</u>
O07	Tuvalu Consulate in Auckland	723320	Fuel	3,094	2,514	580
O07	Tuvalu Consulate in Auckland	723510	Office Expenses	3,010	838	2,172
O07	Tuvalu Consulate in Auckland	723910	Electricity	2,029	2,011	18
O07	Tuvalu Consulate in Auckland	791240	Vehicle	40,091	10,000	30,091
O08	Trade Office	721100	Overseas Travel and Subsistence	2,400	1,167	1,233
O08	Trade Office	723510	Office Expenses	624	445	179

**Appendix 1: Part 2 - Tuvalu Whole of Government Financial  
Statements and Independent Audit Report for 2010**



Tuvalu Whole of Government Audit Independent Audit Report for the  
year ended 31 December 2010

To: Honourable Members of the Tuvalu Parliament

Basis for Disclaimer of Audit Opinion

**Prior year comparative information**

My audit report on the financial statements for the period ended 31 December 2009 was a Disclaimer of Audit Opinion. Due to deficiencies in controls and accounting records, there is uncertainty in relation to the 31 December 2009 balances of Statement of Income and Expenditure; Statement of Assets and Liabilities; Statement of Changes in Equity; Statement of Revenue and Expenditure by Head; Comparative Statement of Actual and Estimated Revenue and Expenditure by 'Sub Head'; and relevant Notes.

I have not been able to obtain sufficient appropriate audit evidence to support these items. This constitutes a limitation of scope of the audit which is significant.

**Inability to obtain satisfactory explanations and documentation regarding a number of entries for expenses in the financial statements**

During the 2010 audit I performed a random sample test of a series of recurrent expenditure transactions. I was unable to obtain any supporting documentation for 8% of expense transactions. Because of the lack of adequate supporting documentation, I was unable to determine if the expenses are materially stated. I am unable to determine whether the amount paid agreed to the amount incurred, whether the amount was coded to the correct expense or if the expense was incurred within 2010.

I have not been able to obtain sufficient appropriate audit evidence to support the Recurrent Expenditure component of the Statement of Income and Expenditure; the Statement of Receipts and Payments by Heads; and the Comparative Statements of Actual and Estimated Expenditure by 'Sub Head'. This constitutes a limitation of scope of the audit which is significant.

**End of year transactions effecting cash on hand, expenses and accounts payable**

A significant amount of expenses which were either incurred and paid, or paid during the 2011 period have been entered incorrectly into the 2010 financial year. Government officials continued to expend the 2010 budget during the 2011 year. This issue was formally raised with the Secretary for Finance and the Minister for Finance, however, the Ministry did not agree to adjust the expenditure into the correct period.

This effects the expense transactions, cash balance and accounts payable balance for 2010. The effect is an understatement of cash on hand in 2010 of \$2.24 million and an overstatement of expenses and accounts payable totalling to \$2.24 million.

The Recurrent Expenditure component of the Statement of Income and Expenditure, the Statement of Receipts and Payments by Heads, and the Comparative Statements of Actual and Estimated Expenditure by 'Sub Head'; the Cash and Cash Equivalent component of the Statement of Assets and Liabilities; the Accounts Payable component of the Statement of Assets and Liabilities are misstated due to this disagreement with management.

**Non inclusion of fixed assets and inventory in the financial statements**

The Tuvalu Whole of Government's accounting policy is to expense all fixed assets in the period in which they are acquired. This is contrary to Generally Accepted Accounting Practice which requires assets to be depreciated over their useful life. No asset register is maintained by the Tuvalu Whole of Government, nor is there any depreciation charged.

Inventories are not disclosed as assets in the financial statements. They are expensed when purchased, rather than recorded as assets until consumed. There is no record of inventory, nor is there any management surrounding inventory.

I have not been able to obtain sufficient appropriate audit evidence to support the Assets portion of the Statement of Assets and Liabilities, the non inclusion of the Statement of Summaries of Unallocated Stores and Manufacturing Accounts, the non inclusion of Depreciation Expense part of the Statement of Income and Expenditure. This constitutes a limitation of scope of the audit which is significant.

#### **Tuvalu Development Fund**

I was unable to reconcile the transactions in the Tuvalu Development Fund to the underlying balance of the Tuvalu Development Fund's bank account. I was unable to verify the receipts and payments made from the Tuvalu Development Fund. Disclosure of this account and the aggregate receipts and payments is required under the Public Finance Act. To date this disclosure has not been made.

I have not been able to obtain sufficient appropriate audit evidence to support the balance of the Tuvalu Development Fund in the Statement of Assets and Liabilities and corresponding disclosures.

#### **Accrual basis of accounting used when Cash Basis is required under the Public Finance Act**

The Statement of Unauthorised Expenditure is to be reported on a cash basis, as the budget is performed on a cash basis. The Statement of Unauthorised Expenditure was unable to be tested as the figures contain non cash transactions which could potentially overstate or understate the balances.

I have not been able to obtain sufficient appropriate audit evidence to support the Statement of Unauthorised Expenditure.

#### **Non preparation of Statement of Arrears of Revenue, Statement of Receipts and Payments and Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments**

The Public Finance Act Section 31(1)(ii) (xiv), and (xvi) requires that the Statement of Arrears of Revenue, Statement of Receipts and Payments and Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments be prepared as part of the public accounts. These statements were not prepared in 2010. Non preparation of these statements is a departure from the requirements of the Public Finance Act.

I have not been able to obtain sufficient appropriate audit evidence to support the non inclusion of the Statement of Arrears of Revenue, Statement of Receipts and Payments and Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments. This constitutes a limitation of scope of the audit which is significant.

#### **Summary of Basis for Disclaimer of Audit Opinion**

The disagreement with management which is significant arises from the Ministry of Finance not agreeing to adjust the financial statements for expenditure incurred and paid, or paid, outside the accounting period.

The limitations of scope of the audit which are significant arise from:

1. A lack of evidence to support:
  - a. the balances of Cash and Cash Equivalents, Accounts Payable, and Tuvalu Development Fund in the Statement of Assets and Liabilities;



Report of the Auditor-General on the Tuvalu Whole of Government Accounts:  
Years ended 31/12/2010 and 31/12/2011

- b. the transactions which form Recurrent Expenditure in the Statement of Income and Expenditure, the Statement of Revenue and Expenditure by Heads, and the Comparative Statement of Actual and Estimated Recurrent Revenue by 'Sub Head';
  - c. relevant financial statement aggregate totals, including the Total Recurrent Expenditure, Recurrent Surplus/Deficit, Total Surplus/Deficit;
  - d. all comparative information for 2009; and
  - e. Net Surplus/(Deficit) for the period and the Accumulated Funds in the Statement of Changes in Equity.
2. Non preparation of:
- a. Fixed Assets and Inventories in the Statement of Assets and Liabilities and Depreciation in the Statement of Income and Expenditure;
  - b. Statement of Summaries of Unallocated Stores and Manufacturing Accounts;
  - c. Statement of Arrears of Revenue;
  - d. Statement of Receipts and Payments; and
  - e. Statement of the Balance on the Development Fund Account by Annual and Aggregate Receipts and Payments.

#### Audit Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

#### Scope

I was engaged to audit the accompanying financial statements of the Tuvalu Whole of Government, which comprise the all statements required under section 31 of the Public Finance Act for the year ended 31 December 2010.

#### The Financial Report and Finance Minister's Responsibility

The Minister of Finance is responsible for the preparation and true and fair presentation of the financial report in accordance with the Public Finance Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### Audit Approach

I have conducted an independent audit in order to express an opinion on the financial report. I have audited the accounts of the Government of Tuvalu for the year ended 31 December 2010 in accordance with section 172 of the Constitution and section 32 of the Public Finance Act

My responsibility is to express an opinion on the financial report in accordance with International Standards of Supreme Audit Institutions. This responsibility arises under the Audit Act.

I planned and performed the audit to obtain all information and explanations I considered necessary in order to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error.

Report of the Auditor-General on the Tuvalu Whole of Government Accounts:  
Years ended 31 December 2010 and 31 December 2011

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. The audit involved performing procedures to test the information presented in the financial statements. I assessed the results of those procedures in forming my opinion.

Audit procedures include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Tuvalu Whole of Government;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

I did not examine every transaction, nor do I guarantee complete accuracy of the financial statements. I evaluated the overall adequacy of the presentation of information in the financial statements.

I refer to sections 31(1) and 32(1) of the Public Finance Act which required Management to prepare the Annual Accounts within 6 months of the end of the financial year and for me to report on the accounts within 9 months of the end of the financial year.

These timeframes have not been met for the year ended 31 December 2010. These deadlines can only be extended with Parliamentary approval which was not sought.

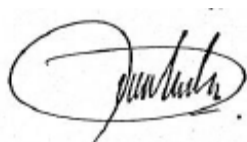
My opinion does not provide assurance:

- about the future viability of the Government,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of the Audit Act.

Sincerely,



Isaako K. Kine  
**Auditor General for Tuvalu**  
Funafuti  
17 September 2012

# **TUVALU WHOLE OF GOVERNMENT**



## **FINANCIAL STATEMENTS**

**for the Year Ended 31 December 2010**

## STATEMENT OF RESPONSIBILITY

The Government is pleased to present the Financial Statements of the Government of Tuvalu for the Year Ended 31 December 2010

We hereby declare that:


- We have been responsible for the preparation of these Financial Statements and the judgments made in them.
- We are responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- In our opinion these Financial Statements fairly reflect the financial position and operations of the Government of Tuvalu for the Year Ended 31 December 2010

The Financial Statements were authorised for issue by the Minister of Finance.



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**Hon. Lotoala Metia**  
Minister of Finance & Economic  
Development



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**Mr Minute Taupo**  
Secretary for Finance and Economic  
Development

## STATEMENT OF INCOME AND EXPENDITURE

For the Year Ended 31/12/2010

The accompanying notes form part of these financial statements.

	Notes	<u>2010 Actual</u>	<u>2010 Budget</u>	<u>2009 Actual</u>
<b><u>RECURRENT INCOME</u></b>				
Taxation	9	5,707,408	6,478,000	5,102,265
Interest, Dividends and Rent	10	1,880,821	827,791	1,534,189
Fisheries Licenses		7,151,855	5,360,000	9,123,906
.TV		2,025,950	2,200,000	2,327,650
External Assistance and Grants	11	5,686,649	7,172,000	10,404,555
Other Income	12	2,495,526	2,874,420	2,386,263
		<b>24,948,209</b>	<b>24,912,211</b>	<b>30,878,828</b>
<b><u>RECURRENT EXPENDITURE</u></b>				
Wages, Salaries, and Allowances		10,819,215	10,869,051	10,386,368
Contributions to Tuvalu National Provident Fund		906,795	964,515	894,888
Travel		1,467,260	953,436	1,374,318
Fuel, Electricity and Communications		2,342,599	3,287,985	1,678,795
Maintenance		1,653,825	1,488,464	1,297,480
Loan Repayments & Bank Fees		1,199,162	504,000	618,677
Grants and Subsidies (incl. Scholarships Support)	13	8,699,796	8,759,232	6,079,537
Tuvalu Medical Treatment Scheme		2,203,277	1,504,800	1,862,929
Other Expenses	14	3,725,225	3,705,093	4,287,640
Special Development Expenditures		1,105,679	571,985	2,174,678
		<b>34,122,833</b>	<b>32,608,562</b>	<b>30,655,310</b>
		<b>(9,174,624)</b>	<b>(7,696,351)</b>	<b>223,518</b>
<b><u>OTHER REVENUE AND EXPENDITURE</u></b>				
Unrealised Gain (Loss) on Trust Fund Investment	4	3,584,832		366,339
Unrealised Gain (Loss) on Investment in Corporations	5	1,444,414		2,068,808
Unrealised Gain (Loss) on Currency Movement (Offshore Loans)	7	1,008,296		1,502,751
Call on Government Guarantee Expense		0		(604,295)
Doubtful Debts Expense	6	(145,241)		(817,039)
		<b>5,892,301</b>		<b>2,516,564</b>
		<b>(3,282,323)</b>		<b>2,740,082</b>

**STATEMENT OF ASSETS AND LIABILITIES**

Prepared in accordance with Public Finance Act s31(1)(i)

For the Year Ended 31/12/2010

The accompanying notes form part of these financial statements.

	Notes	<u>2010</u>	<u>2009</u>
<b><u>GOVERNMENT EQUITY</u></b>			
Surplus / (Deficit)		(3,282,323)	2,740,081
Retained Earnings		60,218,854	56,600,872
<b>TOTAL GOVERNMENT EQUITY</b>		<b>56,936,531</b>	<b>59,340,952</b>
<b>REPRESENTED BY:</b>			
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	1	(916,832)	(435,128)
Special Funds	2	1,941,347	1,983,378
Cash Investments	3	7,427,740	15,349,892
Debtors	6	2,500,139	1,904,351
<b>Total current assets</b>		<b>10,952,394</b>	<b>18,802,493</b>
<b>Non-Current Assets</b>			
Tuvalu Trust Fund	3 & 4	46,035,278	42,450,446
Tuvalu Development Fund	3	427,769	1,375,782
Investments in Corporations	3 & 5	12,036,872	10,592,458
<b>Total Non-Current Assets</b>		<b>58,499,919</b>	<b>54,418,686</b>
<b>Total Clearing account balances</b>		<b>0</b>	<b>0</b>
<b>TOTAL ASSETS</b>		<b>69,452,313</b>	<b>73,221,180</b>
<b><u>LIABILITIES</u></b>			
<b>Less Current Liabilities</b>			
Accounts Payable		352,996	159,360
Accounts Payable - Tuvalu Provident Fund		337,283	46,786
Accounts Payable - Payroll Clearance		85,857	63,867
Tuvalu Police Fund		763	600
<b>Total current liabilities</b>		<b>776,899</b>	<b>270,613</b>
<b>Non-Current Liabilities</b>			
Offshore Loans	7	7,454,291	9,409,044
Domestic Loans	7	4,284,592	4,200,571
<b>Total non-current liabilities</b>		<b>11,738,883</b>	<b>13,609,615</b>
<b>TOTAL LIABILITIES</b>		<b>12,515,782</b>	<b>13,880,227</b>
<b>TOTAL NET ASSETS</b>		<b>56,936,531</b>	<b>59,340,952</b>

**STATEMENT OF CHANGES IN EQUITY****For the Year Ended 31/12/2010**

*The accompanying notes form part of these financial statements.*

	Notes	<u>2010</u>	<u>2009</u>
<b>Retained Earnings as at 1 January</b>		<b>59,340,952</b>	<b>59,192,428</b>
<b>Movements reflected on Income Statement</b>			
Net Surplus/(Deficit) for the period		(9,174,624)	223,518
Other Unrealised Gain (Loss) for the period		5,892,301	2,516,564
<b>Movements not reflected on Income Statement</b>			
Reduction in Offshore Debt - Principal Repaid		946,436	373,332
Increase (Decrease) in Tuvalu Development Fund Holding		(68,534)	(665,950)
Call on Government Guarantee (Air Fiji)			(652,699)
Introduction of TMTI & NAFICOT Investment on GOT accounts			1,601,239
Other non-Income Statement Movements			(3,247,481)
<b>Accumulated Funds as at 31 December</b>		<b>56,936,531</b>	<b>59,340,951</b>

**STATEMENT OF REVENUE AND EXPENDITURE BY HEADS**  
**Prepared in accordance with Public Finance Act s31(1)(ii)**  
**For the Year Ended 31/12/2010**

*The accompanying notes form part of these financial statements.*

**Budget Approved on Cash Basis**

<u>Head</u>	<u>Head of Expenditure / Government Function</u>	<u>2010</u> <u>Actual</u>	<u>2010</u> <u>Original</u> <u>Budget</u>	<u>Variance</u> <u>(Bud - Act)</u>
<b>RECURRENT REVENUE</b>				
A	Office of the Governer General	0	0	0
B	Office of the Prime Minister	166,101	439,850	273,749
C	Legal Services	72,466	72,500	34
D	Parliament	0	0	0
E	Office of the Auditor General	(5,393)	35,520	40,913
F	Finance and Economic Development	12,875,906	12,414,221	(461,685)
G	Public Utilities	141,203	1,408,500	1,267,297
H	Health	92,856	32,200	(60,656)
I	Natural Resources	7,337,354	5,773,050	(1,564,304)
J	Home Affairs	91,679	79,300	(12,379)
K	Police and Prison Services	28,882	33,050	4,168
L	Transport and Communications	4,075,250	4,532,700	457,450
M	Education, Youth and Sports	44,739	66,150	21,411
N	Judiciary	4,049	5,850	1,801
O	Foreign Affairs, Trade, Tourism, Environment & Labour	23,118	19,320	(3,798)
<b>TOTAL RECURRENT REVENUE</b>		<b>24,948,209</b>	<b>24,912,211</b>	<b>(35,998)</b>
<b>RECURRENT EXPENDITURE</b>				
A	Office of the Governer General	108,431	128,472	20,040
B	Office of the Prime Minister	2,201,939	2,192,758	(9,182)
C	Legal Services	182,460	244,817	62,357
D	Parliament	604,456	495,576	(108,880)
E	Office of the Auditor General	144,835	173,164	28,329
F	Finance and Economic Development	2,277,046	1,792,879	(484,167)
G	Public Utilities	1,729,063	3,051,843	1,322,780
H	Health	4,879,935	4,097,840	(782,095)
I	Natural Resources	2,229,580	2,331,880	102,301
J	Home Affairs	4,198,835	4,453,096	254,261
K	Police and Prison Services	1,034,036	1,081,255	47,219
L	Transport and Communications	6,501,114	4,487,378	(2,013,736)
M	Education, Youth and Sports	6,272,102	6,170,132	(101,969)
N	Judiciary	90,414	110,144	19,730
O	Foreign Affairs, Trade, Tourism, Environment & Labour	1,668,585	1,797,327	128,741
<b>TOTAL RECURRENT EXPENDITURE</b>		<b>34,122,833</b>	<b>32,608,562</b>	<b>(1,514,271)</b>
<b>RECURRENT SURPLUS / (DEFICIT)</b>		<b>(9,174,624)</b>	<b>(7,696,351)</b>	<b>1,478,273</b>
<b>OTHER REVENUE AND EXPENDITURE</b>				
	Unrealised Gain (Loss) on Trust Fund Investment	3,584,832		
	Unrealised Gain (Loss) on Investment in Corporations	1,444,414		
	Unrealised Gain (Loss) on Currency Movement (Offshore Loans)	1,008,296		
	Doubtful Debts Expense	(145,241)		
<b>TOTAL OTHER REVENUE AND EXPENDITURE</b>		<b>5,892,301</b>		
<b>TOTAL SURPLUS / (DEFECIT)</b>		<b>(3,282,323)</b>		



**COMPARATIVE STATEMENT OF ACTUAL AND ESTIMATED RECURRENT REVENUE by 'SUB HEAD'**

Prepared in accordance with Public Finance Act s 31 (1)(iii)

For the Year Ended 31/12/2010

The accompanying notes form part of these financial statements.

