



Management Report for 30 June 2015 Financial Statements

Development Coordination Division

To:

Lavinia Tama, Manager

Distribution List:

Hon Mark Brown, Minister for Ministry of Finance and Economic Management

Garth Henderson, Financial Secretary

Russell Thomas, PSC Commissioner

Geoff Stoddard, PERC Member

Heinz Matysik, PERC Member

Joe Caffrey, PERC Member

Date of Report: 15 July 2016

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1 Introduction

We have completed the audit for the year ended 30 June 2015. This report sets out the findings from the audit and draws attention to areas where the Development Coordination Division is doing well or where we have made recommendations for improvement. This report provides a summary of:

- our audit opinion, and
- the significant issues arising from the audit.

You will appreciate that while our audit is carried out in accordance with International Standards of Supreme Audit Institutions, it cannot, and should not, be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency.

The Division's management is responsible for implementing an internal control structure to maintain the reliability of the financial statements, safeguard assets and to mitigate risks in the entity. Because of the test nature and other limitations of an audit, it cannot provide an absolute assurance that there are no misstatements whether arising from fraud or error.

We must emphasize that:

- we did not examine internal controls other than to the extent necessary to determine the nature, extent and timing of our audit procedures;
- this report does not include all matters that came to our attention, but only those we regard as sufficiently important that they require management's attention;
- except as specifically stated, this report covers only the period of the financial statements and will not be updated to take into account any subsequent information or circumstances unless we are requested to do so.

AUDIT OPINION

We have issued an unmodified auditor's opinion on the Development Coordination Division's financial statements for the 30 June 2015 financial year.



2 Audit Findings

We would like to acknowledge and commend the Development Coordination Division's Management team for the high level of audit preparedness and for addressing all the audit recommendations raised in the prior year management report. As a result, there were no significant issues observed during the course of the audit that requires Management's attention.

Appendix 1 provides a summary of the status of prior year issues, identifying issues outstanding and those cleared.

3 Conclusion

We would like to take this opportunity to thank the Division's management and finance team for the kind assistance given during the course of the audit and we look forward to your continued assistance for the next financial year.

To conclude the Audit Office is always looking for ways of improving our service and would appreciate any feedback, you and your staff may wish to make. Please ensure that you complete the client survey questionnaire upon the completion of this audit. This can be accessed by clicking on to the following link; <https://www.surveymonkey.com/s/JQ36TL2>.

Yours sincerely



Allen Parker
Director of Audit.



4 Appendix 1: Status of Recommendations made in previous Management Reports.

Table A: Outstanding Matters

Matter	Recommendation	Outcome and status
There were no Outstanding Matters from the previous Management Report		

Table B: Cleared Matters

Matter	Recommendation	Outcome and status
Direct Payment to Suppliers by Donors		
During the current financial year, total direct payments made to suppliers by donors amounted to \$15,884,468 (52% of total expenditure, for the year). There were insufficient reliable records maintained by the Division to substantiate these direct payments which resulted in delays in the completion of the audit. Nor was there any evidence that a review was undertaken to substantiate the validity and accuracy of the information provided. This resulted in significant audit adjustments to the 30 June 2015 financial statements	We encourage the Division to strengthen its relations and communication with major donors to ensure the following: <ol style="list-style-type: none"> 1. The Division receives appropriate supporting documentation on a timely basis to substantiate direct payments made by donors 2. The Division should request and follow up on donor confirmations from donors substantiating all payments made direct to suppliers and to the Division. 	Audit noted that the Division has obtained 3 rd party confirmation from the donors and these are appropriately filed and maintained for audit purpose. For other direct payments to suppliers, these are no longer captured in Division's financial statements in accordance with IPSAS 23 – Revenue from non-exchange transactions. Issue cleared
Aid Expenditures		
The following issues were identified during testing: <ol style="list-style-type: none"> 1. \$285,475 worth of payments made during the year could not be substantiated due to missing supporting documents. We also identified an additional \$230,221 worth of payments which were incorrectly accounted for during the year 2. A review of subsequent payments revealed a total of \$241,308 payments relating to the current financial year which were not captured by the Division at year end. This was subsequently corrected by an audit adjustment. 	We recommend the following: <ol style="list-style-type: none"> 1. The Finance Officer should ensure that all payments made are adequately supported and that it is appropriately maintained for accounting and auditing purposes. A secondary review of all postings during the year should be undertaken to eliminate the likelihood of errors and/or fraudulent reporting being committed. 2. The Finance Officer should ensure that all transactions near the year end are reviewed to ensure they are correctly captured in the correct period. 	All operating expenses selected for sample testing were found to be generally supported by relevant source documents. Issue cleared

