COOK ISLANDS

GOVERNMENT

Cook Islands Audit Office

Excellence in Public Sector Auditing

Management Report for the 30 June 2012 Financial Statements

Development Coordination Division of the Ministry of Finance and Economic Management

To:

Jim Armistead, Aid Manager

Distribution List:

Hon Henry Puna, Prime Minister and Minister for Parliamentary Services
Hon Mark Brown, Minister for Finance and Audit
Richard Neves, Financial Secretary
Russell Thomas, PSC Commissioner
Marie Francis, Chairperson of PERC

Date of Report: 11 March 2013

TABLE OF CONTENTS

1 Introduction

This report has been prepared to present to the management of the Development Coordination Division, the report details the anomalies emerging from our audit procedures conducted on the systems and processes underlying the significant balances and transactions reported through the 30 June 2012 financial statements. This report provides a summary of:

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

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

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

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 <u>absolute assurance</u> that there are no misstatements whether arising from fraud or error.

We must emphasise 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 unqualified auditor's opinion on the Development Coordination Division's financial statements for the 30 June 2012 financial year.

2 Audit Findings

2.1 Bank Reconciliations

Audit Findings

Audit identified the following issues while reviewing the year end bank reconciliations.

The following outstanding cheques were never cashed and neither were they cleared from the bank reconciliations.

1. Cheque # 400855 dated 11/11/2011 for $ 2,880.00
2. Cheque # 402212 dated 25/10/2011 for $77,256.30
3. Cheque # 402193 dated 06/09/2011 for $12,000.00

Bank reconciliations are performed to highlight differences as noted above and should be used by management to correct issues when they arise. The control should be used to benefit the entity through effective management, however if issues identified are not corrected the control loses its effectiveness.

Risk Level	Medium
Recommendation	Audit recommends the bank reconciliations reviewer ensures that all issues identified be cleared in a timely manner.
Ministry / Head of Ministry Response	Thank you for highlighting in your audit report 3 cheques being un presented to the Bank for period of more than 3 months. The above anomaly has been checked and cleared within our system and going forward we will ensure that all cheques un presented for more than 3 months will be checked by the reviewer and cleared on a timely basis.

3 Conclusion

I would like to thank you and your staff for the assistance received during the audit.

The Public Expenditure Review Committee and Audit (PERCA) Act 1995-96, Section 32, paragraph 2, requires you to reply in writing within **14 days** to report your planned action to implement the recommendations contained in this report. Accordingly, we look forward to receiving your comments by 27 February 2013.

Forward all responses to:

The Director of Audit
PO Box 659
Avarua
Rarotonga
Fax: (682) 25 231
Email: perca@auditoffice.gov.ck

Yours sincerely

AParker

Allen Parker
DIRECTOR OF AUDIT

4 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
Unqualified	An unqualified 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.
Qualified	A qualified opinion is expressed when either of the following circumstances exists: (a) there is a limitation on the scope of the auditor's examination; or (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. In order of severity (most to least), qualified audit opinions may take the following form: • 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 • Except For – expressed when an unqualified opinion is inappropriate because of a disagreement with management or a conflict between applicable financial reporting frameworks is not so significant and pervasive