Budget Approved on Cash Basis

<u>Head of Revenue / Government Function</u>	<u>2010 Actual</u>	<u>2010 Budget</u>	<u>Variance (Bud - Act)</u>
<b>RECURRENT REVENUE</b>			
<b>Office of the Governor General</b>			
<b>Office of the Prime Minister</b>			
B01 Corporate Services - Office of the Prime Minister	813	200,850	200,037
B04 Personnel and Training	127,255	127,000	(255)
B08 Tuvalu Media Department	38,033	112,000	73,967
<b>Legal Services</b>			
C01 Office of the Attorney General	72,209	72,000	(209)
C02 People's Lawyer	258	500	243
<b>Parliament</b>			
<b>Office of the Auditor General</b>			
E01 Office of the Auditor General	(5,393)	35,520	40,913
<b>Finance and Economic Development</b>			
F01 Corporate Services - Finance	7,285,925	6,036,671	(1,249,254)
F02 Planning and Budget	0	600	600
F03 Central Statistics Division	20	150	130
F04 Customs	2,355,983	3,421,500	1,065,517
F05 Postal	10,022	29,300	19,278
F06 Treasury	(43,078)	0	43,078
F07 Inland Revenue	3,259,473	2,922,500	(336,973)
F09 Industries	7,560	3,500	(4,060)
<b>Public Utilities</b>			
G01 Corporate Services - Public Utilities	0	1,250,000	1,250,000
G02 Energy	3,650	13,000	9,350
G03 Public Works Department	137,553	145,500	7,947
<b>Health</b>			
H01 Corporate Service - Health	77,987	1,000	(76,987)
H02 Health Administration	9,120	0	(9,120)
H03 Curative	3,954	26,000	22,046
H04 Preventative Primary and Preventative Health Services	1,795	5,200	3,405
<b>Natural Resources</b>			
I02 Agriculture	4,006	27,300	23,294
I03 Fisheries	7,312,919	5,691,600	(1,621,319)
I04 Lands and Surveys	20,429	54,150	33,721
<b>Home Affairs</b>			
J01 Corporate Services - Home Affairs	6,282	11,300	5,018
J06 Immigration	85,397	68,000	(17,397)
<b>Police and Prison Services</b>			
K01 Police and Prison Services	28,882	33,050	4,168
<b>Transport and Communications</b>			
L01 Corporate Services - Communications and Transport	2,025,950	2,200,000	174,050
L02 Marine	1,829,940	2,017,500	187,559
L03 Aviation	209,639	295,800	86,161
L04 Information, Communication and Technology	9,493	18,000	8,507
L07 Meteorological Office	227	1,400	1,173
<b>Education, Youth and Sports</b>			
M04 EFA Secondary School	41,597	65,000	23,403
M05 Library	1,642	1,150	(492)
M06 Sports	1,500	0	(1,500)
<b>Judiciary</b>			
N01 Judiciary	4,049	5,850	1,801
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>			
O02 Labour	2,000	3,000	1,000
O03 Suva Mission	21,118	16,220	(4,898)
O04 Permanent Mission of Tuvalu to the UN	0	100	100
<b>TOTAL RECURRENT REVENUE</b>	<b>24,948,209</b>	<b>24,912,211</b>	<b>(35,998)</b>

**COMPARATIVE STATEMENT OF ACTUAL AND ESTIMATED RECURRENT EXPENDITURE by 'SUB HEAD'**

Prepared in accordance with Public Finance Act s 31 (1)(iv)

For the Year Ended 31/12/2010

*The accompanying notes form part of these financial statements.*

**Budget Approved on Cash Basis**

<b><u>Head of Expenditure / Government Function</u></b>	<b><u>2010 Actual</u></b>	<b><u>2010 Original Budget</u></b>	<b><u>Variance</u></b> <b>(Bud - Act)</b>
<b>RECURRENT EXPENDITURE</b>			
<b>Office of the Governor General</b>			
A01 Office of the Governor General	108,431	128,472	20,040
<b>Office of the Prime Minister</b>			
B01 Corporate Services - Office of the Prime Minister	1,016,030	827,850	(188,180)
B04 Personnel and Training	876,824	1,019,911	143,088
B08 Tuvalu Media Department	309,086	344,997	35,911
<b>Legal Services</b>			
C01 Office of the Attorney General	140,029	186,264	46,235
C02 People's Lawyer	42,431	58,553	16,122
<b>Parliament</b>			
D01 Office of the Parliament	604,456	495,576	(108,880)
<b>Office of the Auditor General</b>			
E01 Office of the Auditor General	144,835	173,164	28,329
<b>Finance and Economic Development</b>			
F01 Corporate Services - Finance	614,671	488,644	(126,027)
F02 Planning and Budget	141,347	181,609	40,262
F03 Central Statistics Division	75,397	79,635	4,238
F04 Customs	154,341	162,376	8,035
F05 Postal	82,217	97,276	15,059
F06 Treasury	413,044	269,505	(143,538)
F07 Inland Revenue	62,068	86,615	24,547
F09 Industries	733,963	427,219	(306,744)
<b>Public Utilities</b>			
G01 Corporate Services - Public Utilities	543,842	1,799,666	1,255,824
G02 Energy	52,540	57,599	5,059
G03 Public Works Department	1,132,681	1,194,579	61,897
<b>Health</b>			
H01 Corporate Service - Health	2,657,031	1,804,754	(852,277)
H02 Health Administration	259,701	310,970	51,269
H03 Curative	1,479,292	1,422,522	(56,770)
H04 Preventative Primary and Preventative Health Services	483,910	559,594	75,684
<b>Natural Resources</b>			
I01 MNRE Headquarters	164,893	200,475	35,582
I02 Agriculture	320,482	347,415	26,934
I03 Fisheries	805,096	872,617	67,521
I04 Lands and Surveys	939,110	911,373	(27,737)
<b>Home Affairs</b>			
J01 Corporate Services - Home Affairs	561,326	1,023,869	462,543
J02 Department of Rural Development	3,115,645	2,993,628	(122,017)
J03 Community Affairs	242,817	296,769	53,953
J04 Women Development	64,869	68,054	3,185
J05 Culture	17,446	20,409	2,963
J06 Immigration	47,710	50,367	2,657
J08 Solid Waste Agency of Tuvalu (SWAT)	149,022	0	(149,022)

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Continued from previous page

**Head of Expenditure / Government Function**

		<b><u>2010</u></b>	<b><u>2010</u></b>	<b><u>Variance</u></b>
		<b><u>Actual</u></b>	<b><u>Original</u></b>	<b><u>between</u></b>
			<b><u>Budget</u></b>	<b><u>Actual and</u></b>
				<b><u>Budget</u></b>
<b>Police and Prison Services</b>				
K01	Police and Prison Services	1,034,036	1,081,255	47,219
<b>Transport and Communications</b>				
L01	Corporate Services - Communications and Transport	1,588,649	280,671	(1,307,978)
L02	Marine	3,997,715	3,478,359	(519,356)
L03	Aviation	370,398	255,185	(115,213)
L04	Information, Communication and Technology	342,081	261,538	(80,543)
L07	Meteorological Office	202,272	211,625	9,354
<b>Education, Youth and Sports</b>				
M01	Corporate Services - Educations, Youth and Sports	1,182,764	826,036	(356,727)
M02	Education Department	236,756	309,184	72,428
M03	Primary Education	1,431,446	1,330,530	(100,917)
M04	EFA Secondary School	1,540,096	1,543,446	3,350
M05	Library	66,645	58,340	(8,305)
M06	Sports	74,969	23,081	(51,888)
M07	Pre-service Scholarships	1,665,100	2,058,094	392,994
M08	Youth	14,202	21,421	7,219
M09	Early Childhood Care and Education	60,123	0	(60,123)
<b>Judiciary</b>				
N01	Judiciary	90,414	110,144	19,730
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>				
O01	MFAETLT Headquarter	23,111	0	(23,111)
O02	Labour	319,551	528,370	208,819
O03	Suva Mission	382,285	321,535	(60,750)
O04	Permanent Mission of Tuvalu to the UN	369,988	353,982	(16,006)
O05	Brussels Mission	372,202	449,642	77,440
O06	Environment	56,263	89,553	33,290
O07	Tuvalu Consulate in Auckland	69,921	0	(69,921)
O08	Trade Office	14,954	9,749	(5,206)
O09	Tourism	60,311	44,496	(15,815)
<b>TOTAL RECURRENT EXPENDITURE</b>		<b><u>34,122,833</u></b>	<b><u>32,608,562</u></b>	<b><u>(1,514,271)</u></b>

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2010**

#### **1            REPORTING ENTITY**

##### **1.0            GOVERNMENT OF TUVALU**

The Financial Statements of the Government of Tuvalu represent the financial activities undertaken by Government Departments including entities which operate on the outer islands and in Foreign diplomatic posts.

Tuvalu Public Enterprises, including the Tuvalu Electricity Corporation, Vaiaku Lagi Hotel, National Bank of Tuvalu, Development Bank of Tuvalu, National Fisheries Corporation of Tuvalu (NAFICOT), Tuvalu Philatelic Bureau, Tuvalu Maritime Training Institute (TMTI) and Tuvalu Telecommunications Corporation are not consolidated into the Government of Tuvalu Accounts. The Government's investment in these enterprises is included on the Statement of Assets and Liabilities.

The joint ventures in commercial fishing operations entered into by NAFICOT on behalf of the Government of Tuvalu are not included in these accounts.

##### **1.1            TUVALU TRUST FUND**

In 1987 under the Tuvalu Trust Fund (Finance and Information) Act, the Government of Tuvalu established the Tuvalu Trust Fund (TTF) to contribute to the long term financial stability and viability of Tuvalu by enabling it to meet financial commitments from the proceeds of investments. The Trustees represent the Governments of Tuvalu, New Zealand and Australia, which are the main contributors to the Trust Fund.

Despite being the sole beneficiary of the TTF, the Government of Tuvalu does not control the TTF. The complete Financial Statements of the TTF are not consolidated in these Financial Statements of Government. The market value of the Government of Tuvalu's contribution to the TTF is included in these Financial Statements on the Statement of Assets and Liabilities, and the remaining balance of the TTF is contained in the notes to these Financial Statements as a contingent asset.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2010**

#### **2 BASIS OF PREPARATION**

The Statement of Income and Expenditure and the Statement of Assets and Liabilities are prepared on an accrual basis, and include non-cash items such as accruals and provisions.

The Financial Statements are presented in Australian dollars, and all monetary values are rounded to whole dollars, unless mentioned otherwise.

#### **2.1 STATEMENT OF COMPLIANCE**

These Financial Statements are prepared pursuant to the Public Finance Act and are consistent with prior financial years. The Statements are in accordance with generally accepted accounting practice in Tuvalu (Tuvalu GAAP) as determined by the Government of Tuvalu. Where necessary Tuvalu GAAP looks to the International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) to guide general accounting policy.

#### **2.2 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS**

Both the functional and presentation currencies of the Government of Tuvalu are the Australian dollar. Transactions in foreign currencies are initially recorded in the Australian dollar at the exchange rates provided by the National Bank of Tuvalu on the dates of the transactions. At balance date, monetary assets and liabilities held in Foreign Currency are translated at the exchange rates ruling at the balance date. Resulting exchange differences are recognised in the Income Statement.

#### **2.3 BUDGET AMOUNTS**

The Financial Statements show as comparatives the amounts appropriated by the original annual Appropriation Act that relates to the current financial year. Appropriations are on a cash basis.

#### **2.4 CHANGES IN ACCOUNTING POLICIES**

Changes in accounting policies are applied retrospectively, and comparatives are restated. The effect of these changes, if any, is disclosed in item 4.1, below.

New accounting policies may be adopted for types of transactions that have become material to the Financial Statements for the first time. These are not considered changes in accounting policies. Likewise, some accounting policies may be reworded to better reflect the treatment of transactions; such rewording is also not considered a change in accounting policies.

#### **2.5 MATERIAL PRIOR YEAR ERRORS**

If errors are detected that have a material impact on prior years, then these are applied retrospectively, and comparatives are restated. There were no material prior year errors identified in the preparation of these accounts.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2010**

#### **3 ACCOUNTING POLICIES**

##### **3.0 BASIS OF PREPERATION**

The Statement of Income and Expenditure and the Statement of Assets and Liabilities are prepared on an accrual basis, and include non-cash items such as accruals and provisions.

##### **3.1 REVENUE**

Revenue is recognised when earned or becomes receivable. Revenue is measured at the fair value of consideration received or receivable.

###### **Accrued Revenue**

Accrued revenue is recorded for items where revenue is earned or becomes receivable prior to the creation of an invoice.

###### **Tuvalu Trust Fund (TTF) Disbursement Revenue**

Disbursement revenue from the TTF is recognised at the time of receipt into the Government's Consolidated Investment Fund account. Transfers from the Consolidated Investment Fund Account to the Government General Account are recorded as a transfer of funds and are not treated as Government Revenue.

###### **Taxation Revenue**

Taxation Revenue is recognised at the earlier of receipt, invoice or filing of return, and includes:  
Income Tax – a tax on salaries and wages of workers in the economy as outlined in the Income Tax Act.

Company Tax – Taxes on the profits of large businesses. (Note: Small companies are subject to Presumptive Tax classified under “Other Taxes”).

Tuvalu Consumption Tax – A tax on goods and services set at a rate of 4% of the value of the good or service.

Import Duties – Taxes, normally at percentage of the cost of the imported good based on cost plus insurance plus freight, placed on imports to Tuvalu and levied at the port of entry.

Excise Duties – Special taxes on imported goods that the Government may wish to discourage consumption of such as alcohol, and cigarettes.

Other Taxes - Include Hotel Room Tax, Departure Tax, Presumptive Tax.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2010**

#### **Interest, Dividends, and Rent**

Revenue related to interest on Government accounts, dividends received from profits of companies in which the Government holds a share, and rental revenue from Government houses and buildings is recorded in the period it relates to.

#### **Fishing Licenses**

Revenue related to the granting of Fishing Licenses to foreign fishing vessels fishing in Tuvalu's Exclusive Economic Zone is recorded in the period it relates to.

#### **.TV Revenue**

Revenue related to the license agreement with Verisign for the marketing of Tuvalu's top level internet domain ".tv" is recorded in the period it relates to.

#### **Other Income**

Other revenue related to vessel registrations, operation of maritime services (Nivaga II & Manu Folau), stevedoring and wharfage, and other operational activities is recorded in the period it relates to.

### **3.2 AID ACCOUNTING**

#### **External Assistance and Grants**

Direct budget support grant funding from donors is recognised at the time of receipt. Aid funding received from donor agencies for projects in the Tuvalu Development Fund is recognised as revenue within the Tuvalu Development Fund account, distinctly separate to the Government Consolidated Fund at time of receipt.

#### **Grants in Kind**

Tuvalu often receives grants in kind. These are often in the form of technical assistance, office equipment, investments in major infrastructure projects and property plant and equipment which are beyond the financial resources of the Government of Tuvalu.

These grants in kind are not recognised within these accounts, however where value is known, these amounts are recorded in the Government of Tuvalu's annual Budget documentation as external budgetary assistance.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2010**

#### **3.3 EXPENDITURE**

Expenditure is recognised when incurred. This is generally upon receipt of goods or receipt of invoice.

##### **Wages and Salaries**

Wage and salary expenses are recognised in the period incurred.

##### **Contributions to Tuvalu National Provident Fund**

Contributions to the Tuvalu National Provident fund are recognised for the period to which they apply.

##### **Loan repayments, bank and interest fees**

Loan Principle and Interest repayments are recognised as expenditure in the period they relate to.

##### **Grants and Subsidies**

Grant Expenses in relation to grants provided to Tuvaluans and Non-Government Organisations (NGOs) are recognised at the point that Funds are paid to the grant recipient.

The Grants provided by Government include:

General Grants and Subsidies - provided to non-Government entities to assist them in providing goods or services, to civil servants for private housing rent subsidies, and to local councils and government.

Overseas Contributions – Payments to international organizations of which the Government is a member of (e.g. United Nations, University of the South Pacific (USP), Forum Secretariat).

Scholarships and support - Expenditure incurred supporting the Government's scholarship program.

Outer Island Projects grants - Special development spending on projects for the outer islands.

Japan Fuel Grant Counterpart Fund - Payments made to the Japan Fuel Grant Counterpart Fund as a contribution to recognise Japan's assistance for fuel purchasing.

##### **Tuvalu Medical Treatment Scheme**

Expenditure incurred in the operation of the Government's overseas medical referral scheme recognised in the period incurred.

##### **Other Expenditure**

Other expenditure related to advertising, purchasing of provisions, purchasing supplies, minor equipment, social welfare payments such as the Senior Citizen Scheme, payments for land rent to traditional landowners for Government leased land, and rent of properties by the Government is recorded in the period which it relates to.



## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2010**

#### **Special Development Expenditure (Capital Expenditure)**

Special Development Expenditure records a range of normally non-recurrent expenditures that include Government contributions to donor-funded projects, equipment purchases, small projects, and arrears payments.