5 Definitions – Audit Opinion and Risk Rating

The definitions used to rate the risks of audit issues has been adopted from the Cook Islands Audit Office's risk criteria.

Risk Rating	Definition
High	Potential for unfavourable or noticeable negative impact on the organisation's objectives, income, expenditure, human resources and/or reputation. Management attention is required to ensure that the risk is managed in line with the organisation's objectives.
Medium	Potential for unfavourable or negative impact on the organisation's objectives, income, expenditure, human resources and/or reputation. Management needs to establish controls to address risk identified.
Low	Potential minor impact on the organisation's objectives, income, expenditure, human resources and/or reputation. Management needs to identify if there is a cost benefit in establishing increased controls.

Audit Opinion	Definition
Unmodified	An unmodified opinion is expressed when the auditor is satisfied in all material respects with the matters on which an overall conclusion is required to be drawn.
Modified	<p>A modified opinion is expressed when either of the following circumstances exists:</p> <p>(a) there is a limitation on the scope of the auditor's examination; or</p> <p>(b) the auditor disagrees with the treatment or disclosure of a matter in the written assertion or set of assertions; and, in the auditor's judgement, the effect of the matter is or may be material.</p> <p>In order of severity (most to least), qualified audit opinions may take the following form:</p> <ul style="list-style-type: none"> Disclaimer – expressed when there is a limitation on the auditor's work as a result of the lack of audit evidence Adverse – expressed when the results of a disagreement with management or a conflict between applicable financial reporting frameworks is significant and pervasive Qualified – expressed when an unmodified opinion is inappropriate because of a disagreement with management or a conflict between applicable financial reporting frameworks is not so significant and pervasive

DEVELOPMENT COORDINATION DIVISION

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2015



DEVELOPMENT COORDINATION DIVISION

**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2015**

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DEVELOPMENT COORDINATION DIVISION

DIRECTORY

Minister

Honorable Mark Brown
Minister of the Ministry of Finance and Economic Management

Manager of Development Coordination Division

Lavinia Tama

Business Address

Avarua
Rarotonga
Cook Islands

Auditor

Cook Islands Audit Office

Banker

Westpac Bank
Avarua
Rarotonga

Solicitor

Crown Law Office



DEVELOPMENT COORDINATION DIVISION

STATEMENT OF RESPONSIBILITY

In terms of Section 30 of the Ministry of Finance and Economic Management Act 1995-96, I am responsible for the preparation of the Development Coordination Division's financial statements and the judgements made in the process of producing those statements.

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

In my opinion, these financial statements fairly reflect the financial position and operations of the Development Coordination Division for the year ended 30 June 2015.



Lavinia Tama
Manager of Development
Coordination Division

15 July 2016
Date



Honorable Mark Brown
Minister of the Ministry of Finance
and Economic Management

15 July 2016
Date



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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF THE DEVELOPMENT COORDINATION DIVISION

Report on the Financial Statements

We have audited the accompanying financial statements of the Development Coordination Division on pages 7 to 13. The financial statements comprise of the statement of financial position as at 30 June 2015, the statement of financial performance, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

The Cook Islands Audit Office is the appointed auditor of the Division under Article 71(1) of the Cook Islands Constitution

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI) 1000 – 2999 series. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Other than in our capacity as auditor, we have no relationship with or interests in the Division.

