

1 – Table of Contents

Version Control Number: 8

Version Date: November 2011

	<u>Part</u>	<u>Section</u>	<u>Version</u>
<u>A – Introduction</u>			
Table of Contents	A	1	November 2011
<a href="#">Foreword</a>	A	2	November 2011
<a href="#">Master Control Record</a>	A	3	November 2011
<a href="#">Guiding Principles</a>	A	4	November 2011
<a href="#">Detailed Index</a>	A	5	November 2011
<u>B – Balance Sheet Policies &amp; Procedures</u>			
<a href="#">Capital Expenditure</a>	B	1	November 2011
<a href="#">Asset Management</a>	B	2	November 2011
<a href="#">Fixed Assets Accounting Transactions</a>	B	3	November 2011
<a href="#">Depreciation and Amortisation</a>	B	4	November 2011
<a href="#">Aid Funded Assets</a>	B	5	November 2011
<a href="#">Bank Reconciliation</a>	B	6	November 2011
<a href="#">VAT Returns</a>	B	7	November 2011
<a href="#">Bulk Funded POBOC's</a>	B	8	November 2011
<a href="#">Contingent Liabilities</a>	B	9	November 2011
<a href="#">Disposal of Fixed Assets</a>	B	10	November 2011
<a href="#">Transfer between Capital Budgets</a>	B	11	November 2011
<a href="#">Asset transfer to Crown &amp; CIGPC</a>	B	12	November 2011
<a href="#">Asset transfer to Other Crown Entities</a>	B	12A	November 2011
<u>Outer Islands Capital &amp; Major</u>			
<a href="#">Infrastructure Expenditure</a>	B	13	November 2011
<a href="#">Unallocated Capital Funding</a>	B	14	November 2011
<a href="#">Motor Vehicles</a>	B	15	November 2011
<a href="#">Capital Contingency Funds</a>	B	16	November 2011
<a href="#">Inventory</a>	B	17	November 2011
<a href="#">Trust Account</a>	B	18	November 2011

	<u>Part</u>	<u>Section</u>	<u>Version</u>
<u>C – Profit &amp; Loss Policies &amp; Procedures</u>			
<a href="#"><u>Expenditure Category Transfer</u></a>	C	1	November 2011
<a href="#"><u>Transfer between outputs</u></a>	C	2	November 2011
<a href="#"><u>Maintenance expenditure</u></a>	C	3	November 2011
<a href="#"><u>Trading Revenue</u></a>	C	4	November 2011
<a href="#"><u>ROBOC</u></a>	C	4A	November 2011
<a href="#"><u>Aid funding for operating expenses</u></a>	C	5	November 2011
<a href="#"><u>Bulk Funded Aid Funding</u></a>	C	5A	November 2011
<a href="#"><u>Depreciation Funding</u></a>	C	6	November 2011
<a href="#"><u>Ministry Expenditure</u></a>	C	7	November 2011
<a href="#"><u>POBOC Expenditure</u></a>	C	8	November 2011
<a href="#"><u>Expensed Assets</u></a>	C	9	November 2011
<a href="#"><u>Remuneration and Payroll</u></a>	C	10	November 2011
<a href="#"><u>Performance Bonus</u></a>	C	10A	November 2011
<u>D – Other Policies &amp; Procedures</u>			
<a href="#"><u>Procedures Control</u></a>	D	1	November 2011
<a href="#"><u>Purchase &amp; Sale of Goods &amp; Services</u></a>	D	2	November 2011
<a href="#"><u>Public Tendering</u></a>	D	3	November 2011
<a href="#"><u>Public Tendering – Sale of Asset</u></a>	D	3A	November 2011
<a href="#"><u>Public Tendering – Closed Tender</u></a>	D	3B	November 2011
<a href="#"><u>Financial Reporting</u></a>	D	4	November 2011
<a href="#"><u>Year End Accounts Preparation</u></a>	D	5	November 2011
<a href="#"><u>Cash Payments</u></a>	D	6	November 2011
<a href="#"><u>Cashflow Management</u></a>	D	7	November 2011
<a href="#"><u>Cash Receipts</u></a>	D	8	November 2011
<a href="#"><u>Opening and Closing bank accounts</u></a>	D	9	November 2011
<a href="#"><u>Ministerial Offices Hand-over process</u></a>	D	10	November 2011
<a href="#"><u>Carry Forward of Expenditure</u></a>	D	11	November 2011
<a href="#"><u>Bad Debts &amp; Provision for Doubtful Debts</u></a>	D	12	November 2011