The current policy is to expense all infrastructure assets and property, plant and equipment in the period they are acquired. These capital expenditures are classified as Special Development Expenditures (SDE) in the annual budget documentation.

#### **3.4 ASSETS**

The Government of Tuvalu currently records only Financial Assets in these accounts. Special Development Expenditure for Property Plant and Equipment purchases, and major infrastructure investment are not reflected on the Balance Sheet, and depreciation of these assets is not reflected on the Statement of Income and Expenditure.

##### **Current Assets**

An asset is deemed to be current if it is liquid or expected to be made liquid within 12 months.

##### **Cash & Cash Equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

##### **Debtors**

Debtors are measured at their expected realisable value, which is generally the original amount less a provision for amounts uncollected after 365 days. Bad debts are written off when approved by Parliament.

##### **Non-Current Assets**

Non-Current Assets are presented at their fair value.

The Tuvalu Development Fund is recognised as a Non-Current Asset, reflecting the Government's agreement with donor partners to utilise development funds in line with approved donor agreements.

##### **Other Investments**

Other Investments include investments in subsidiaries, other associated parties and investments in shares in non controlled entities.

Investments are measured at the lower of cost and impaired value.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2010**

#### **3.5 LIABILITIES**

##### **Creditors**

Creditors are recognised on receipt of an approved invoice.

##### **Accrued Expenditure**

Accrued expenditure is recorded for items where expenditure is incurred prior to the receipt of an approved invoice.

##### **Employee Entitlements**

The Government does not recognise employee entitlement liabilities such as annual leave in these accounts.

##### **Public Debt**

All Public Debt is measured and presented at fair value.

## **4 EVENTS AND DECISIONS WITH SIGNIFICANT ACCOUNTING IMPACTS**

### **4.1 CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies for the Year Ended 31 December 2010, however, the summary of Accounting Policies has been introduced to reflect the treatment of transactions.

This has no effect on the transactions and balances in the Financial Statements, which have themselves been prepared on a basis consistent with previous years.

The format of the Financial Statements has been revised in order to improve readability and international comparability. Fundamental changes include:

- Introduction of a statement of income and expenditure to present the financial performance by nature of expense and revenue.
- Introduction of Notes to the Financial Statements
- Revised structure of statements to improve readability, and movement of some details to these Notes.

The revision of the format has no impact on surplus or deficit, nor on total Equity.

### **4.2 SUBSEQUENT EVENTS**

No events have occurred since balance date which would materially affect the Government of Tuvalu's Financial Statements for the year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the Year Ended 31 December 2010**

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1

#### STATEMENT OF BALANCES ON DEPOSIT ACCOUNTS

Prepared in accordance with Public Finance Act s31(1)(ix)

For the Year Ended 31/12/2010

	<b>Financial Year Ending</b>	
	<b><u>31/12/2010</u></b>	<b><u>31/12/2009</u></b>
<b>Consolidated Fund Accounts</b>		
General Current Account	(1,623,443)	(871,589)
Government Call Account - 01-420002-02	58,432	57,522
Intellectual Property Account - 170955-30 - AGs	252,163	197,516
Miscellaneous Passbook a/c - 01-420002-34	1,542	1,519
<i>Total Consolidated Fund Cash account balances</i>	<b><u>(1,311,306)</u></b>	<b><u>(615,033)</u></b>
<b>Foreign Mission Accounts</b>		
Cash on Hand - UN Mission	62,282	56,042
Cash on Hand Brussel Mission	83,106	11,686
Cash on hand - Suva Embassy	16,855	28,019
Cash in transit - Tuvalu High Commission (Suva)	114,751	0
Cash on Hand New Zealand Consulate Office	63,057	(13,351)
<i>Total Foreign Mission Cash account balances</i>	<b><u>340,050</u></b>	<b><u>82,396</u></b>
<b>Outer Island General Accounts</b>		
Cash on Hand Nanumaga	854	3,837
Cash on Hand Nanumea	10,895	9,313
Cash on Hand Niutao	10,455	11,042
Cash on Hand Nui	4,200	20,588
Cash on Hand Nukufetau	12,817	11,388
Cash on Hand Nukulaelae	3,825	3,505
Cash on Hand Vaitupu	11,378	37,836
<i>Total Outer Island Cash account balances</i>	<b><u>54,424</u></b>	<b><u>97,509</u></b>
<b>Total Cash Balances as at 31/12/2010</b>	<b><u>(916,832)</u></b>	<b><u>(435,128)</u></b>

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2**

**STATEMENT OF SPECIAL FUND BALANCES**

Prepared in accordance with Public Finance Act s31(1)(v)  
For the Year Ended 31/12/2010

Special Funds	Financial Year Ending	
	31/12/2010	31/12/2009
<b>Business/Passport Investment Scheme - 01-420002-31</b>		
Opening Balance	180,213	174,017
Interest Earnings	2,701	6,196
Closing Balance	<b>182,914</b>	<b>180,213</b>
<b>IBD - Coinage Security - 01-420002-07</b>		
Opening Balance	261,834	179,086
Proceeds of sales of coins & royalties	216,329	82,747
Transfer - Government General Account	(300,000)	
Closing Balance	<b>178,162</b>	<b>261,834</b>
<b>IBD - Housing Repurchasing - 01-420002-46</b>		
Opening Balance	231,839	225,936
Interest Earnings	5,863	5,903
Closing Balance	<b>237,702</b>	<b>231,839</b>
<b>IBD - Insurance Fund - 01-420002-48</b>		
Opening Balance	367,138	356,799
Interest Earnings	9,265	10,339
Closing Balance	<b>376,403</b>	<b>367,138</b>
<b>IBD - NBT Insurance - 01-680824-40</b>		
Opening Balance	552,576	538,268
Interest Earnings	13,974	14,308
Closing Balance	<b>566,550</b>	<b>552,576</b>
<b>IBD - Rehabilitation - 01-420002-45</b>		
Opening Balance	16,324	15,901
Interest Earnings	413	423
Closing Balance	<b>16,737</b>	<b>16,324</b>
<b>IBD -Tuvalu Parliament Building - 01-420002-42</b>		
Opening Balance	70,417	68,432
Interest Earnings	1,777	1,985
Closing Balance	<b>72,194</b>	<b>70,417</b>
<b>Investment in Education Office - 01-420061-44</b>		
Opening Balance	136,467	132,624
Interest Earnings	3,444	3,843
Closing Balance	<b>139,910</b>	<b>136,467</b>
<b>IBD-Funds for Tuvalu Development - 01-751389-40</b>		
Opening Balance	166,572	161,881
Interest Earnings	4,203	4,691
Closing Balance	<b>170,775</b>	<b>166,572</b>
<b>Total Special Funds balance as at 31/12/2010</b>	<b>1,941,347</b>	<b>1,983,378</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3**

**STATEMENT OF INVESTMENTS**

Prepared in accordance with Public Finance Act s31(1)(xi)

For the Year Ended 31/12/2010

	Notes	Financial Year Ending	
		<u>31/12/2010</u>	<u>31/12/2009</u>
<b>Cash Investments</b>			
Consolidated Investment Fund		7,384,789	15,308,000
Government Air Pacific Bank Guarantee - 01-420002-40		42,952	41,892
<b>Total Cash Investments as at 31/12/2010</b>		<b><u>7,427,740</u></b>	<b><u>15,349,892</u></b>
<b>Non-Current Investments</b>			
Tuvalu Trust Fund - GOT Contribution	4	46,035,278	42,450,446
Tuvalu Development Fund		427,769	1,375,782
Capital in Corporations (total)	5	12,036,872	10,592,458
<b>Total Non-current Investments as at 31/12/2010</b>		<b><u>58,499,919</u></b>	<b><u>54,418,686</u></b>
<b>Total Investments of Government as at 31/12/2010</b>		<b><u>65,927,659</u></b>	<b><u>69,768,578</u></b>

## NOTE 4

### STATEMENT OF CONTINGENT ASSETS

Prepared in accordance with Public Finance Act s31(1)(x)

For the Year Ended 31/12/2010

#### TUVALU TRUST FUND (TTF)

Given the nature of the TTF and the fact that Tuvalu is the sole beneficiary of the TTF, it is anticipated that in the event of any 'wind up' of the TTF, the market value of all TTF balances would be available to the Government of Tuvalu.

The market value of Government of Tuvalu contribution balance of the TTF is disclosed on the Statement of Assets and Liabilities.

The market value of contribution balances from other parties to the TTF are classified as a contingent asset of the Government. There is no existing 'wind up' provision within the TTF legislation.

#### Tuvalu Trust Fund Balance

\$'000	Market Value (MV) (TTF) as at 31 December	Total TTF Contribution Balance	GOT Contribution Balance	GOT % of Contributions	Disclosed as GOT Asset (% cont. x MV)	GOT Contingent Asset
2008 Closing Balance	\$ 95,026	\$ 71,996	\$ 31,885	44%	\$ 42,084	\$ 52,942
2009 Closing Balance	\$ 97,561	\$ 73,279	\$ 31,885	44%	\$ 42,450	\$ 55,111
<b>2010 Closing Balance</b>	<b>\$ 110,610</b>	<b>\$ 76,611</b>	<b>\$ 31,885</b>	<b>42%</b>	<b>\$ 46,035</b>	<b>\$ 64,575</b>

#### Tuvalu Trust Fund Contribution Balances

\$'000	2008	2009	2010
GOT	31,885	31,885	31,885
UK	8,450	8,450	8,450
Australia	18,319	19,570	22,901
NZ	12,579	12,579	12,579
Japan	695	695	695
South Korea	69	101	101
<b>Total Contributions</b>	<b>71,996</b>	<b>73,279</b>	<b>76,611</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5

#### GOVERNMENT INVESTMENT IN CORPORATIONS

For the Year Ended 31/12/2010

Tuvalu Public Enterprises are not consolidated into the Government of Tuvalu Accounts. The net asset positions of Public Enterprises listed below are included on the Statement of Assets and Liabilities as an Investment in Corporations, in addition to Government investments in non-Government corporations.

<u>Corporation</u>	2007		2008		2009		2010	
	<u>Net Assets of corporation</u>	<u>GOT portion of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>
Tuvalu Maritime Training Institute <sup>4</sup>			1,601,239	1,601,239	1,561,649	1,561,649	1,561,649	1,561,649
National Fisheries Corporation of Tuvalu <sup>5</sup>			0	0	0	0	0	0
Development Bank of Tuvalu <sup>3</sup>	1,342,505	1,342,505	1,052,096	1,052,096	2,086,000	2,086,000	2,489,000	2,489,000
Vaiaku Lagi Hotel <sup>3</sup>	106,204	106,204	159,333	159,333	136,000	136,000	90,311	90,311
National Bank of Tuvalu <sup>3</sup>	4,994,748	4,994,748	4,821,375	4,821,375	6,608,000	6,608,000	7,791,618	7,791,618
Philatelic Bureau <sup>3</sup>	-134,540	-134,540	-134,540	0	-137,000	0	-188,000	0
Tuvalu Electricity Corporation <sup>3</sup>	-659,403	-659,403	-659,403	0	-1,064,000	0	-1,037,761	0
Tuvalu Telecommunications Corporation <sup>3</sup>	2,366,906	2,366,906	420,952	420,952	-543,000	0	-694,560	0
Air Fiji Limited <sup>1</sup>	4,651,590	2,005,766	4,651,590	0	0	0		
Pacific Forum Lines <sup>2</sup>	20,064,000	468,655	20,064,000	468,655	8,597,000	200,809	4,465,000	104,293
		<b><u>10,490,841</u></b>		<b><u>8,523,650</u></b>		<b><u>10,592,458</u></b>		<b><u>12,036,871</u></b>

<sup>1</sup>The Tuvalu Government owned 44% of issued capital of AIL which in turn owned 98% of the issued capital of Air Fiji limited.

Air Fiji ceased operations in 2009 and all assets of the company were liquidated. The value of Air Fiji holdings was written down to \$0 in the 2008 Financial Statements.

<sup>2</sup>Tuvalu Government owns a shareholding of 488,405 shares in PFL dating back to 1993. This represents 2.3358% of the total issued capital of the shipping line.

<sup>2</sup> PFL net assets represent the reported March end of year result from the following financial year.

<sup>3</sup>2010 Net Asset Values for Tuvalu Public Enterprises have been sourced from 2010 Financial Statements.

<sup>4</sup>The Tuvalu Maritime Training Institute has not prepared accounts since 2009.

<sup>5</sup>The National Fisheries Corporation of Tuvalu has not prepared a set of accounts since 1999, Government recognises the debt of NAFICOT as a liability.



**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6**

**DEBTORS**

**For the Year Ended 31/12/2010**

	<u>2010</u>	<u>2009</u>
Classification		
Claimed Debts Control Account	490,144	358,467
Other Debtors Control Account	2,720,236	2,057,499
Other Debtors NBT	18,784	18,784
Personal Loan Control Account	5,146	2,679
Special Imprest Control Account	(1,784)	53,666
Accounts Receivable Clearing Account (Imprest Matching)	367,369	367,526.47
<b>DEBTORS</b>	<u>3,599,895</u>	<u>2,858,621</u>
Less Allowance for Doubtful Debts		
Provision for Doubtful Debts	(1,099,756)	(954,270)
<b>TOTAL DEBTORS</b>	<u>2,500,139</u>	<u>1,904,351</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7

STATEMENT OF PUBLIC DEBT

Prepared in accordance with Public Finance Act s31(1)(xiii)

For the Year Ended 31/12/2010

	<u>Agency</u>	<u>Original debt</u>	<u>2007 Debt Balance</u>	<u>2008 Debt Balance</u>	<u>2009 Debt Balance</u>	<u>2010 Debt Balance</u>	<u>Start</u>	<u>Term</u>	<u>Grace period</u>	<u>Interest Rate</u>	<u>Principle repayments</u>
<b>Government Offshore Loans</b>											
<b>Falekaupule Trust Fund</b>	Asian Dev. Bank - LN1693	US\$3.972m	4,535,627	5,034,568	3,874,715	3,175,245	Nov-99	24yrs, 16 yrs repayment	8 yrs - start Feb 2008	1% in grace, then 1.5%	USD124,115 semi annual
	<i>Interest Payment</i>				76,539	36,757					
	<i>Principle Repayment</i>				359,611	293,758					
	<i>Unrealised Gain (Loss) on Currency Movement</i>				800,243	405,712					
<b>TMTI Original Loan</b>	Asian Dev. Bank - LN1921	SDR1.394m	2,552,052	2,522,824	2,120,079	1,873,844	Nov-02	32yrs, 24 yrs repayment	8 yrs - start Feb 2011	1% in grace, then 1.5%	SDR29,041 Semi annual
	<i>Interest Payment</i>										
	<i>Principle Repayment</i>										
	<i>Unrealised Gain (Loss) on Currency Movement</i>				402,745	246,236					
<b>TMTI Supplementary Loan</b>	Asian Dev. Bank - LN2088	SDR1.353m	2,476,993	2,448,624	2,280,858	2,012,892	Aug-04	32yrs, 24 yrs repayment	8 yrs - start Feb 2012	1% in grace, then 1.5%	SDR28,186 Semi annual
	<i>Interest Payment</i>										
	<i>Principle Repayment</i>										
	<i>Unrealised Gain (Loss) on Currency Movement</i>				167,765	267,967					
<b>DBT Equity Injection</b>	European Invst. Bank	EUR0.3m	503,609	612,690	480,692	392,311	Jan-03	15 yrs	1 repayment 2018	2%	Eur0.3m in 2018
	<i>Unrealised Gain (Loss) on Currency Movement</i>				131,998	88,381					
<b>Air Fiji O/D Guaranteed by Govt</b>	Bank of Baroda			0	361,841	0					In 2010 \$361,841 paid to Mauror & Co for legal proceedings. Following sale of Air Fiji Assets, \$134,041 was returned to GOT
	<i>Principle Repayment</i>					361,841					
	<i>Call on Government Guarantee Expense</i>					361,841					
<b>Air Fiji O/D Guaranteed by Govt</b>	Fiji Dev. Bank			0	290,858	0					Full payment of debt July 2010
	<i>Principle Repayment</i>					290,858					
	<i>Call on Government Guarantee Expense</i>					290,858					
<b>TOTAL GOVERNMENT OFFSHORE DEBT</b>			<b>10,068,281</b>	<b>10,618,706</b>	<b>9,409,044</b>	<b>7,454,291</b>					
<b>Government Domestic Debt</b>											
<b>Air Fiji O/D Guaranteed by Govt</b>	National Bank of Tuvalu			604,295	690,984	774,984					No payments made
	<i>Call on Government Guarantee Expense</i>										
	<i>Interest Expense</i>			604,295		86,689					
<b>NAFICOT Loan Guaranteed by Government</b>	National Bank of Tuvalu	AUD1.308m	1,308,100	1,308,100	1,308,100	1,308,100	Nov-03	129 months from Aug 07		8% from 1st repayment	No payments made
<b>Outer Island Suspense Account</b>	National Bank of Tuvalu	AUD4.923m	4,923,734	3,584,787	2,071,370	2,071,391	Aug-07			No interest	Unscheduled
<b>TMC - Tuvalu Media Corporation Loan absorbed by Government</b>	National Bank of Tuvalu	AUD0.127m	126,919	130,117	130,117	130,117	Dec-07			No interest	No payments made
<b>TOTAL GOVERNMENT DOMESTIC DEBT</b>			<b>6,418,478</b>	<b>5,627,299</b>	<b>4,200,571</b>	<b>4,284,592</b>					
<b>TOTAL PUBLIC DEBT</b>			<b>16,486,759</b>	<b>16,246,005</b>	<b>13,609,615</b>	<b>11,738,883</b>					

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8**

**STATEMENT OF CONTINGENT LIABILITIES**

Prepared in accordance with Public Finance Act s31(1)(x)

For the Year Ended 31/12/2010

Loans guaranteed by the Government of Tuvalu, whereby commitment is made by government to repay unpaid amounts upon non payment.