Opinion

In our opinion the financial statements of the Division on pages 7 to 13 for the year ended 30 June 2015 comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Act 1995-96 and present fairly, in all material respects, the financial position of the Division as at 30 June 2015 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Our audit was completed on **15 July 2016** and our opinion is expressed as at that date.



Allen Parker
Director of Audit
Cook Islands Audit Office
Rarotonga, Cook Islands



DEVELOPMENT COORDINATION DIVISION

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2015**

In New Zealand Dollars	Notes	2015	2014
REVENUE	2	44,448,903	30,452,779
EXPENSES	3	44,448,903	30,452,779
NET SURPLUS/(DEFICIT)		-	-

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

DEVELOPMENT COORDINATION DIVISION

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

In New Zealand Dollars	Notes	2015	2014
TAX PAYER'S FUNDS			
Represented by:			
CURRENT ASSETS			
Donor Bank Accounts		4,019,954	2,403,825
European Union Bank Account		-	14,976
Other Term Deposits		6,189,012	3,083,068
Interest Accrued		16,253	11,443
Accruals	4	587,221	1,580,220
TOTAL ASSETS		10,812,440	7,093,532
Current Liabilities			
New Zealand Aid Liabilities		8,855,482	4,175,941
Payables		587,221	1,580,220
European Union Liabilities		-	13,049
Other Liabilities		966,336	988,999
Interest Liabilities		403,401	335,323
TOTAL LIABILITIES		10,812,440	7,093,532
NET ASSETS			



Lavinia Tama
Manager of Development Coordination Division

15 July 2016
Date

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



DEVELOPMENT COORDINATION DIVISION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

In New Zealand Dollars	Notes	Accumulated Surplus / Deficit	Contributions from Crown	Total Equity
Balance as at 30 June 2014 brought forward		-	-	-
Changes in equity for the year:				
Net surplus / (deficit) for the year		-	-	-
Funds transferred to Crown		-	-	-
Closure of Project Liability Accounts		-	-	-
BALANCE AS AT 30 JUNE 2015		-	-	-

DEVELOPMENT COORDINATION DIVISION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

In New Zealand Dollars	Notes	Accumulated Surplus / Deficit	Contributions from Crown	Total Equity
Balance as at 30 June 2013 brought forward		-	-	-
Changes in equity for the year:				
Net surplus / (deficit) for the year		-	-	-
Funds transferred to Crown		-	-	-
Closure of Project Liability Accounts		-	-	-
BALANCE AS AT 30 JUNE 2014		-	-	-

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



DEVELOPMENT COORDINATION DIVISION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

In New Zealand Dollars	2015	2014
Cash Flows From Operating Activities		
<i>Cash was provided from:</i>		
Receipts from Aid Donors	45,441,902	29,834,382
Receipts from Interest Earned	63,268	54,662
	<u>45,505,170</u>	<u>29,889,044</u>
 <i>Cash was applied to:</i>		
Payments to Suppliers	40,798,074	30,774,648
	<u>40,798,074</u>	<u>30,774,648</u>
 Net Cash Flows from Operating Activities	<u>4,707,097</u>	<u>(885,604)</u>
Net Increase/(Decrease) in Cash Held	4,707,097	(885,604)
Opening Cash Balances	5,501,869	6,387,473
 Closing Cash Balance	<u>10,208,966</u>	<u>5,501,869</u>

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



DEVELOPMENT COORDINATION DIVISION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Statement of Accounting Policies

Basis of Preparation

- (i) **Reporting Entity**
These financial statements are for the Development Coordination Division of the Ministry of Finance and Economic Management which is considered to be an agency of the Crown.
- (ii) **Statement of Compliance**
These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).
- (iii) **Measurement Base**
The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

These financial statements have been prepared using the historical cost method to report results, cashflows and the financial position of the Development Coordination Division. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest dollar.