---

	<u>Part</u>	<u>Section</u>	<u>Version</u>
<a href="#"><u>Software Backup</u></a>	D	13	November 2011
<a href="#"><u>Surplus/Depreciation Payable Calculation</u></a>	D	14	November 2011
<a href="#"><u>Ministerial Support Offices-Operations</u></a>	D	15	November 2011
<a href="#"><u>Credit Cards</u></a>	D	16	November 2011
<a href="#"><u>Debit Cards</u></a>	D	17	November 2011
<a href="#"><u>Stocktakes</u></a>	D	18	November 2011
<a href="#"><u>Accounting Software</u></a>	D	19	November 2011
 <u>E – Other Documents and Information</u>			
<a href="#"><u>MFEM Contacts</u></a>	E	1	November 2011
<a href="#"><u>Glossary</u></a>	E	2	November 2011
<a href="#"><u>Abbreviations</u></a>	E	3	November 2011
<a href="#"><u>Accounting Policies</u></a>	E	4	November 2011
MFEM Act	E	5	November 2011



**MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT**  
**GOVERNMENT OF THE COOK ISLANDS**

Office of the Financial Secretary  
PO Box 120, Rarotonga, Cook Islands  
Telephone + 682 22878 Facsimile + 682 23877  
EMAIL [cifinsec@mfem.gov.ck](mailto:cifinsec@mfem.gov.ck) <http://www.mfem.gov.ck>

## **FOREWORD**

8 November 2011

Kia Orana,

It gives me great pleasure in introducing the Financial Policies and Procedures for the Cook Islands Government.

In the past, policies and procedures have been issued on an adhoc basis which has lead to inconsistency and non compliance. Now with this manual, all policies, procedures and other relevant information is recorded in the one file. All Heads of Ministries and Crown Funded Agencies are urged to ensure that their staff are aware of these procedures and adhere to them.

These policies and procedures are formally promulgated under sec 63 of the Ministry of Finance and Economic Management Act 1995-96 so therefore must be adhered to;

*63. Ministry Instructions – Subject to the provisions of this Act and any regulations made pursuant thereto, the Ministry may from time to time issue instruction to ensure compliance with the recognised financial disciplines provided for in the Act.*

This manual would not be able to be presented to you without the assistance of the large cross section of people who have been involved in the various parts of the process of drafting, circulating the drafts, providing feedback and discussion, editing and the final presentation. We are very grateful for their assistance and commend them for their efforts.

The manual will be subject to further development and alterations, and we encourage users to provide feedback and suggestions. As this manual is a controlled document the updates to it must be maintained and I draw your attention to *Part D Section 1 – Procedure Control* which outlines the process of maintaining these procedures and requesting changes.

In some cases draft procedures will be issued when the need arises to have guidelines before they can be exposed for feedback. Where this happens the draft procedures should be followed as if they were finalised version unless there is adequate reason not to.