Refer Government Borrowing and Guarantee Act

<u>Name</u>	<u>Agency</u>	<u>Original Guarantee</u>	<u>2007 Guarantee</u>	<u>2008 Guarantee</u>	<u>2009 Guarantee</u>	<u>2010 Guarantee</u>
TCS Guarantee	TCS Suppliers	AUD0.5m				500,000
Air Pacific Guarantee (NBT Guarantee on Travel Office operations)	National Bank of Tuvalu	AUD40,000		40,000	40,000	40,000
DBT Global Loan 1 - Guarantee	European Invst. Bank	EUR0.5m	839,348	871,649	0	0
DBT Global Loan 2 - Guarantee	European Invst. Bank	EUR0.7m	1,175,088	1,220,309	1,118,794	809,844
International Monetary Fund (IMF) - Promissory Note	IMF - World Bank	AUD2.1m				2,128,870
			<b>2,014,436</b>	<b>2,131,959</b>	<b>1,158,794</b>	<b>3,478,714</b>

**Exchange Rates applied to Public Debt Balances at year end (Reserve Bank of Australia Website)**

<u>CURRENCY</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$AUD - \$EU	0.4896	0.6241	0.7647
\$AUD - \$USD	0.6903	0.8969	1.0163
\$AUD - Special Drawing Rights		0.5742	0.6599

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 9

#### TAXATION

	<u>2010</u> Actual	<u>2010</u> Budget	<u>2009</u> Actual
Income Tax	1,959,829	1,803,000	2,042,350
Company Tax	1,183,039	760,000	251,249
Sales Tax	8,949	100,000	170,249
Tuvalu Consumption Tax	41,566	300,000	(29)
Import Duty	1,730,157	2,500,000	2,113,921
Import Levy & Excise	591,705	855,500	428,449
Other Taxes	192,162	159,500	96,076
	5,707,408	6,478,000	5,102,265

### NOTE 10

#### INTEREST, DIVIDENDS & RENT

	<u>2010</u> Actual	<u>2010</u> Budget	<u>2009</u> Actual
Interest and Dividends	1,669,737	419,571	1,241,461
Lease, rent and hire	211,085	408,220	292,728
	1,880,821	827,791	1,534,189

### NOTE 11

#### EXTERNAL ASSISTANCE & GRANTS

	<u>2010</u> Actual	<u>2010</u> Budget	<u>2009</u> Actual
Republic of China (Taiwan)	5,415,294	5,700,000	7,851,415
AusAID (CIF)	0	0	900,000
New Zealand (CIF)	193,368	0	163,404
World Bank, IMF, ADB	0	0	1,489,736
Project Development Fund (PDF)	0	222,000	0
Other Donors	77,987	1,250,000	0
	5,686,649	7,172,000	10,404,555

### NOTE 12

#### OTHER INCOME

	<u>2010</u> Actual	<u>2010</u> Budget	<u>2009</u> Actual
Vessel Registrations	837,473	700,000	626,677
Marine Services (Nivaga II & Manu Folau)	708,755	673,000	619,910
Stevedoring and Wharfage	249,965	303,500	310,342
Provision of Goods and Services	646,494	924,520	596,561
Other Charges	52,839	273,400	232,772
	2,495,526	2,874,420	2,386,263

### NOTE 13

#### GRANTS AND SUBSIDIES (incl. Scholarship Support)

	<u>2010</u> Actual	<u>2010</u> Budget	<u>2009</u> Actual
Grants and Subsidies	3,331,418	2,749,577	2,469,209
Outer Island Projects (SDE)	1,906,962	1,800,000	366
Scholarships and Support	2,189,148	2,904,307	2,751,473
Contribution to Japan Grant Counterpart Fund	287,172	287,172	381,629
Overseas Contributions	985,096	1,018,176	476,860
	8,699,796	8,759,232	6,079,537

### NOTE 14

#### OTHER EXPENDITURE

	<u>2010</u> Actual	<u>2010</u> Budget	<u>2009</u> Actual
Advertising and Provisions	924,650	837,026	918,796
Supplies and Equipment	1,660,798	1,640,015	2,353,661
Senior Citizen Scheme / Pension	215,671	263,006	229,556
Land & Property Rent	924,106	965,046	785,626
	3,725,225	3,705,093	4,287,640

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15

#### Requirements of the Public Finance Act with no balance

Statement of Other Leger Balances

Statement of Balances on Advances Accounts from Deposits

Statement of Outstanding Loans made from the Consolidated Revenue Fund

Tabulated summaries of unallocated stores and manufacturing accounts

Statement of balances on remittance account

### NOTE 16

#### Events & Decisions with Significant Accounting Impacts

##### Changes in accounting policies

This has no effect on the transactions and balances in the Financial Statements, which have themselves been prepared on a basis consistent with previous years, except for the following and except for changes in accounting estimates and adjustments of prior year errors.

The format of the Financial Statements has been revised in order to improve readability and international comparability. Fundamental changes include:

- Introduction of a statement of income and expenditure to present the financial performance by nature of expense and revenue.
- Introduction of Notes to the Financial Statements
- Revised structure of statements to improve readability, and movement of some details to these Notes.

The revision of the format has no impact on surplus or deficit, nor on total Equity.

##### Recognition of Unrealised Gains and Losses

Prior to the 2009 accounts, Unrealised Gains and Losses were included only on the Balance sheet. Through the 2009 and 2010 accounts, Unrealised gains are now reflected as 'Other Income/Expenditure' on the Income Statement.

This primarily applies to:

- Unrealised Market Gains in Tuvalu's Contributions into the Tuvalu Trust Fund;
- Unrealised Gains/Losses in the Net Asset Values and Government Share of Investments in Corporations;
- and
- Unrealised Currency Gains/Losses in relation to Offshore Loans

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 17**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**  
 Prepared in accordance with Public Finance Act s31 (xviii)  
 Government of Tuvalu for the Year Ended 31/12/2010  
 Budget Approved on the Cash Basis

<u>Head of Expenditure / Government Function</u>				<u>2010</u>	<u>Final Budget</u>	<u>Excess of</u>
				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2010</u>	<u>over provision</u>
<b>CASH OUTFLOWS</b>						
<b>Office of the Governor General</b>						
A01	Office of the Governor General	711250	Local Entertainment	3,751	3,500	251
A01	Office of the Governor General	711290	Statutory Utilities	5,356	5,040	316
A01	Office of the Governor General	721100		2,779	1,363	1,416
A01	Office of the Governor General	72120B	Statutory Travel Spouse	3,300	1,413	1,887
A01	Office of the Governor General	721300	Telecom & Internet	3,245	3,000	245
A01	Office of the Governor General	722150	Computer Maintenance	173	100	73
A01	Office of the Governor General	723320	Fuel & Oil Vehicles	1,939	1,500	439
A01	Office of the Governor General	723510	Office Expenses	611	300	311
A01	Office of the Governor General	723540	Office Stationery	393	300	93
A01	Office of the Governor General	723740	Household Items	3,173	2,500	673
A01	Office of the Governor General	723750	Household Official Residence	1,293	1,000	293
A01	Office of the Governor General	723910	Electricity	5,483	5,150	333
<b>Office of the Prime Minister</b>						
B01	Corp. Services - Office of the PM	711120		28,995	13,707	15,288
B01	Corp. Services - Office of the PM	711240	PM's TNPF	3,993	3,595	398
B01	Corp. Services - Office of the PM	711280	Housemaids TNPF	1,764	1,490	274
B01	Corp. Services - Office of the PM	711290	Housemaids Overtime Allowances	2,820	450	2,370
B01	Corp. Services - Office of the PM	711320	DCC Chairperson Allowances	606	500	106
B01	Corp. Services - Office of the PM	712110	PM's Local Entertainment	8,103	5,500	2,603
B01	Corp. Services - Office of the PM	719100	TNPF	24,528	24,008	520
B01	Corp. Services - Office of the PM	721100	Overseas	42,665	20,000	22,665
B01	Corp. Services - Office of the PM	721200	PM's Statutory Travel	12,423	1,000	11,423
B01	Corp. Services - Office of the PM	72120A	PM's Travel	20,758	15,000	5,758
B01	Corp. Services - Office of the PM	72120C	PM's Statutory Travel Spouse	1,950	0	1,950
B01	Corp. Services - Office of the PM	721300	Telecom & Internet	6,117	5,000	1,117
B01	Corp. Services - Office of the PM	722350	Renovate GG's PM's Minister's Resid	103,223	40,000	63,223
B01	Corp. Services - Office of the PM	722500	Vehicle Maintenance	2,442	1,300	1,142
B01	Corp. Services - Office of the PM	723020	Disaster Awareness Program	1,239	1,000	239
B01	Corp. Services - Office of the PM	723320		4,308	1,500	2,808
B01	Corp. Services - Office of the PM	723420	Hospitality	31,744	8,000	23,744
B01	Corp. Services - Office of the PM	72342A	Hospitality Cabinet	1,198	1,000	198
B01	Corp. Services - Office of the PM	723470	Election	32	0	32
B01	Corp. Services - Office of the PM	723510	Office Expenses	5,247	1,600	3,647
B01	Corp. Services - Office of the PM	723530	Computer Supply	1,309	1,000	309
B01	Corp. Services - Office of the PM	723540	Office Stationery	2,189	2,000	189
B01	Corp. Services - Office of the PM	723710	Cleaning Supplies	6,238	6,000	238
B01	Corp. Services - Office of the PM	723770	Recharging of Satellite Phones	10,685	9,900	785
B01	Corp. Services - Office of the PM	729070	ROC President official visit	34,346	30,000	4,346
B01	Corp. Services - Office of the PM	762100	NZ Japan Australia Disaster Donatio	2,760	0	2,760
B01	Corp. Services - Office of the PM	782130	Response & Relief	1,462	100	1,362
B04	Personnel and Training	71112B	PSC Meeting Allowances	6,740	4,800	1,940
B04	Personnel and Training	721100	Overseas Travel and Subsistence	16,217	5,000	11,216
B04	Personnel and Training	72111A	Leave Travel	1,626	1,500	126
B04	Personnel and Training	723450	TMD Charges	520	500	20
B04	Personnel and Training	72346A		2,646	400	2,246
B04	Personnel and Training	723510	Office Expenses	17,735	1,000	16,735
B04	Personnel and Training	723530	Computer Supply	5,650	1,000	4,650
B04	Personnel and Training	723540	Office Stationeries	3,064	3,000	64
B04	Personnel and Training	752110	Rent Subsidy	215,032	155,000	60,032
B04	Personnel and Training	782410	USP Reimbursement	11,535	10,000	1,535
<b>Legal Services</b>						
C01	Office of the Attorney General	711220	Allowance	548	0	548
C01	Office of the Attorney General	719200	TNPF Statutory	2,856	2,849	7
C01	Office of the Attorney General	721100	Overseas Travel & Subsistence	17,589	5,000	12,589
C01	Office of the Attorney General	723510	Office Expenses	1,247	1,000	247
C01	Office of the Attorney General	723540	Office Stationery	1,896	1,300	596
C02	People's Lawyer	723540	Office Stationery	3,091	1,000	2,091
C02	People's Lawyer	723910	Electricity	3,923	1,577	2,346
<b>Parliament</b>						
D01	Office of the Parliament	711120	Allowances	4,414	3,000	1,414
D01	Office of the Parliament	71121A	Parliamentarians Salaries	125,098	125,028	70

**NOTES TO THE FINANCIAL STATEMENTS**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**  
**Prepared in accordance with Public Finance Act s31 (xviii)**  
**Government of Tuvalu for the Year Ended 31/12/2010**  
**Budget Approved on the Cash Basis**

				<u>2010</u>	<u>Final Budget</u>	<u>Excess of</u>
<u>Head of Expenditure / Government Function</u>				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2010</u>	<u>over provision</u>
D01	Office of the Parliament	711250	Parliamentarians Local Entertainment	11,856	3,500	8,356
D01	Office of the Parliament	719100	TNPF	5,655	5,404	251
D01	Office of the Parliament	71920A	MPs' TNPF	12,510	12,503	7
D01	Office of the Parliament	721100	Overseas Travel & Subsistence	15,048	7,000	8,048
D01	Office of the Parliament	721200	Statutory Travel Spouse	136,243	1,000	135,243
D01	Office of the Parliament	72120A	Speaker's Travel	53,491	15,000	38,491
D01	Office of the Parliament	721300	Telecom & Internet	1,539	1,200	339
D01	Office of the Parliament	722100	Office Maintenance	1,062	1,000	62
D01	Office of the Parliament	723220	Sessions & Committee Refreshm't	14,801	7,500	7,301
D01	Office of the Parliament	723320	Petrol & Oil	443	0	443
D01	Office of the Parliament	723510	Office Expenses	8,459	1,500	6,959
D01	Office of the Parliament	723540	Office Stationery	2,497	2,000	497
<b>Office of the Auditor General</b>						
E01	Office of the Auditor General	711220	Allowance	506	0	506
E01	Office of the Auditor General	719200	TNPF Statutory	2,636	2,629	8
E01	Office of the Auditor General	721100	Overseas Travel & Subsistence	14,580	11,000	3,580
E01	Office of the Auditor General	72110A	Local Travel & Subsistence	6,135	3,000	3,135
E01	Office of the Auditor General	722250	Equipment Maintenance	1,054	400	654
E01	Office of the Auditor General	723510	Office Expenses	4,054	1,000	3,054
<b>Finance and Economic Development</b>						
F01	Corp. Services - Finance	711120	Allowances	7,458	7,000	458
F01	Corp. Services - Finance	711210	Minister's Salary	31,078	30,196	882
F01	Corp. Services - Finance	711250	Local Entertainment	4,706	3,500	1,206
F01	Corp. Services - Finance	711280	Minister's Overseas Entertainment	2,663	2,500	163
F01	Corp. Services - Finance	712110	Housemaid Salary PF and Leave	47,630	4,338	43,292
F01	Corp. Services - Finance	719200	TNPF Statutory	3,108	3,020	88
F01	Corp. Services - Finance	721100	Overseas Travel & Subsistence	24,115	13,500	10,615
F01	Corp. Services - Finance	72120A	Minister's Travel	59,246	15,000	44,246
F01	Corp. Services - Finance	72120B	Statutory Travel Spouse	155	0	155
F01	Corp. Services - Finance	721300	Internet	980	600	380
F01	Corp. Services - Finance	723510	Office Expenses	1,871	900	971
F01	Corp. Services - Finance	723540	Office Stationery	8,623	1,000	7,623
F01	Corp. Services - Finance	72362A	Head of PERMU	24,609	0	24,609
F01	Corp. Services - Finance	723910	Government Outstanding Debts	4,828	0	4,828
F01	Corp. Services - Finance	762100		217,500	19,000	198,500
F01	Corp. Services - Finance	773210	Senior Citizens Scheme	663	0	663
F01	Corp. Services - Finance	796210	EIB Loan Service Fee	21,477	10,000	11,477
F02	Planning and Budget	723460	Budget Secretariat Expenses	13,508	2,910	10,598
F03	Central Statistics Division	721100	Overseas Travel & Subsistence	6,984	1,000	5,984
F03	Central Statistics Division	721300	Telecom & Internet	183	180	3
F03	Central Statistics Division	723510	Office Expenses	528	500	28
F04	Customs	712110	Casual Workers	381	0	381
F04	Customs	721100	Overseas Travel & Subsistence	3,360	2,000	1,360
F04	Customs	721300	Telecom & Internet	600	500	99
F04	Customs	72210A	Office Maintenance DSW	1,892	1,000	892
F04	Customs	723320	Petrol & Oil	2,494	1,500	994
F04	Customs	791220	Office Equipment	3,012	3,000	12
F05	Postal	723540	Office Stationery	3,544	1,500	2,044
F05	Postal	727050	Carriage of Mail	12,478	3,000	9,478
F05	Postal	762100	Overseas Contribution	23,865	21,500	2,365
F06	Treasury	711120		9,020	5,000	4,020
F06	Treasury	719100	TNPF	17,185	16,898	287
F06	Treasury	723100	Telecom & Internet	71	0	71
F06	Treasury	723510	Office Expenses	514	500	14
F06	Treasury	723530	Computer Supply	277	200	77
F06	Treasury	729990	Doubtful Debts Expense	145,241	300	144,941
F06	Treasury	742100	Bank Charge & Interests	191,137	50,000	141,137
F06	Treasury	742110	Foreign Exchange Cost	16,100	3,000	13,100
F07	Inland Revenue	721100	Overseas Travel & Subsistence	1,487	500	987
F07	Inland Revenue	721110	Leave Travel Entitlements	833	819	14
F07	Inland Revenue	723320	Petrol & Oil	252	0	252
F07	Inland Revenue	723510	Office Expenses	3,152	500	2,652
F07	Inland Revenue	723540	Office Stationery	1,403	800	603
F09	Industries	723510	Office Expenses	180	100	80
F09	Industries	723540	Office Stationery	387	100	287
F09	Industries	74210A	Support to Coconut produce	5,000	0	5,000
F09	Industries	78240A	Government Support to DBT	602,189	0	602,189
<b>Public Utilities</b>						
G02	Energy	711120		952	250	702

## NOTES TO THE FINANCIAL STATEMENTS

### STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM

Prepared in accordance with Public Finance Act s31 (xviii)