Significant Accounting Policies

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

- (i) **Assets**
 - Recognition
An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset when it is probable that future economic benefits will flow to the agency and when the future value of these assets can be measured reliably.
 - Measurement
An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition. Donor funds are deposited into bank accounts until expensed on approved projects.
- (ii) **Liabilities and Revenue**
 - Recognition
An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow. As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.
 - Measurement
Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity therefore revenue is recognized when donor funds are expended on approved projects.
- (iii) **Expenses**
Expenses are recognized when incurred on approved projects.
- (iv) **Foreign Currencies**
Foreign currency transactions reported in the Statement of Financial Performance are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities reported in the Statement of Financial Position, arising from trading transactions or overseas borrowings are translated at closing rates.
- (v) **Financial Instruments**
Financial instruments primarily consist of bank balances, term deposits, receivables and payables. Revenue and expenses in relation to all financial instruments are recognized in the Statement of Financial Performance. The fair value of all financial assets and financial liabilities is equivalent to their carrying value.

DEVELOPMENT COORDINATION DIVISION

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED

Significant Accounting Policies (continued)

(vi) Statement of Cash Flows

Cash and cash equivalents include cash balances on hand, current accounts in banks net of bank overdrafts, deposits on call with banks and investments with a maturity of less than 3 months.

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

Investing activities are those activities relating to the acquisition, holding and disposal of investments.

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

Changes in Accounting Policies, New Standards

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



DEVELOPMENT COORDINATION DIVISION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

Note 2: REVENUE	2015	2014
NZ Agency for International Development	22,618,536	27,374,358
Australia Aid	8,645,498	233,034
China	8,972,102	-
European Union	955,103	363,731
United Nations Development Programme	1,121,660	507,008
United Nations Education Scientific Culture Org	87,357	86,401
Cook Islands Government	-	4,114
Other Aid Donors	2,048,647	1,884,134
	<u>44,448,903</u>	<u>30,452,779</u>
Total Revenue	44,448,903	30,452,779
Note 3: EXPENSES		
Public Sector Reform	1,946,753	1,526,152
Human Resource Development and Education	3,707,946	4,321,115
Outer Islands Development Grant Fund (OIDGF)	7,480,732	12,875,972
Health Development	645,893	399,625
Tourism Development	2,190,498	3,471,946
Economic Development	14,333,555	2,883,040
Other Sectors	473,577	-
Water and Sanitation	912,212	1,441,319
Environmental Protection	2,023,515	923,744
Housing and Community Amenities	1,007,982	1,626,251
Social Protection	1,153,200	983,615
Defense	8,573,041	-
	<u>44,448,903</u>	<u>30,452,779</u>
Total Expenses	44,448,903	30,452,779
Note 4: ACCRUALS		
<u>Accrual funds received</u>		
Ministry of Foreign Affairs & Trade NZ - Te Mato Vai	-	848,550
Ministry of Foreign Affairs & Trade NZ - Waste Management Improvement	-	499,965
CI Technical Assistance Fund	-	92,724
<u>Accrual funds paid</u>		
Global Environment Fund (GEF)	973	-
Ministry of Foreign Affairs & Trade NZ	573,234	137,511
Australia Official Development Assistance	5,748	1,470
United Nations Educational, Scientific & Cultural Org.	1,668	-
Korean Grant for AV Equipment	5,598	-
	<u>587,221</u>	<u>1,580,220</u>

Note 5: FUNDAMENTAL UNCERTAINTY

The existence of the Development Coordination Division of MFEM is subject to the availability of donor assistance to the Cook Islands. More than 51% of the aid revenue managed by Development Coordination Division in the 2014-2015 financial year was funded by the New Zealand Agency for International Development (NZ Aid). Future NZ Aid assistance to the Cook Islands is based on a Joint Commitment Fund for Development (JCFD) with no time limit. There are clear indications from other key donors (including the European Union, India, Italy and China) that they will continue to assist with development in the Cook Islands for the next four years.