Kind Regards,

Richard Neves

**Financial Secretary**

3 – Master Control Record

<b>Version Control Number</b>	<b>Version Date</b>	<b>Date updated to the Manual</b>	<b>Initials</b>
Initial release	December 2002	-	MFEM
1	December 2003	-	MFEM
2	December 2004	-	MFEM
3	March 2006	-	MFEM
4	December 2006	-	MFEM
5	February 2007	-	MFEM
6	January 2008	January 2008	MFEM
7	May 2009	-	MFEM
8	November 2011	-	MFEM
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

*Refer to Part D Section 1 – Procedure Control*

## 4 - Guiding Principles

### 1.0 Purpose

- 1.1 This section covers the non technical principles inherent in these procedures.

### 2.0 Mandatory Requirements

- 2.1 All laws must be complied with.
- 2.2 All acts of Parliament must be complied with.
- 2.3 Where a specific matter is not covered in this manual, previous directives or instructions should be followed. Where no previous directives or instructions have been issued seek clarification from the Ministry of Finance and Economic Management. Do not assume that because a specific matter is not covered, that the guiding principles and the spirit of the MFEM Act can be ignored.
- 2.4 All activities are expected to follow generally accepted good business practice.
- 2.5 Any person subject to the provisions of this manual who is unsure of the meaning of the contents, or who is confronted with a subject that is not covered, must seek clarification from the Ministry of Finance and Economic Management. Ignorance of the requirements of this manual will not forgive any wrong doing.
- 2.6 Delegations of authority should be undertaken only where the Head of Ministry is on leave from their position or medically unfit to perform their duties. Delegation instructions should be specific. The Head of Ministry alone is responsible for ensuring that monies are expended for the purposes intended and must satisfy themselves that the person delegated to is appropriately qualified and fully understands what is required.
- 2.7 Financial dealings, of any nature, by any person subject to the provisions of this manual should be contestable, transparent, accountable, arms length and without favouritism.
- 2.8 Where a conflict of interest arises, or could be seen to arise, the individual affected should remove themselves from the situation and declare, in writing, to the Head of Ministry any actual or possible conflicts of interest. In the case of the Head of Ministry, declaration should be made to the Public Service Commissioner.

2.9 Employees of the Crown should not, except so far as may be necessary for the proper performance of the employee's duties, as authorised by the Head of Ministry or as may be required by law:

2.9.1 Disclose to any person any official information that has come to the knowledge of the employee in the course of the performance of any of their work duties;

2.9.2 Use or attempt to use any such official information for personal benefit, or the benefit of any other person or organisation, or in any manner whatsoever other than in accordance with the duties, and consistent with the obligation, of honesty expected of a person holding a position with the Crown.

### 3.0 Process

3.1 For matters of clarification contact the appropriate person in the Ministry of Finance & Economic Management. See *Part E Section 1 – MFEM Contacts*.

## 5 – Detailed Index

### 1.0 Purpose

1.1 To provide a cross reference to policies and procedures based on broad topic.

1.2 This index should be used as a guide only. All persons subject to the provisions of this manual should be aware of the entire contents of this manual and the absence of a reference in this index does not in any way “exempt” any person from the application of all policies and procedures contained in this manual.

### 2.0 Operating Expenditure Policies and Procedures

	<b>Procedure</b>
<ul style="list-style-type: none"> <li>• <b><u>Personnel</u></b> <ul style="list-style-type: none"> <li>✓ Payroll system</li> <li>✓ Appropriation</li> <li>✓ Remuneration</li> <li>✓ Timesheets</li> <li>✓ Leave</li> <li>✓ Loose Vouchers</li> <li>✓ Performance Bonus</li> <li>✓ Phased Cashflow – upon budget approval</li> <li>✓ Phased Cashflow – revising</li> <li>✓ Ministerial Support offices – Hand-over</li> <li>✓ Ministerial Support offices – Operations</li> <li>✓ Year End payroll accrual</li> <li>✓ Year End annual leave provision</li> </ul> </li> </ul>	<p><a href="#">Part C Section 10</a></p> <p><a href="#">Part C Section 10</a></p> <p><a href="#">Part C Section 10</a></p> <p><a href="#">Part C Section 10</a></p> <p><a href="#">Part C Section 10</a></p> <p><a href="#">Part C Section 10</a></p> <p><a href="#">Part C Section 10A</a></p> <p><a href="#">Part D Section 7</a></p> <p><a href="#">Part D Section 7</a></p> <p><a href="#">Part D Section 10</a></p> <p><a href="#">Part D Section 15</a></p> <p><a href="#">Part D Section 5</a></p> <p><a href="#">Part D Section 5</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Operating Expenditure</u></b> <ul style="list-style-type: none"> <li>✓ Ministry expenditure</li> <li>✓ POBOCs</li> </ul> </li> </ul>	<p><a href="#">Part C Section 7</a></p> <p><a href="#">Part C Section 8</a></p>