Government of Tuvalu for the Year Ended 31/12/2010

Budget Approved on the Cash Basis

				<u>2010</u>	<u>Final Budget</u>	<u>Excess of</u>
<u>Head of Expenditure / Government Function</u>				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2010</u>	<u>over provision</u>
G02	Energy	721300	Telecom & Internet	1,170	500	670
G02	Energy	723510	Office Expenses	231	200	31
G03	Public Works Department	711120		63,850	29,000	34,850
G03	Public Works Department	721100	Travel & Subsistence	7,646	5,000	2,646
G03	Public Works Department	72110A	Local Travel and Subsistence	3,471	2,000	1,471
G03	Public Works Department	721300	Telecom & Internet	5,493	4,500	993
G03	Public Works Department	722250	Equipment Maintenance	10,182	7,000	3,182
G03	Public Works Department	722300		11,500	10,000	1,500
G03	Public Works Department	722350	Civil Servant House Maintenanc	234,858	210,000	24,858
G03	Public Works Department	722500	Vehicle Maintenance	23,348	18,000	5,348
G03	Public Works Department	722650	Maintenance	22,969	22,000	969
G03	Public Works Department	723320	Petrol & Oil	25,946	25,000	946
G03	Public Works Department	723460		15,720	11,500	4,220
G03	Public Works Department	723510	Office Expenses	1,753	800	953
G03	Public Works Department	723540	Office Stationery	2,918	2,300	618
G03	Public Works Department	723750	Supplies	30,374	6,000	24,374
G03	Public Works Department	723760	Tools	1,121	1,000	121
G03	Public Works Department	723910	Electricity	40,517	35,649	4,868
G03	Public Works Department	726100	Contribution to Water Tanks Project	2,006	0	2,006
G03	Public Works Department	729040	Welding	3,259	3,000	259
G03	Public Works Department	791260	Materials	16,973	15,000	1,973
<b>Health</b>						
H01	Corporate Service - Health	711110	Salaries	87,053	74,260	12,793
H01	Corporate Service - Health	711120		9,824	7,607	2,218
H01	Corporate Service - Health	711210	Minister's Salary	30,982	30,196	786
H01	Corporate Service - Health	711250	Local Entertainment	4,105	3,500	605
H01	Corporate Service - Health	712110	Housemaid Salary & leave	5,223	4,092	1,131
H01	Corporate Service - Health	719100	TNPF	9,578	8,146	1,432
H01	Corporate Service - Health	719200	TNPF Statutory	3,120	3,020	100
H01	Corporate Service - Health	72120A	Minister's Travel	33,414	15,000	18,414
H01	Corporate Service - Health	722500	Vehicle Maintenance	1,661	1,500	161
H01	Corporate Service - Health	723120	Shipping & Transport Costs of Medic	83,700	75,423	8,277
H01	Corporate Service - Health	723320	Petrol & Oil	804	600	204
H01	Corporate Service - Health	723510	Office Expenses	1,583	676	907
H01	Corporate Service - Health	725040		2,200,796	2,082,750	118,046
H01	Corporate Service - Health	762100	Overseas Contribution	10,120	10,000	120
H01	Corporate Service - Health	782310		60,313	50,000	10,313
H02	Health Administration	712120	Cuban Doctors Maintenance Allowa	23,697	22,000	1,697
H02	Health Administration	712510	Cuban Doctors Travel Allowance	32,046	17,000	15,046
H02	Health Administration	71259A	Cuban Doctors Housing	95	0	95
H02	Health Administration	722500	Vehicle Maintenance	2,455	2,000	455
H02	Health Administration	723330	Petrol & Oil	6,305	6,000	305
H02	Health Administration	723510	Office Expenses	5,880	5,000	880
H02	Health Administration	791220	Office Equipment	4,517	1,000	3,517
H03	Curative	711110	Salaries	631,047	609,328	21,719
H03	Curative	721100	Overseas Travel & Subsistence	114	0	114
H03	Curative	72110A	Patients' Travel & Subsistence	315,722	278,750	36,971
H03	Curative	723210	Ration	79,116	75,000	4,116
H03	Curative	723750	Supplies	74,071	73,500	571
H03	Curative	725020		58,780	53,000	5,780
H03	Curative	726040	Uniforms	5,750	5,000	750
H03	Curative	791290	Kitchenware	6,052	5,000	1,052
H04	Preventative Primary and Health Services	723710	Cleaning Supplies	4,260	3,000	1,260
H04	Preventative Primary and Health Services	725030	Medical Linen	2,824	2,000	824
<b>Natural Resources</b>						
I01	MNRE Headquarters	711110	Salaries	69,177	63,296	5,881
I01	MNRE Headquarters	711250	Local Entertainment	8,084	3,500	4,584
I01	MNRE Headquarters	711280	Overseas Entertainment	2,555	2,500	55
I01	MNRE Headquarters	712110	Housemaid's Salary and Leave	6,133	4,611	1,522
I01	MNRE Headquarters	712130	Housemaids TNPF	613	565	48
I01	MNRE Headquarters	719100	TNPF	7,501	7,030	471
I01	MNRE Headquarters	721100	Overseas Travel & Subsistence	1,923	1,800	123
I01	MNRE Headquarters	72120A	Minister's Travel	21,826	15,000	6,826
I03	Fisheries	711120		6,790	6,500	290
I03	Fisheries	721300	Telecom & Internet	2,281	1,500	781
I03	Fisheries	722100	CFC Renovation	75,417	70,000	5,417
I03	Fisheries	722500		741	500	241
I03	Fisheries	723210	Manauai Provision	6,682	6,000	682



**NOTES TO THE FINACIAL STATEMENTS**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**  
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**Government of Tuvalu for the Year Ended 31/12/2010**  
**Budget Approved on the Cash Basis**

				<u>2010</u>	<u>Final Budget</u>	<u>Excess of</u>
<u>Head of Expenditure / Government Function</u>				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2010</u>	<u>over provision</u>
103	Fisheries	723320	Petrol & Oil	4,408	1,000	3,408
103	Fisheries	723510	Office Expenses	2,724	0	2,724
103	Fisheries	724050	Data Collection Programme	4,421	3,500	921
103	Fisheries	726100	Pearl Oyster	21,526	4,680	16,846
103	Fisheries	782230	CFC Operation & Working	280,250	280,000	250
103	Fisheries	791350	FADs Programmes	48,409	48,000	409
104	Lands and Surveys	711220	Lands Court Sitting Allowances	82,981	57,024	25,957
104	Lands and Surveys	721100	Overseas Travel & Subsistence	1,106	800	306
104	Lands and Surveys	721120	Communication & Transport	2,010	2,000	10
104	Lands and Surveys	722500	Vehicle Maintenance	480	300	180
<b>Home Affairs</b>						
J01	Corporate Services - Home Affairs	711120	Allowances	4,819	4,500	319
J01	Corporate Services - Home Affairs	711210	Minister's Salary	30,418	30,196	223
J01	Corporate Services - Home Affairs	712110	Housemaid Salary	6,508	4,092	2,416
J01	Corporate Services - Home Affairs	712130	Housemaid TNPF	651	409	242
J01	Corporate Services - Home Affairs	719200	TNPF Statutory	3,042	3,020	22
J01	Corporate Services - Home Affairs	721100	Overseas Travel & Subsistence	28,046	15,000	13,046
J01	Corporate Services - Home Affairs	72120A	Minister Travel	30,494	15,000	15,494
J01	Corporate Services - Home Affairs	72120B	Statutory Travel Spouse	4,050	0	4,050
J01	Corporate Services - Home Affairs	723320	Petrol & Oil	1,279	1,000	279
J01	Corporate Services - Home Affairs	723540	Office Stationeries	1,777	1,000	777
J02	Department of Rural Development	711120		4,837	500	4,337
J02	Department of Rural Development	721110	Leave Travel	2,762	2,154	608
J02	Department of Rural Development	723510	Office Expenses	10,702	200	10,502
J02	Department of Rural Development	723540	Office Stationery	402	400	2
J02	Department of Rural Development	724040	Access to Lakena Plantation	20	0	20
J02	Department of Rural Development	781250	Vivalia Reimbursement	55,000	15,000	40,000
J02	Department of Rural Development	78125B	FTF Leaders Meeting	45,742	20,000	25,742
J02	Department of Rural Development	782250	Falekaupule Act Grant	440,674	393,775	46,899
J02	Department of Rural Development	782311	Contribution to Lofeagai chapel	20,000	10,000	10,000
J02	Department of Rural Development	782390	Tied Grant	125,772	125,682	90
J02	Department of Rural Development	782410	Outer Islands Projects	1,906,962	1,800,000	106,962
J02	Department of Rural Development	79111C	Nanumea EKT Church Renovation	1,275	0	1,275
J02	Department of Rural Development	79117B	Nui Kitchen Phase 3	12	0	12
J03	Community Affairs	723510	Office Expenses	152	150	2
J05	Culture	711110	Salaries	15,860	15,817	43
J06	Immigration (Inactive)	711120	Allowances	2,332	1,000	1,332
J06	Immigration (Inactive)	719100	TNPF	3,572	3,448	124
J06	Immigration (Inactive)	762100	Overseas contribution PIDC	1,015	1,000	15
<b>Police and Prison Services</b>						
K01	Police and Prison Services	711120		95,354	59,090	36,264
K01	Police and Prison Services	719100	TNPF	70,910	70,507	403
K01	Police and Prison Services	721100	Overseas Travel & Subsistence	3,124	3,000	124
K01	Police and Prison Services	72110A	Local Travel & Subsistence	4,446	0	4,446
K01	Police and Prison Services	721110	Leave travel	4,664	3,095	1,569
K01	Police and Prison Services	721300	Telecom & Internet	5,619	5,588	31
K01	Police and Prison Services	723110		6,485	4,400	2,085
K01	Police and Prison Services	723320	Petrol & Oil	10,219	7,294	2,925
K01	Police and Prison Services	723330	Vessel Fuel	31,659	30,000	1,659
K01	Police and Prison Services	723540	Office Stationery	5,588	4,500	1,088
K01	Police and Prison Services	726050	Ship & Workshop Expenses	3,513	2,900	612
<b>Transport and Communications</b>						
L01	Corp. Services - Comm. and Trans	711110	Salaries	99,790	96,280	3,510
L01	Corp. Services - Comm. and Trans	711120		17,113	15,344	1,769
L01	Corp. Services - Comm. and Trans	711210	Minister's Salary	30,277	30,196	81
L01	Corp. Services - Comm. and Trans	711250	Minister's Local Entertainment	4,269	3,500	769
L01	Corp. Services - Comm. and Trans	712110	Housemaid's Salary PF & Leave	7,000	4,827	2,173
L01	Corp. Services - Comm. and Trans	719100	TNPF	11,690	11,163	527
L01	Corp. Services - Comm. and Trans	719200	TNPF Statutory	3,028	3,020	8
L01	Corp. Services - Comm. and Trans	721100	Overseas Travel & Subsistence	23,216	9,800	13,416
L01	Corp. Services - Comm. and Trans	721110	Leave Travel	2,745	2,051	693
L01	Corp. Services - Comm. and Trans	72120A	Minister's Travel	51,752	15,000	36,752
L01	Corp. Services - Comm. and Trans	723510	Office Expenses	124,878	2,000	122,878
L01	Corp. Services - Comm. and Trans	723540	Office Stationery	11,507	2,200	9,307
L01	Corp. Services - Comm. and Trans	781220	Purchase of Hanger	19,972	0	19,972
L01	Corp. Services - Comm. and Trans	782400	Government Support to TTC	480,700	0	480,700
L01	Corp. Services - Comm. and Trans	796130	Guarantee to Bank of Baroda Air Fiji	361,841	0	361,841
L01	Corp. Services - Comm. and Trans	796140	Guarantee to Fiji Development Bank	290,858	0	290,858
L02	Marine	711120		302,723	202,816	99,907

**NOTES TO THE FINACIAL STATEMENTS**

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**Prepared in accordance with Public Finance Act s31 (xviii)**  
**Government of Tuvalu for the Year Ended 31/12/2010**  
**Budget Approved on the Cash Basis**

				<u>2010</u>	<u>Final Budget</u>	<u>Excess of</u>
<u>Head of Expenditure / Government Function</u>				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2010</u>	<u>over provision</u>
L02	Marine	712410	Stevedoring	388,574	110,000	278,573
L02	Marine	712900	Relieving Fund	41,466	30,000	11,466
L02	Marine	719100	TNPF	78,953	71,050	7,903
L02	Marine	722100	Building Maintenance	15,094	10,000	5,094
L02	Marine	722250	Equipment Maintenance	2,615	2,000	615
L02	Marine	722550	Maintenance	807,638	710,000	97,639
L02	Marine	723210	Victualling	269,195	235,000	34,195
L02	Marine	723320	Petrol & Oil	7,287	5,000	2,287
L02	Marine	723330	Vessel Fuel	1,430,083	1,200,000	230,083
L02	Marine	723510	Office Expenses	3,040	1,600	1,441
L02	Marine	723540	Office Stationery	2,460	2,100	360
L02	Marine	726040	Uniform	7,569	6,348	1,221
L02	Marine	726080	Vessel Canteen	15,750	13,000	2,750
L03	Aviation	711120		16,091	5,200	10,891
L03	Aviation	719100	TNPF	9,770	9,163	607
L03	Aviation	721100	Overseas Travel and Subsistence	3,883	3,000	883
L03	Aviation	723510	Office Expenses	7,569	1,500	6,069
L03	Aviation	723540	Office Stationery	2,654	1,100	1,554
L03	Aviation	723910	Electricity	9,983	6,703	3,280
L03	Aviation	791120	Fire & Security Equipment	61,778	0	61,778
L03	Aviation	791130	NDB & DME	142,121	85,360	56,761
L04	Information, Comm. and Technology	723530	Computer Supply	4,284	1,100	3,184
L04	Information, Comm. and Technology	762100		108,408	8,500	99,908
L04	Information, Comm. and Technology	791220	Satellite Link	167,236	100,000	67,236
L07	Meteorological Office	721110	Leave Travel Entitlements	1,522	1,500	22
L07	Meteorological Office	722100		7,404	4,500	2,904
L07	Meteorological Office	723510	Office Expenses	8,114	1,320	6,794
L07	Meteorological Office	723540	Office Stationery	852	750	102
L07	Meteorological Office	791220	Office Equipment	8,390	4,100	4,290
<b>Education, Youth and Sports</b>						
M02	Education Department	72110A	Local Travel & Subsistence	3,300	2,500	800
M02	Education Department	723540	Office Stationery	1,356	1,000	356
M02	Education Department	723830	Examination Admin	36,054	28,180	7,874
M02	Education Department	782370		33,147	32,000	1,147
M03	Primary Education	711110	Salaries	1,004,618	964,932	39,686
M03	Primary Education	711120		4,795	4,354	441
M03	Primary Education	712210	Contract Teachers	105,446	95,956	9,490
M03	Primary Education	712900	Relieving Teachers	48,235	19,000	29,235
M03	Primary Education	721300	Internet	11,899	10,800	1,099
M03	Primary Education	722250	Equipment Maintenance	1,300	500	800
M03	Primary Education	723050	School Radio Program	3,054	1,560	1,494
M03	Primary Education	723470	Child Convention	1,869	1,000	869
M03	Primary Education	723510	Office Expenses	243	100	143
M03	Primary Education	723560	Textbooks	51,691	30,000	21,691
M03	Primary Education	723710	Cleaning Supplies	1,000	500	500
M03	Primary Education	723750	School Supplies EU	45,399	35,000	10,399
M03	Primary Education	791130	Science Equipment	16,504	15,025	1,479
M04	EFA Secondary School	711120		30,260	27,434	2,826
M04	EFA Secondary School	712110	Casual Workers	5,577	4,500	1,077
M04	EFA Secondary School	72110B	Local Travel & Subsistence	6,880	4,000	2,880
M04	EFA Secondary School	722100		41,828	30,000	11,828
M04	EFA Secondary School	722500	Vehicle Maintenance	904	0	904
M04	EFA Secondary School	723210	Ration	420,268	400,000	20,268
M04	EFA Secondary School	723340	Gas/Kerosene Supplies	9,524	9,000	524
M04	EFA Secondary School	723750	Supplies	29,017	24,700	4,317
M04	EFA Secondary School	723910	Electricity	35,347	21,000	14,347
M04	EFA Secondary School	724020	School Farm Piggery	12,587	10,000	2,587
M04	EFA Secondary School	791220	Science Equipment	3,759	0	3,759
M04	EFA Secondary School	791320	Computer Laboratory	30,296	30,000	296
M05	Library	711110	Salaries	49,630	36,054	13,576
M05	Library	711120	Allowances	1,807	1,000	807
M05	Library	719100	TNPF	5,144	3,705	1,439
M05	Library	721100	Overseas Travel & Subsistence	1,126	200	926
M05	Library	722100	Office Maintenance	2,175	2,000	175
M05	Library	723510	Office Expenses	194	150	44
M06	Sports	721100		10,920	700	10,221
M07	Pre-service Scholarships	721100		3,741	3,600	141
M07	Pre-service Scholarships	723040	Fees Reimbursement	3,761	0	3,761
M07	Pre-service Scholarships	782510	Scholarship Students new award	376,386	300,649	75,737
M07	Pre-service Scholarships	782550	Scholarship Students AFP	159,648	129,200	30,448

**NOTES TO THE FINANCIAL STATEMENTS**

**STATEMENT OF UNAUTHORISED EXPENDITURE by SUB HEAD and ITEM**  
**Prepared in accordance with Public Finance Act s31 (xviii)**  
**Government of Tuvalu for the Year Ended 31/12/2010**  
**Budget Approved on the Cash Basis**

<u>Head of Expenditure / Government Function</u>				<u>2010</u>	<u>Final Budget</u>	<u>Excess of</u>
				<u>Actual</u>	<u>Provision as at</u>	<u>Expenditure</u>
					<u>31/12/2010</u>	<u>over provision</u>
M09	Early Childhood Care and Education	712120	Allowances Pre Sch salaries	60,123	0	60,123
<b>Judiciary</b>						
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>						
O01	MFAETLT Headquarter	721100		23,111	0	23,111
O02	Labour	711120		11,067	9,800	1,267
O02	Labour	721100		29,581	29,065	516
O02	Labour	72110A	Local Travel and Subsistence	560	400	160
O02	Labour	723530	Computer Supply	1,539	900	639
O03	Suva Mission	711110	Salaries	102,928	96,515	6,413
O03	Suva Mission	711120		12,483	11,161	1,322
O03	Suva Mission	711160	Overseas allowances	28,405	27,400	1,005
O03	Suva Mission	721100	Overseas Travel and Subsistence	54,262	20,000	34,262
O03	Suva Mission	722350	House Maintenance	31,118	14,500	16,618
O03	Suva Mission	722500	Vehicle Maintenance	58,956	14,000	44,956
O03	Suva Mission	723510	Office Expenses	16,041	9,000	7,041
O03	Suva Mission	723540	Office Stationeries	5,493	3,500	1,993
O03	Suva Mission	723740	Household Items	2,204	2,203	1
O04	Permanent Mission of Tuvalu to the UN	711140	Clothing Allowances	4,403	4,162	241
O04	Permanent Mission of Tuvalu to the UN	711160	Foreign Service Allowances	131,379	101,307	30,072
O04	Permanent Mission of Tuvalu to the UN	712110	Support Staff Salary	18,135	17,846	289
O04	Permanent Mission of Tuvalu to the UN	719100	TNPF	4,426	2,744	1,682
O04	Permanent Mission of Tuvalu to the UN	721100	Overseas Travel and Subsistence	9,222	5,000	4,222
O04	Permanent Mission of Tuvalu to the UN	721300	Telecom & Internet	7,018	7,000	18
O04	Permanent Mission of Tuvalu to the UN	723510	Office Expenses	5,060	0	5,060
O04	Permanent Mission of Tuvalu to the UN	781100	UN Accomodation	71,596	70,000	1,596
O04	Permanent Mission of Tuvalu to the UN	781200	Office Lease	34,250	33,515	735
O05	Brussels Mission	711120	Allowances	13,951	10,400	3,551
O05	Brussels Mission	711140	Clothing Allowance	7,144	5,340	1,804
O05	Brussels Mission	721100		70,199	37,563	32,636
O05	Brussels Mission	722500	Vehicle Maintenance	7,771	1,504	6,267
O05	Brussels Mission	723510	Office Expenses	3,806	3,000	806
O05	Brussels Mission	723740	Household Items	1,023	752	271
O05	Brussels Mission	725050	Health Insurance	21,532	10,642	10,890
O05	Brussels Mission	791220	Office Equipment	4,114	3,000	1,114
O06	Environment	711110	Salaries	38,718	38,615	103
O07	Tuvalu Consulate in Auckland	723510	Office Expenses	450	0	450
O07	Tuvalu Consulate in Auckland	781100		69,471	0	69,471
O08	Trade Office	711110	Salaries	11,687	5,838	5,849
O08	Trade Office	719100	TNPF	1,169	584	585
O08	Trade Office	721100	Overseas Travel and Subsistence	1,391	1,000	391

## Appendix 1: Part 3 - Tuvalu Whole of Government Financial Statements 2009



Report of the Auditor-General on the Tuvalu Whole of Government Accounts:  
Years ended 31/12/2010 and 31/12/2011

DISCLAIMER:

The Tuvalu Audit Office has not audited the 2009 revised accounts included below. We have given our audit opinion surrounding the 2009 accounts which was submitted to Parliament on 8 May 2012, along with our report.

We do not provide any audit opinion or give any assurance on the below accounts.

A handwritten signature in black ink, appearing to read 'Isaako K. Kine', enclosed within a faint, light-colored oval border.

Isaako K. Kine

**Auditor General for Tuvalu**

Funafuti

17 September 2012

# **TUVALU WHOLE OF GOVERNMENT**



## **FINANCIAL STATEMENTS**

**for the Year Ended 31 December 2009**

## STATEMENT OF RESPONSIBILITY

The Government is pleased to present the Financial Statements of the Government of Tuvalu for the Year Ended 31 December 2009

We hereby declare that:


- We have been responsible for the preparation of these Financial Statements and the judgments made in them.
- We are responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- In our opinion these Financial Statements fairly reflect the financial position and operations of the Government of Tuvalu for the Year Ended 31 December 2009

The Financial Statements were authorised for issue by the Minister of Finance.



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**Hon. Lotoala Metia**  
Minister of Finance & Economic  
Development



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**Mr Minute Taupo**  
Secretary for Finance and Economic  
Development

## STATEMENT OF INCOME AND EXPENDITURE

For the Year Ended 31/12/2009

The accompanying notes form part of these financial statements.

	Notes	<u>2009</u> <u>Actual</u>	<u>2009</u> <u>Budget</u>	<u>2008</u> <u>Actual</u>
<b><u>RECURRENT INCOME</u></b>				
Taxation	9	5,102,265	6,641,443	6,016,398
Interest, Dividends and Rent	10	1,534,189	983,230	568,920
Fisheries Licenses		9,123,906	5,360,300	8,400,036
.TV		2,327,650	2,200,000	2,229,700
External Assistance and Grants	11	10,404,555	10,372,000	7,502,675
Other Income	12	2,386,263	3,344,039	2,660,772
<b>TOTAL RECURRENT INCOME</b>		<b>30,878,828</b>	<b>28,901,013</b>	<b>27,378,501</b>
<b><u>RECURRENT EXPENDITURE</u></b>				
Wages, Salaries, and Allowances		10,386,368	10,741,891	9,722,901
Contributions to Tuvalu National Provident Fund		894,888	956,974	839,064
Travel		1,374,318	924,305	1,146,891
Fuel, Electricity and Communications		1,678,795	2,048,244	1,833,279
Maintenance		1,297,480	1,197,579	1,243,988
Loan Repayments & Bank Fees		618,677	504,000	597,854
Grants and Subsidies (incl. Scholarships Support)	13	6,079,537	6,481,459	5,741,485
Tuvalu Medical Treatment Scheme		1,862,929	1,005,000	2,268,541
Other Expenses	14	4,287,640	6,263,259	6,219,542
Special Development Expenditures		2,174,678	2,470,681	1,323,340
<b>TOTAL RECURRENT EXPENDITURE</b>		<b>30,655,310</b>	<b>32,593,392</b>	<b>30,936,885</b>
<b>RECURRENT SURPLUS / (DEFICIT)</b>		<b>223,518</b>	<b>(3,692,380)</b>	<b>(3,558,384)</b>
<b><u>OTHER REVENUE AND EXPENDITURE</u></b>				
Unrealised Gain (Loss) on Trust Fund Investment	4	366,339		0
Unrealised Gain (Loss) on Investment in Corporations	5	2,068,808		0
Unrealised Gain (Loss) on Currency Movement (Offshore Loans)	7	1,502,751		0
Call on Government Guarantee Expense		(604,295)		0
Doubtful Debts Expense	6	(817,039)		0
<b>TOTAL OTHER REVENUE AND EXPENDITURE</b>		<b>2,516,564</b>		<b>0</b>
<b>TOTAL SURPLUS / (DEFICIT)</b>		<b>2,740,082</b>		<b>(3,558,384)</b>



**STATEMENT OF ASSETS AND LIABILITIES**

Prepared in accordance with Public Finance Act s31(1)(i)

For the Year Ended 31/12/2009

The accompanying notes form part of these financial statements.

		Notes	<u>2009</u>	<u>2008</u>
<b><u>GOVERNMENT EQUITY</u></b>				
	Surplus / (Deficit)		2,740,081	2,441,616
	Audit Adjustments		0	(8,944,554)
	Retained Earnings		56,600,872	56,750,812
	<b>TOTAL GOVERNMENT EQUITY</b>		<b>59,340,952</b>	<b>50,247,874</b>
<b>REPRESENTED BY:</b>				
<b><u>ASSETS</u></b>				
<b>Current Assets</b>				
	Cash & Cash Equivalents	1	(435,128)	1,588,539
	Special Funds	2	1,983,378	1,852,943
	Cash Investments	3	15,349,892	16,061,359
	Prepayments		0	164,473
	Debtors	6	1,904,351	1,024,322
	<b>Total current assets</b>		<b>18,802,493</b>	<b>20,691,636</b>
<b>Non-Current Assets</b>				
	Tuvalu Trust Fund	3 & 4	42,450,446	42,084,107
	Tuvalu Development Fund	3	1,375,782	1,180,959
	Investments in Corporations	3 & 5	10,592,458	6,922,411
	<b>Total Non-Current Assets</b>		<b>54,418,686</b>	<b>50,187,477</b>
105700	Standing and Working Imprest Control Account		0.00	4,844.59
	<b>Total Clearing account balances</b>		<b>0</b>	<b>4,845</b>
	<b>TOTAL ASSETS</b>		<b>73,221,180</b>	<b>70,883,957</b>
<b><u>LIABILITIES</u></b>				
<b>Less Current Liabilities</b>				
	Accounts Payable		159,360	149,543
	Accounts Payable - Tuvalu Provident Fund		46,786	0
	Accounts Payable - Payroll Clearance		63,867	220
	Tuvalu Police Fund		600	0
	<b>Total current liabilities</b>		<b>270,613</b>	<b>149,763</b>
<b>Non-Current Liabilities</b>				
	Offshore Loans	7	9,409,044	10,628,314
	Domestic Loans	7	4,200,571	5,023,004
	<b>Total non-current liabilities</b>		<b>13,609,615</b>	<b>15,651,318</b>
112833	Accrued Revenue		0.00	1,592,831.00
301700	Accrued Expenses		0.00	310,623.00
301110	Revenue in Advance		0.00	1,209,972.00
112602	Unrealised Market Losses		0.00	82,131.00
112603	Unrealised Currency Losses		0.00	-841,320.00
	<b>TOTAL LIABILITIES</b>		<b>13,880,227</b>	<b>18,155,318</b>
	<b>TOTAL NET ASSETS</b>		<b>59,340,952</b>	<b>52,728,638</b>

**STATEMENT OF CHANGES IN EQUITY****For the Year Ended 31/12/2009***The accompanying notes form part of these financial statements.*

	Notes	<u>2009</u>	<u>2008</u>
<b>Retained Earnings as at 1 January</b>		<b>59,192,428</b>	<b>47,081,802</b>
<b>Movements reflected on Income Statement</b>			
Net Surplus/(Deficit) for the period		223,518	2,441,616
Other Unrealised Gain (Loss) for the period		2,516,564	0
<b>Movements not reflected on Income Statement</b>			
Reduction in Offshore Debt - Principal Repaid		373,332	
Increase (Decrease) in Tuvalu Development Fund Holding		(665,950)	
Call on Government Guarantee (Air Fiji)		(652,699)	
Introduction of TMTI & NAFICOT Investment on GOT accounts		1,601,239	
Other non-Income Statement Movements		(3,247,481)	9,669,010.38
<b>Accumulated Funds as at 31 December</b>		<b>59,340,951</b>	<b>59,192,428</b>

**STATEMENT OF REVENUE AND EXPENDITURE BY HEADS**  
**Prepared in accordance with Public Finance Act s31(1)(ii)**  
**For the Year Ended 31/12/2009**

*The accompanying notes form part of these financial statements.*

**Budget Approved on Cash Basis**

<u>Head</u>	<u>Head of Expenditure / Government Function</u>	<u>2009</u> <u>Actual</u>	<u>2009</u> <u>Original</u> <u>Budget</u>	<u>Variance</u> <u>(Bud - Act)</u>
<b>RECURRENT REVENUE</b>				
A	Office of the Governer General	0	0	0
B	Office of the Prime Minister	189,446	1,101,050	911,604
C	Legal Services	43,945	57,500	13,555
D	Parliament	0	0	0
E	Office of the Auditor General	62,857	22,520	(40,337)
F	Finance and Economic Development	16,843,195	16,770,903	(72,292)
G	Public Utilities	159,713	703,870	544,157
H	Health	12,343	36,600	24,257
I	Natural Resources	9,164,141	5,664,400	(3,499,741)
J	Home Affairs	94,391	26,000	(68,391)
K	Police and Prison Services	72,143	28,070	(44,073)
L	Transport and Communications	4,151,771	4,373,630	221,859
M	Education, Youth and Sports	60,923	84,300	23,377
N	Judiciary	11,851	5,850	(6,001)
O	Foreign Affairs, Trade, Tourism, Environment & Labour	12,110	26,320	14,210
<b>TOTAL RECURRENT REVENUE</b>		<b>30,878,828</b>	<b>28,901,013</b>	<b>(1,977,815)</b>
<b>RECURRENT EXPENDITURE</b>				
A	Office of the Governer General	100,114	109,372	9,258
B	Office of the Prime Minister	2,116,319	2,345,631	229,312
C	Legal Services	187,177	240,137	52,960
D	Parliament	389,611	355,170	(34,442)
E	Office of the Auditor General	134,566	178,296	43,730
F	Finance and Economic Development	2,679,135	4,816,984	2,137,850
G	Public Utilities	1,894,288	1,897,518	3,230
H	Health	4,220,762	3,465,321	(755,441)
I	Natural Resources	1,651,620	1,798,894	147,273
J	Home Affairs	3,493,131	3,693,437	200,307
K	Police and Prison Services	894,404	941,659	47,255
L	Transport and Communications	4,881,264	4,518,205	(363,059)
M	Education, Youth and Sports	6,392,870	6,503,237	110,367
N	Judiciary	131,811	149,914	18,104
O	Foreign Affairs, Trade, Tourism, Environment & Labour	1,488,240	1,579,618	91,378
<b>TOTAL RECURRENT EXPENDITURE</b>		<b>30,655,310</b>	<b>32,593,392</b>	<b>1,938,082</b>
<b>RECURRENT SURPLUS / (DEFICIT)</b>		<b>223,518</b>	<b>(3,692,380)</b>	<b>(3,915,898)</b>
<b>OTHER REVENUE AND EXPENDITURE</b>				
	Unrealised Gain (Loss) on Trust Fund Investment	366,339		
	Unrealised Gain (Loss) on Investment in Corporations	2,068,808		
	Unrealised Gain (Loss) on Currency Movement (Offshore Loans)	1,502,751		
	Call on Government Guarantee Expense	(604,295)		
	Doubtful Debts Expense	(817,039)		
<b>TOTAL OTHER REVENUE AND EXPENDITURE</b>		<b>2,516,564</b>		
<b>TOTAL SURPLUS / (DEFECIT)</b>		<b>2,740,082</b>		

**COMPARATIVE STATEMENT OF ACTUAL AND ESTIMATED RECURRENT REVENUE by 'SUB HEAD'**

Prepared in accordance with Public Finance Act s 31 (1)(iii)

For the Year Ended 31/12/2009

The accompanying notes form part of these financial statements.

Budget Approved on Cash Basis

<u>Head of Revenue / Government Function</u>		<u>2009 Actual</u>	<u>2009 Budget</u>	<u>Variance (Bud - Act)</u>
<b>RECURRENT REVENUE</b>				
<b>Office of the Governor General</b>				
<b>Office of the Prime Minister</b>				
B01	Corporate Services - Office of the Prime Minister	1,993	800,850	798,858
B04	Personnel and Training	149,599	133,900	(15,699)
B08	Tuvalu Media Department	37,854	101,300	63,445
B11	Immigration	0	65,000	65,000
<b>Legal Services</b>				
C01	Office of the Attorney General	43,937	57,000	13,063
C02	People's Lawyer	8	500	492
<b>Parliament</b>				
<b>Office of the Auditor General</b>				
E01	Office of the Auditor General	62,857	22,520	(40,337)
<b>Finance and Economic Development</b>				
F01	Corporate Services - Finance	11,736,561	10,256,240	(1,480,321)
F02	Planning and Budget	150	750	600
F03	Central Statistics Division	0	300	300
F04	Customs	2,801,823	3,471,500	669,678
F05	Postal	2,644	36,570	33,926
F06	Treasury	2	0	(2)
F07	Inland Revenue	2,296,416	3,005,543	709,128
F09	Industries	5,600	0	(5,600)
<b>Public Utilities</b>				
G01	Corporate Services - Public Utilities	0	500,000	500,000
G02	Energy	3,900	10,670	6,770
G03	Public Works Department	155,813	193,200	37,387
<b>Health</b>				
H01	Corporate Service - Health	0	500	500
H02	Health Administration	4,020	0	(4,020)
H03	Curative	6,735	29,000	22,265
H04	Preventative Primary and Preventative Health Services	1,588	7,100	5,512
<b>Natural Resources</b>				
I02	Agriculture	9,368	28,850	19,483
I03	Fisheries	9,127,358	5,592,000	(3,535,357)
I04	Lands and Surveys	27,416	43,550	16,134
<b>Home Affairs</b>				
J01	Corporate Services - Home Affairs	13,797	26,000	12,203
J06	Immigration	80,594	0	(80,594)
<b>Police and Prison Services</b>				
K01	Police and Prison Services	72,143	28,070	(44,073)
<b>Transport and Communications</b>				
L01	Corporate Services - Communications and Transport	2,327,650	2,200,000	(127,650)
L02	Marine	1,561,335	1,656,600	95,265
L03	Aviation	245,856	504,120	258,264
L04	Information, Communication and Technology	16,698	11,000	(5,698)
L07	Meteorological Office	232	1,910	1,678
<b>Education, Youth and Sports</b>				
M04	EFA Secondary School	59,662	82,500	22,838
M05	Library	1,261	1,800	539
<b>Judiciary</b>				
N01	Judiciary	11,851	5,850	(6,001)
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>				
O02	Labour	2,000	10,000	8,000
O03	Suva Mission	10,110	16,220	6,110
O04	Permanent Mission of Tuvalu to the UN	0	100	100
<b>TOTAL RECURRENT REVENUE</b>		<b>30,878,828</b>	<b>28,901,013</b>	<b>(1,977,815)</b>

**COMPARATIVE STATEMENT OF ACTUAL AND ESTIMATED RECURRENT EXPENDITURE by 'SUB HEAD'**

Prepared in accordance with Public Finance Act s 31 (1)(iv)