<ul style="list-style-type: none"> <li>✓ Purchase of goods and services</li> <li>✓ Public tendering</li> <li>✓ Phasing</li> </ul>	<p><a href="#">Part D Section 2</a></p> <p><a href="#">Part D Section 3</a></p> <p><a href="#">Part D Section 7</a></p>
<ul style="list-style-type: none"> <li>✓ Funding</li> <li>✓ Aid funding of expenditure</li> <li>✓ Cash payments</li> <li>✓ Responsibility for expenditure approval</li> <li>✓ Transferring between categories</li> <li>✓ Transferring between outputs</li> <li>✓ Maintenance expenditure</li> <li>✓ Carry forward and accrual of expenditure</li> <li>✓ Ministerial Support Offices – Hand-over</li> <li>✓ Ministerial Support Offices – Operations</li> </ul>	<p><a href="#">Part D Section 7</a></p> <p><a href="#">Part C Section 5</a></p> <p><a href="#">Part D Section 6</a></p> <p><a href="#">Part C Section 7</a></p> <p><a href="#">Part C Section 1</a></p> <p><a href="#">Part C Section 2</a></p> <p><a href="#">Part C Section 3</a></p> <p><a href="#">Part D Section 11</a></p> <p><a href="#">Part D Section 10</a></p> <p><a href="#">Part D Section 15</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Depreciation and Amortisation</u></b></li> </ul>	<p><a href="#">Part B Section 4</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Reporting</u></b> <ul style="list-style-type: none"> <li>✓ Monthly</li> <li>✓ Annually</li> </ul> </li> </ul>	<p><a href="#">Part D Section 4</a></p> <p><a href="#">Part D Section 5</a></p>

### 3.0 Revenue Policies and Procedures

	<b>Procedure</b>
<ul style="list-style-type: none"> <li>• <b><u>Revenues</u></b> <ul style="list-style-type: none"> <li>✓ Trading Revenue</li> <li>✓ ROBOC's</li> <li>✓ Cash receipts</li> <li>✓ Aid Funding</li> </ul> </li> </ul>	<p><a href="#">Part C Section 4</a></p> <p><a href="#">Part C Section 4A</a></p> <p><a href="#">Part D Section 8</a></p> <p><a href="#">Part C Section 5A</a></p>