For the Year Ended 31/12/2009

*The accompanying notes form part of these financial statements.*

**Budget Approved on Cash Basis**

<b><u>Head of Expenditure / Government Function</u></b>	<b><u>2009 Actual</u></b>	<b><u>2009 Original Budget</u></b>	<b><u>Variance</u></b> <b>(Bud - Act)</b>
<b>RECURRENT EXPENDITURE</b>			
<b>Office of the Governor General</b>			
A01 Office of the Governor General	100,114	109,372	9,258
<b>Office of the Prime Minister</b>			
B01 Corporate Services - Office of the Prime Minister	930,540	913,555	(16,984)
B04 Personnel and Training	952,502	1,076,004	123,502
B08 Tuvalu Media Department	233,277	231,718	(1,559)
B10 Department of Women	0	68,848	68,848
B11 Immigration	0	55,505	55,505
<b>Legal Services</b>			
C01 Office of the Attorney General	136,562	182,227	45,665
C02 People's Lawyer	50,614	57,910	7,296
<b>Parliament</b>			
D01 Office of the Parliament	389,611	355,170	(34,442)
<b>Office of the Auditor General</b>			
E01 Office of the Auditor General	134,566	178,296	43,730
<b>Finance and Economic Development</b>			
F01 Corporate Services - Finance	1,301,579	4,009,861	2,708,282
F02 Planning and Budget	140,954	175,664	34,709
F03 Central Statistics Division	50,065	53,399	3,333
F04 Customs	162,813	154,577	(8,236)
F05 Postal	75,502	88,754	13,253
F06 Treasury	466,936	264,716	(202,220)
F07 Inland Revenue	74,760	70,014	(4,746)
F09 Industries	406,525	0	(406,525)
<b>Public Utilities</b>			
G01 Corporate Services - Public Utilities	855,185	845,764	(9,421)
G02 Energy	56,362	52,090	(4,272)
G03 Public Works Department	982,741	999,663	16,923
<b>Health</b>			
H01 Corporate Service - Health	2,177,405	1,281,070	(896,335)
H02 Health Administration	196,139	206,183	10,043
H03 Curative	1,359,467	1,404,879	45,412
H04 Preventative Primary and Preventative Health Services	487,751	573,189	85,438
<b>Natural Resources</b>			
I01 MNRE Headquarters	189,505	136,224	(53,281)
I02 Agriculture	350,634	367,702	17,068
I03 Fisheries	290,897	399,464	108,568
I04 Lands and Surveys	820,585	895,503	74,918
<b>Home Affairs</b>			
J01 Corporate Services - Home Affairs	649,329	750,303	100,975
J02 Department of Rural Development	2,499,993	2,876,614	376,621
J03 Community Affairs	25,544	46,011	20,467
J04 Women Development	58,362	0	(58,362)
J05 Culture	19,854	20,509	655
J06 Immigration	43,035	0	(43,035)
J08 Solid Waste Agency of Tuvalu (SWAT)	197,014	0	(197,014)

**Continued on next page**

Continued from previous page

**Head of Expenditure / Government Function**

		<b><u>2009</u></b> <b><u>Actual</u></b>	<b><u>2009</u></b> <b><u>Original</u></b> <b><u>Budget</u></b>	<b><u>Variance</u></b> <b><u>between</u></b> <b><u>Actual and</u></b> <b><u>Budget</u></b>
<b>Police and Prison Services</b>				
K01	Police and Prison Services	894,404	941,659	47,255
<b>Transport and Communications</b>				
L01	Corporate Services - Communications and Transport	233,885	229,680	(4,204)
L02	Marine	3,465,454	3,206,222	(259,232)
L03	Aviation	801,085	673,730	(127,355)
L04	Information, Communication and Technology	201,409	229,492	28,083
L07	Meteorological Office	179,432	179,081	(350)
<b>Education, Youth and Sports</b>				
M01	Corporate Services - Educations, Youth and Sports	823,639	918,402	94,763
M02	Education Department	249,342	292,399	43,057
M03	Primary Education	1,601,250	1,567,573	(33,677)
M04	EFA Secondary School	1,612,959	1,536,183	(76,776)
M05	Library	46,881	47,459	578
M06	Sports	26,117	26,679	561
M07	Pre-service Scholarships	1,968,643	2,114,543	145,900
M08	Youth	29,052	0	(29,052)
M09	Early Childhood Care and Education	34,987	0	(34,987)
<b>Judiciary</b>				
N01	Judiciary	131,811	149,914	18,104
<b>Foreign Affairs, Trade, Tourism, Environment &amp; Labour</b>				
O01	MFAETLT Headquarter	(106)	53,712	53,817
O02	Labour	326,171	324,135	(2,035)
O03	Suva Mission	349,527	280,450	(69,077)
O04	Permanent Mission of Tuvalu to the UN	391,997	430,124	38,127
O05	Brussels Mission	313,158	314,473	1,315
O06	Environment	73,862	87,687	13,825
O07	Tuvalu Consulate in Auckland	505	0	(505)
O08	Trade Office	0	16,535	16,535
O09	Tourism	33,125	42,066	8,940
O10	Labour	0	30,436	30,436
<b>TOTAL RECURRENT EXPENDITURE</b>		<b><u>30,655,310</u></b>	<b><u>32,593,392</u></b>	<b><u>1,938,082</u></b>

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2009**

#### **1            REPORTING ENTITY**

##### **1.0            GOVERNMENT OF TUVALU**

The Financial Statements of the Government of Tuvalu represent the financial activities undertaken by Government Departments including entities which operate on the outer islands and in Foreign diplomatic posts.

Tuvalu Public Enterprises, including the Tuvalu Electricity Corporation, Vaiaku Lagi Hotel, National Bank of Tuvalu, Development Bank of Tuvalu, National Fisheries Corporation of Tuvalu (NAFICOT), Tuvalu Philatelic Bureau, Tuvalu Maritime Training Institute (TMTI) and Tuvalu Telecommunications Corporation are not consolidated into the Government of Tuvalu Accounts. The Government's investment in these enterprises is included on the Statement of Assets and Liabilities.

The joint ventures in commercial fishing operations entered into by NAFICOT on behalf of the Government of Tuvalu are not included in these accounts.

##### **1.1            TUVALU TRUST FUND**

In 1987 under the Tuvalu Trust Fund (Finance and Information) Act, the Government of Tuvalu established the Tuvalu Trust Fund (TTF) to contribute to the long term financial stability and viability of Tuvalu by enabling it to meet financial commitments from the proceeds of investments. The Trustees represent the Governments of Tuvalu, New Zealand and Australia, which are the main contributors to the Trust Fund.

Despite being the sole beneficiary of the TTF, the Government of Tuvalu does not control the TTF. The complete Financial Statements of the TTF are not consolidated in these Financial Statements of Government. The market value of the Government of Tuvalu's contribution to the TTF is included in these Financial Statements on the Statement of Assets and Liabilities, and the remaining balance of the TTF is contained in the notes to these Financial Statements as a contingent asset.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2009**

#### **2 BASIS OF PREPARATION**

The Statement of Income and Expenditure and the Statement of Assets and Liabilities are prepared on an accrual basis, and include non-cash items such as accruals and provisions.

The Financial Statements are presented in Australian dollars, and all monetary values are rounded to whole dollars, unless mentioned otherwise.

#### **2.1 STATEMENT OF COMPLIANCE**

These Financial Statements are prepared pursuant to the Public Finance Act and are consistent with prior financial years. The Statements are in accordance with generally accepted accounting practice in Tuvalu (Tuvalu GAAP) as determined by the Government of Tuvalu. Where necessary Tuvalu GAAP looks to the International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) to guide general accounting policy.

#### **2.2 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS**

Both the functional and presentation currencies of the Government of Tuvalu are the Australian dollar. Transactions in foreign currencies are initially recorded in the Australian dollar at the exchange rates provided by the National Bank of Tuvalu on the dates of the transactions. At balance date, monetary assets and liabilities held in Foreign Currency are translated at the exchange rates ruling at the balance date. Resulting exchange differences are recognised in the Income Statement.

#### **2.3 BUDGET AMOUNTS**

The Financial Statements show as comparatives the amounts appropriated by the original annual Appropriation Act that relates to the current financial year. Appropriations are on a cash basis.

#### **2.4 CHANGES IN ACCOUNTING POLICIES**

Changes in accounting policies are applied retrospectively, and comparatives are restated. The effect of these changes, if any, is disclosed in item 4.1, below.

New accounting policies may be adopted for types of transactions that have become material to the Financial Statements for the first time. These are not considered changes in accounting policies. Likewise, some accounting policies may be reworded to better reflect the treatment of transactions; such rewording is also not considered a change in accounting policies.

#### **2.5 MATERIAL PRIOR YEAR ERRORS**

If errors are detected that have a material impact on prior years, then these are applied retrospectively, and comparatives are restated. There were no material prior year errors identified in the preparation of these accounts.



## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2009**

#### **3 ACCOUNTING POLICIES**

##### **3.0 BASIS OF PREPERATION**

The Statement of Income and Expenditure and the Statement of Assets and Liabilities are prepared on an accrual basis, and include non-cash items such as accruals and provisions.

##### **3.1 REVENUE**

Revenue is recognised when earned or becomes receivable. Revenue is measured at the fair value of consideration received or receivable.

###### **Accrued Revenue**

Accrued revenue is recorded for items where revenue is earned or becomes receivable prior to the creation of an invoice.

###### **Tuvalu Trust Fund (TTF) Disbursement Revenue**

Disbursement revenue from the TTF is recognised at the time of receipt into the Government's Consolidated Investment Fund account. Transfers from the Consolidated Investment Fund Account to the Government General Account are recorded as a transfer of funds and are not treated as Government Revenue.

###### **Taxation Revenue**

Taxation Revenue is recognised at the earlier of receipt, invoice or filing of return, and includes: Income Tax – a tax on salaries and wages of workers in the economy as outlined in the Income Tax Act.

Company Tax – Taxes on the profits of large businesses. (Note: Small companies are subject to Presumptive Tax classified under “Other Taxes”).

Tuvalu Consumption Tax – A tax on goods and services set at a rate of 4% of the value of the good or service.

Import Duties – Taxes, normally at percentage of the cost of the imported good based on cost plus insurance plus freight, placed on imports to Tuvalu and levied at the port of entry.

Excise Duties – Special taxes on imported goods that the Government may wish to discourage consumption of such as alcohol, and cigarettes.

Other Taxes - Include Hotel Room Tax, Departure Tax, Presumptive Tax.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2009**

#### **Interest, Dividends, and Rent**

Revenue related to interest on Government accounts, dividends received from profits of companies in which the Government holds a share, and rental revenue from Government houses and buildings is recorded in the period it relates to.

#### **Fishing Licenses**

Revenue related to the granting of Fishing Licenses to foreign fishing vessels fishing in Tuvalu's Exclusive Economic Zone is recorded in the period it relates to.

#### **.TV Revenue**

Revenue related to the license agreement with Verisign for the marketing of Tuvalu's top level internet domain ".tv" is recorded in the period it relates to.

#### **Other Income**

Other revenue related to vessel registrations, operation of maritime services (Nivaga II & Manu Folau), stevedoring and wharfage, and other operational activities is recorded in the period it relates to.

### **3.2 AID ACCOUNTING**

#### **External Assistance and Grants**

Direct budget support grant funding from donors is recognised at the time of receipt. Aid funding received from donor agencies for projects in the Tuvalu Development Fund is recognised as revenue within the Tuvalu Development Fund account, distinctly separate to the Government Consolidated Fund at time of receipt.

#### **Grants in Kind**

Tuvalu often receives grants in kind. These are often in the form of technical assistance, office equipment, investments in major infrastructure projects and property plant and equipment which are beyond the financial resources of the Government of Tuvalu.

These grants in kind are not recognised within these accounts, however where value is known, these amounts are recorded in the Government of Tuvalu's annual Budget documentation as external budgetary assistance.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2009**

#### **3.3 EXPENDITURE**

Expenditure is recognised when incurred. This is generally upon receipt of goods or receipt of invoice.

##### **Wages and Salaries**

Wage and salary expenses are recognised in the period incurred.

##### **Contributions to Tuvalu National Provident Fund**

Contributions to the Tuvalu National Provident fund are recognised for the period to which they apply.

##### **Loan repayments, bank and interest fees**

Loan Principle and Interest repayments are recognised as expenditure in the period they relate to.

##### **Grants and Subsidies**

Grant Expenses in relation to grants provided to Tuvaluans and Non-Government Organisations (NGOs) are recognised at the point that Funds are paid to the grant recipient.

The Grants provided by Government include:

General Grants and Subsidies - provided to non-Government entities to assist them in providing goods or services, to civil servants for private housing rent subsidies, and to local councils and government.

Overseas Contributions – Payments to international organizations of which the Government is a member of (e.g. United Nations, University of the South Pacific (USP), Forum Secretariat).

Scholarships and support - Expenditure incurred supporting the Government's scholarship program.

Outer Island Projects grants - Special development spending on projects for the outer islands.

Japan Fuel Grant Counterpart Fund - Payments made to the Japan Fuel Grant Counterpart Fund as a contribution to recognise Japan's assistance for fuel purchasing.

##### **Tuvalu Medical Treatment Scheme**

Expenditure incurred in the operation of the Government's overseas medical referral scheme recognised in the period incurred.

##### **Other Expenditure**

Other expenditure related to advertising, purchasing of provisions, purchasing supplies, minor equipment, social welfare payments such as the Senior Citizen Scheme, payments for land rent to traditional landowners for Government leased land, and rent of properties by the Government is recorded in the period which it relates to.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2009**

#### **Special Development Expenditure (Capital Expenditure)**

Special Development Expenditure records a range of normally non-recurrent expenditures that include Government contributions to donor-funded projects, equipment purchases, small projects, and arrears payments.

The current policy is to expense all infrastructure assets and property, plant and equipment in the period they are acquired. These capital expenditures are classified as Special Development Expenditures (SDE) in the annual budget documentation.

#### **3.4 ASSETS**

The Government of Tuvalu currently records only Financial Assets in these accounts. Special Development Expenditure for Property Plant and Equipment purchases, and major infrastructure investment are not reflected on the Balance Sheet, and depreciation of these assets is not reflected on the Statement of Income and Expenditure.

##### **Current Assets**

An asset is deemed to be current if it is liquid or expected to be made liquid within 12 months.

##### **Cash & Cash Equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

##### **Debtors**

Debtors are measured at their expected realisable value, which is generally the original amount less a provision for amounts uncollected after 365 days. Bad debts are written off when approved by Parliament.

##### **Non-Current Assets**

Non-Current Assets are presented at their fair value.

The Tuvalu Development Fund is recognised as a Non-Current Asset, reflecting the Government's agreement with donor partners to utilise development funds in line with approved donor agreements.

##### **Other Investments**

Other Investments include investments in subsidiaries, other associated parties and investments in shares in non controlled entities.

Investments are measured at the lower of cost and impaired value.

## **STATEMENT OF ACCOUNTING POLICIES**

### **for the Year Ended 31 December 2009**

#### **3.5 LIABILITIES**

##### **Creditors**

Creditors are recognised on receipt of an approved invoice.

##### **Accrued Expenditure**

Accrued expenditure is recorded for items where expenditure is incurred prior to the receipt of an approved invoice.

##### **Employee Entitlements**

The Government does not recognise employee entitlement liabilities such as annual leave in these accounts.

##### **Public Debt**

All Public Debt is measured and presented at fair value.

## **4 EVENTS AND DECISIONS WITH SIGNIFICANT ACCOUNTING IMPACTS**

### **4.1 CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies for the Year Ended 31 December 2009, however, the summary of Accounting Policies has been introduced to reflect the treatment of transactions.

This has no effect on the transactions and balances in the Financial Statements, which have themselves been prepared on a basis consistent with previous years.

The format of the Financial Statements has been revised in order to improve readability and international comparability. Fundamental changes include:

- Introduction of a statement of income and expenditure to present the financial performance by nature of expense and revenue.
- Introduction of Notes to the Financial Statements
- Revised structure of statements to improve readability, and movement of some details to these Notes.

The revision of the format has no impact on surplus or deficit, nor on total Equity.

### **4.2 SUBSEQUENT EVENTS**

No events have occurred since balance date which would materially affect the Government of Tuvalu's Financial Statements for the year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the Year Ended 31 December 2009**

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1

#### STATEMENT OF BALANCES ON DEPOSIT ACCOUNTS

Prepared in accordance with Public Finance Act s31(1)(ix)

For the Year Ended 31/12/2009

	<b>Financial Year Ending</b>	
	<b><u>31/12/2009</u></b>	<b><u>31/12/2008</u></b>
<b>Consolidated Fund Accounts</b>		
General Current Account	(871,589)	1,432,927
Government Call Account - 01-420002-02	57,522	56,302
Intellectual Property Account - 170955-30 - AGs	197,516	0
Miscellaneous Passbook a/c - 01-420002-34	1,519	1,467
<i>Total Consolidated Fund Cash account balances</i>	<b><u>(615,033)</u></b>	<b><u>1,490,696</u></b>
<b>Foreign Mission Accounts</b>		
Agency Account - UN Mission	0	10,927
Cash on Hand - UN Mission	56,042	0
Agency Account - Brussels	0	(41,962)
Cash on Hand Brussel Mission	11,686	0
Agency Account - Tuvalu Embassy, Suva FIJI	0	35,416
Cash on hand - Suva Embassy	28,019	0
Cash on Hand New Zealand Consulate Office	(13,351)	0
<i>Total Foreign Mission Cash account balances</i>	<b><u>82,396</u></b>	<b><u>4,382</u></b>
<b>Outer Island General Accounts</b>		
Cash on Hand Nanumaga	3,837	2,312
Cash on Hand Nanumea	9,313	8,358
Cash on Hand Niutao	11,042	15,662
Cash on Hand Nui	20,588	14,867
Cash on Hand Nukufetau	11,388	9,566
Cash on Hand Nukulaelae	3,505	261
Cash on Hand Vaitupu	37,836	42,435
<i>Total Outer Island Cash account balances</i>	<b><u>97,509</u></b>	<b><u>93,461</u></b>
<b>Total Cash Balances as at 31/12/2009</b>	<b><u>(435,128)</u></b>	<b><u>1,588,539</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2

#### STATEMENT OF SPECIAL FUND BALANCES

Prepared in accordance with Public Finance Act s31(1)(v)  
For the Year Ended 31/12/2009

Special Funds	Financial Year Ending	
	31/12/2009	31/12/2008
<b>Business/Passport Investment Scheme - 01-420002-31</b>		
Opening Balance	174,017	169,781
Interest Earnings	6,196	4,235
Closing Balance	<b>180,213</b>	<b>174,017</b>
<b>IBD - Coinage Security - 01-420002-07</b>		
Opening Balance	179,086	133,487
Proceeds of sales of coins & royalties	82,747	45,600
Closing Balance	<b>261,834</b>	<b>179,086</b>
<b>IBD - Housing Repurchasing - 01-420002-46</b>		
Opening Balance	225,936	216,989
Interest Earnings	5,903	8,947
Closing Balance	<b>231,839</b>	<b>225,936</b>
<b>IBD - Insurance Fund - 01-420002-48</b>		
Opening Balance	356,799	342,868
Interest Earnings	10,339	13,931
Closing Balance	<b>367,138</b>	<b>356,799</b>
<b>IBD - NBT Insurance - 01-680824-40</b>		
Opening Balance	538,268	517,182
Interest Earnings	14,308	21,086
Closing Balance	<b>552,576</b>	<b>538,268</b>
<b>IBD - Rehabilitation - 01-420002-45</b>		
Opening Balance	15,901	15,278
Interest Earnings	423	623
Closing Balance	<b>16,324</b>	<b>15,901</b>
<b>IBD -Tuvalu Parliament Building - 01-420002-42</b>		
Opening Balance	68,432	65,755
Interest Earnings	1,985	2,677
Closing Balance	<b>70,417</b>	<b>68,432</b>
<b>Investment in Education Office - 01-420061-44</b>		
Opening Balance	132,624	127,442
Interest Earnings	3,843	5,182
Closing Balance	<b>136,467</b>	<b>132,624</b>
<b>IBD-Funds for Tuvalu Development - 01-751389-40</b>		
Opening Balance	161,881	155,556
Interest Earnings	4,691	6,325
Closing Balance	<b>166,572</b>	<b>161,881</b>
<b>Total Special Funds balance as at 31/12/2009</b>	<b>1,983,378</b>	<b>1,852,943</b>



**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3**

**STATEMENT OF INVESTMENTS**

Prepared in accordance with Public Finance Act s31(1)(xi)

For the Year Ended 31/12/2009

	Notes	Financial Year Ending	
		31/12/2009	31/12/2008
<b>Cash Investments</b>			
Consolidated Investment Fund		15,308,000	16,061,359
Government Air Pacific Bank Guarantee - 01-420002-40		41,892	0
<b>Total Cash Investments as at 31/12/2009</b>		<b>15,349,892</b>	<b>16,061,359</b>
<b>Non-Current Investments</b>			
Tuvalu Trust Fund - GOT Contribution	4	42,450,446	42,084,107
Tuvalu Development Fund		1,375,782	1,180,959
Capital in Corporations (total)	5	10,592,458	6,922,411
<b>Total Non-current Investments as at 31/12/2009</b>		<b>54,418,686</b>	<b>50,187,477</b>
<b>Total Investments of Government as at 31/12/2009</b>		<b>69,768,578</b>	<b>66,248,836</b>

## NOTE 4

### STATEMENT OF CONTINGENT ASSETS

Prepared in accordance with Public Finance Act s31(1)(x)

For the Year Ended 31/12/2009

#### TUVALU TRUST FUND (TTF)

Given the nature of the TTF and the fact that Tuvalu is the sole beneficiary of the TTF, it is anticipated that in the event of any 'wind up' of the TTF, the market value of all TTF balances would be available to the Government of Tuvalu.

The market value of Government of Tuvalu contribution balance of the TTF is disclosed on the Statement of Assets and Liabilities.

The market value of contribution balances from other parties to the TTF are classified as a contingent asset of the Government. There is no existing 'wind up' provision within the TTF legislation.

#### Tuvalu Trust Fund Balance

\$'000	Market Value (MV) (TTF) as at 31 December	Total TTF Contribution Balance	GOT Contribution Balance	GOT % of Contributions	Disclosed as GOT Asset (% cont. x MV)	GOT Contingent Asset
2008 Closing Balance	\$ 95,026	\$ 71,996	\$ 31,885	44%	\$ 42,084	\$ 52,942
<b>2009 Closing Balance</b>	<b>\$ 97,561</b>	<b>\$ 73,279</b>	<b>\$ 31,885</b>	<b>44%</b>	<b>\$ 42,450</b>	<b>\$ 55,111</b>

#### Tuvalu Trust Fund Contribution Balances

\$'000	2008	2009
GOT	31,885	31,885
UK	8,450	8,450
Australia	18,319	19,570
NZ	12,579	12,579
Japan	695	695
South Korea	69	101
<b>Total Contributions</b>	<b>71,996</b>	<b>73,279</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5

#### GOVERNMENT INVESTMENT IN CORPORATIONS

For the Year Ended 31/12/2009

Tuvalu Public Enterprises are not consolidated into the Government of Tuvalu Accounts. The net asset positions of Public Enterprises listed below are included on the Statement of Assets and Liabilities as an Investment in Corporations, in addition to Government investments in non-Government corporations.

<u>Corporation</u>	2006		2007		2008		2009	
	<u>Net Assets of corporation</u>	<u>GOT portion of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT portion of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>	<u>Net Assets of corporation</u>	<u>GOT share of Net Assets</u>
Tuvalu Maritime Training Institute <sup>4</sup>	641,816	641,816	642,000	642,000	1,601,239	1,601,239	1,561,649	1,561,649
National Fisheries Corporation of Tuvalu <sup>5</sup>	0	0	0	0	0	0	0	0
Development Bank of Tuvalu <sup>3</sup>	788,340	788,340	1,342,505	1,342,505	1,052,096	1,052,096	2,086,000	2,086,000
Vaiaku Lagi Hotel <sup>3</sup>	241,798	241,798	106,204	106,204	159,333	159,333	136,000	136,000
National Bank of Tuvalu <sup>3</sup>	4,852,245	4,852,245	4,994,748	4,994,748	4,821,375	4,821,375	6,608,000	6,608,000
Philatelic Bureau <sup>3</sup>	-134,540	-134,540	-134,540	-134,540	-134,540	0	-137,000	0
Tuvalu Electricity Corporation <sup>3</sup>	-506,414	-506,414	-659,403	-659,403	-659,403	0	-1,064,000	0
Tuvalu Telecommunications Corporation <sup>3</sup>		0	2,366,906	2,366,906	420,952	420,952	-543,000	0
Air Fiji Limited <sup>1</sup>	4,495,933	1,938,646	4,651,590	2,005,766	4,651,590	0	0	0
Pacific Forum Lines <sup>2</sup>		0	20,064,000	468,655	20,064,000	468,655	8,597,000	200,809
		<b><u>7,180,075</u></b>		<b><u>11,132,841</u></b>		<b><u>8,523,650</u></b>		<b><u>10,592,458</u></b>

<sup>1</sup>The Tuvalu Government owned 44% of issued capital of AIL which in turn owned 98% of the issued capital of Air Fiji limited.

Air Fiji ceased operations in 2009 and all assets of the company were liquidated. The value of Air Fiji holdings was written down to \$0 in the 2008 Financial Statements.

<sup>2</sup>Tuvalu Government owns a shareholding of 488,405 shares in PFL dating back to 1993. This represents 2.3358% of the total issued capital of the shipping line.

<sup>3</sup>2011 Net Asset Values for Tuvalu Public Enterprises have been sourced from 2009 audited Financial Statements.

<sup>4</sup>The Tuvalu Maritime Training Institute has not prepared accounts since 2009.

<sup>5</sup>The National Fisheries Corporation of Tuvalu has not prepared a set of accounts since 1999, Government recognises the debt of NAFICOT as a liability.

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6**

**DEBTORS**

**For the Year Ended 31/12/2009**

	<u>2009</u>	<u>2008</u>
Classification		
Claimed Debts Control Account	358,467	289,880
Other Debtors Control Account	2,057,499	497,406
Other Debtors NBT	18,784	18,784
Personal Loan Control Account	2,679	9,448
Special Imprest Control Account	53,666	54,317
Accounts Receivable Clearing Account (Imprest Matching)	367,526	291,717.59
<b>DEBTORS</b>	<u>2,858,621</u>	<u>1,161,553</u>
Less Allowance for Doubtful Debts		
Provision for Doubtful Debts	(954,270)	(137,231)
<b>TOTAL DEBTORS</b>	<u>1,904,351</u>	<u>1,024,322</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7

STATEMENT OF PUBLIC DEBT

Prepared in accordance with Public Finance Act s31(1)(xiii)

For the Year Ended 31/12/2009

	<u>Agency</u>	<u>Original debt</u>	<u>2007 Debt Balance</u>	<u>2008 Debt Balance</u>	<u>2009 Debt Balance</u>	<u>Start</u>	<u>Term</u>	<u>Grace period</u>	<u>Interest Rate</u>	<u>Principle repayments</u>
<b>Government Offshore Loans</b>										
<b>Falekaupule Trust Fund</b>	Asian Dev. Bank - LN1693	US\$3.972m	4,535,627	5,034,568	3,874,715	Nov-99	24yrs, 16 yrs repayment	8 yrs - start Feb 2008	1% in grace, then 1.5%	USD124,115 semi annual
	<i>Interest Payment</i>				76,539					
	<i>Principle Repayment</i>				359,611					
	<i>Unrealised Gain (Loss) on Currency Movement</i>				800,243					
<b>TMTI Original Loan</b>	Asian Dev. Bank - LN1921	SDR1.394m	2,552,052	2,522,824	2,120,079	Nov-02	32yrs, 24 yrs repayment	8 yrs - start Feb 2011	1% in grace, then 1.5%	SDR29,041 Semi annual
	<i>Interest Payment</i>									
	<i>Principle Repayment</i>									
	<i>Unrealised Gain (Loss) on Currency Movement</i>				402,745					
<b>TMTI Supplementary Loan</b>	Asian Dev. Bank - LN2088	SDR1.353m	2,476,993	2,448,624	2,280,858	Aug-04	32yrs, 24 yrs repayment	8 yrs - start Feb 2012	1% in grace, then 1.5%	SDR28,186 Semi annual
	<i>Interest Payment</i>									
	<i>Principle Repayment</i>									
	<i>Unrealised Gain (Loss) on Currency Movement</i>				167,765					
<b>DBT Equity Injection</b>	European Invest. Bank	EUR0.3m	503,609	612,690	480,692	Jan-03	15 yrs	1 repayment 2018	2%	Eur0.3m in 2018
	<i>Unrealised Gain (Loss) on Currency Movement</i>				131,998					
<b>Air Fiji O/D Guaranteed by Govt</b>	Bank of Baroda			0	361,841					In 2010 \$361,841 paid to Mauror & Co for legal proceedings. Following sale of Air Fiji Assets, \$134,041 was returned to GOT
	<i>Principle Repayment</i>				361,841					
<b>Air Fiji O/D Guaranteed by Govt</b>	Fiji Dev. Bank			0	290,858					Full payment of debt July 2010
	<i>Principle Repayment</i>				290,858					
	<i>Call on Government Guarantee Expense</i>									
	<i>Call on Government Guarantee Expense</i>									
	<b>TOTAL GOVERNMENT OFFSHORE DEBT</b>		<b>10,068,281</b>	<b>10,618,706</b>	<b>9,409,044</b>					
<b>Government Domestic Debt</b>										
<b>Air Fiji O/D Guaranteed by Govt</b>	National Bank of Tuvalu			604,295	690,984					No payments made
	<i>Call on Government Guarantee Expense</i>			604,295						
	<i>Interest Expense</i>				86,689					
<b>NAFICOT Loan Guaranteed by Government</b>	National Bank of Tuvalu	AUD1.308m	1,308,100	1,308,100	1,308,100	Nov-03	129 months from Aug 07		8% from 1st repayment	No payments made
<b>Outer Island Suspense Account</b>	National Bank of Tuvalu	AUD4.923m	4,923,734	3,584,787	2,071,370	Aug-07			No interest	Unscheduled
<b>TMC - Tuvalu Media Corporation Loan absorbed by Government</b>	National Bank of Tuvalu	AUD0.127m	126,919	130,117	130,117	Dec-07			No interest	No payments made
	<b>TOTAL GOVERNMENT DOMESTIC DEBT</b>		<b>6,418,478</b>	<b>5,627,299</b>	<b>4,200,571</b>					
	<b>TOTAL PUBLIC DEBT</b>		<b>16,486,759</b>	<b>16,246,005</b>	<b>13,609,615</b>					

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8**

**STATEMENT OF CONTINGENT LIABILITIES**

Prepared in accordance with Public Finance Act s31(1)(x)

For the Year Ended 31/12/2009

Loans guaranteed by the Government of Tuvalu, whereby commitment is made by government to repay unpaid amounts upon non-repayment by the borrower. Refer Government Borrowing and Guarantee Act

<u>Name</u>	<u>Agency</u>	<u>Original Guarantee</u>	<u>2007 Guarantee</u>	<u>2008 Guarantee</u>	<u>2009 Guarantee</u>
TCS Guarantee	TCS Suppliers	AUD0.5m			
Air Pacific Guarantee (NBT Guarantee on Travel Office operations)	National Bank of Tuvalu	AUD40,000		40,000	40,000
DBT Global Loan 1 - Guarantee	European Invst. Bank	EUR0.5m	839,348	871,649	0
DBT Global Loan 2 - Guarantee	European Invst. Bank	EUR0.7m	1,175,088	1,220,309	1,118,794
International Monetary Fund (IMF) - Promissory Note	IMF - World Bank	AUD2.1m			
			<b>2,014,436</b>	<b>2,131,959</b>	<b>1,158,794</b>

**Exchange Rates applied to Public Debt Balances at year end (Reserve Bank of Australia Website)**

<u>CURRENCY</u>	<u>2008</u>	<u>2009</u>
\$AUD - \$EU	0.4896	0.6241
\$AUD - \$USD	0.6903	0.8969
\$AUD - Special Drawing Rights		0.5742

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 9

#### TAXATION

	<u>2009</u> Actual	<u>2009</u> Budget	<u>2008</u> Actual
Income Tax	2,042,350	1,817,693	2,144,459
Company Tax	251,249	954,350	583,438
Sales Tax	170,249	200,000	406,493
Tuvalu Consumption Tax	(29)	180,000	0
Import Duty	2,113,921	2,750,000	2,642,592
Import Levy & Excise	428,449	455,500	134,013
Other Taxes	96,076	283,900	105,404
	5,102,265	6,641,443	6,016,398

### NOTE 10

#### INTEREST, DIVIDENDS & RENT

	<u>2009</u> Actual	<u>2009</u> Budget	<u>2008</u> Actual
Interest and Dividends	1,241,461	689,140	285,000
Lease, rent and hire	292,728	294,090	283,920
	1,534,189	983,230	568,920

### NOTE 11

#### EXTERNAL ASSISTANCE & GRANTS

	<u>2009</u> Actual	<u>2009</u> Budget	<u>2008</u> Actual
European Union (EU)	0	0	769,240
Republic of China (Taiwan)	7,851,415	6,200,000	5,105,632
AusAID (CIF)	900,000	1,250,000	100,000
New Zealand (CIF)	163,404	0	0
World Bank, IMF, ADB	1,489,736	2,200,000	0
Project Development Fund (PDF)	0	222,000	0
Other Donors	0	500,000	0
Donor funds received unallocated	0	0	1,527,803
	10,404,555	10,372,000	7,502,675

### NOTE 12

#### OTHER INCOME

	<u>2009</u> Actual	<u>2009</u> Budget	<u>2008</u> Actual
Vessel Registrations	626,677	600,000	736,596
Marine Services (Nivaga II & Manu Folau)	619,910	633,000	598,095
Stevedoring and Wharfage	310,342	323,600	329,938
Provision of Goods and Services	596,561	917,120	732,805
Other Charges	232,772	870,320	263,338
	2,386,263	3,344,039	2,660,772

### NOTE 13

#### GRANTS AND SUBSIDIES (incl. Scholarship Support)

	<u>2009</u> Actual	<u>2009</u> Budget	<u>2008</u> Actual
Grants and Subsidies	2,469,209	2,325,912	2,111,240
Outer Island Projects (SDE)	366	0	0
Scholarships and Support	2,751,473	3,061,837	2,784,808
Contribution to Japan Grant Counterpart Fund	381,629	381,629	0
Overseas Contributions	476,860	712,081	845,437
	6,079,537	6,481,459	5,741,485

### NOTE 14

#### OTHER EXPENDITURE

	<u>2009</u> Actual	<u>2009</u> Budget	<u>2008</u> Actual
Advertising and Provisions	918,796	843,264	810,063
Supplies and Equipment	2,353,661	4,359,183	4,535,833
Senior Citizen Scheme / Pension	229,556	230,006	181,411
Land & Property Rent	785,626	830,806	692,235
	4,287,640	6,263,259	6,219,542

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15

#### Requirements of the Public Finance Act with no balance

Statement of Other Leger Balances

Statement of Balances on Advances Accounts from Deposits

Statement of Outstanding Loans made from the Consolidated Revenue Fund

Tabulated summaries of unallocated stores and manufacturing accounts

Statement of balances on remittance account

### NOTE 16

#### Events & Decisions with Significant Accounting Impacts

##### Changes in accounting policies

This has no effect on the transactions and balances in the Financial Statements, which have themselves been prepared on a basis consistent with previous years, except for the following and except for changes in accounting estimates and adjustments of prior year errors.

The format of the Financial Statements has been revised in order to improve readability and international comparability. Fundamental changes include:

- Introduction of a statement of income and expenditure to present the financial performance by nature of expense and revenue.
- Introduction of Notes to the Financial Statements
- Revised structure of statements to improve readability, and movement of some details to these Notes.

The revision of the format has no impact on surplus or deficit, nor on total Equity.

##### Recognition of Unrealised Gains and Losses

Prior to the 2009 accounts, Unrealised Gains and Losses were included only on the Balance sheet. Through the 2009 and 2010 accounts, Unrealised gains are now reflected as 'Other Income/Expenditure' on the Income Statement.

This primarily applies to:

- Unrealised Market Gains in Tuvalu's Contributions into the Tuvalu Trust Fund;
  - Unrealised Gains/Losses in the Net Asset Values and Government Share of Investments in Corporations;
- and
- Unrealised Currency Gains/Losses in relation to Offshore Loans