#### 4.0 Capital Expenditure Policies and Procedures

	<b>Procedure</b>
<ul style="list-style-type: none"> <li>• <b><u>Planning</u></b> for capital expenditure <ul style="list-style-type: none"> <li>✓ =&gt;\$3000 approved by Parliament</li> <li>✓ Budget submissions forwarded to MFEM</li> <li>✓ Planning checklist</li> <li>✓ Cost/benefit analysis carried out =&gt; \$20,000</li> <li>✓ Cost/Benefit analysis</li> <li>✓ Maintain supporting documentation</li> </ul> </li> </ul>	<p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 1</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Adjusting</u></b> capital budgets <ul style="list-style-type: none"> <li>✓ Minor modifications</li> <li>✓ Transferring between capital budgets</li> </ul> </li> </ul>	<p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 11</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Carrying forward</u></b> capital budgets <ul style="list-style-type: none"> <li>✓ Obtaining approval for carry forward of capital budget</li> </ul> </li> </ul>	<p><a href="#">Part D Section 11</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Purchasing</u></b> capital <ul style="list-style-type: none"> <li>✓ &lt;\$30,000 Quotations</li> <li>✓ =&gt;\$30,000 Tendering</li> <li>✓ Recording fixed assets</li> <li>✓ Accounting for purchases</li> <li>✓ Motor vehicles</li> </ul> </li> </ul>	<p><a href="#">Part D Section 2</a></p> <p><a href="#">Part D Section 3</a></p> <p><a href="#">Part B Section 2</a></p> <p><a href="#">Part B Section 3</a></p> <p><a href="#">Part B Section 15</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Paying</u></b> for capital <ul style="list-style-type: none"> <li>✓ Funded to the Ministry on presentation of invoices and “Capex Code”</li> </ul> </li> </ul>	<p><a href="#">Part B Section 1</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Recording</u></b> capital <ul style="list-style-type: none"> <li>✓ In the General Ledger</li> <li>✓ In the Asset Register</li> </ul> </li> </ul>	<p><a href="#">Part B Section 3</a></p> <p><a href="#">Part B Section 1</a></p> <p><a href="#">Part B Section 2</a></p>

	<b>Procedure</b>
<ul style="list-style-type: none"> <li>• <b><u>Depreciating</u></b> capital assets</li> <li>✓ Depreciation/Amortisation rates</li> </ul>	<a href="#">Part B Section 4</a>  <a href="#">Part B Section 4</a>
<ul style="list-style-type: none"> <li>• <b><u>Managing</u></b> capital assets</li> <li>✓ Stocktaking</li> <li>✓ Fixed Assets Register (FAR)</li> <li>✓ Revaluations</li> <li>✓ Maintenance expenditure</li> </ul>	<a href="#">Part B Section 2</a>  <a href="#">Part B Section 2</a>  <a href="#">Part B Section 2</a>  <a href="#">Part C Section 3</a>
<ul style="list-style-type: none"> <li>• <b><u>Disposing</u></b> of capital assets</li> <li>✓ Selling</li> <li>✓ Writing off</li> <li>✓ Accounting for disposals</li> </ul>	<a href="#">Part B Section 10</a>  <a href="#">Part D Section 2</a>  <a href="#">Part B Section 10</a>  <a href="#">Part B Section 3</a>
<ul style="list-style-type: none"> <li>• <b><u>Infrastructure and Building</u></b> assets</li> </ul>	<a href="#">Part B Section 12</a>
<ul style="list-style-type: none"> <li>• <b><u>Aid Funded</u></b> assets</li> </ul>	<a href="#">Part B Section 5</a>
<ul style="list-style-type: none"> <li>• <b><u>Expensed</u></b> assets</li> </ul>	<a href="#">Part C Section 9</a>
<ul style="list-style-type: none"> <li>• <b><u>Savings</u></b> on the purchase of capital</li> </ul>	<a href="#">Part B Section 1</a>
<ul style="list-style-type: none"> <li>• <b><u>Using sale proceeds</u></b></li> </ul>	<a href="#">Part B Section 10</a>
<ul style="list-style-type: none"> <li>• <b><u>Outer Islands and Project based</u></b> capital expenditure</li> </ul>	<a href="#">Part B Section 13</a>
<ul style="list-style-type: none"> <li>• <b><u>Unallocated Capital Funding</u></b></li> </ul>	<a href="#">Part B Section 14</a>

## 5.0 Bank Account Policies and Procedures

	Procedure
<ul style="list-style-type: none"> <li>• <b><u>Bank Account</u></b> <ul style="list-style-type: none"> <li>✓ Opening and Closing</li> <li>✓ Cash payments</li> <li>✓ Cash receipts</li> <li>✓ Reconciling</li> <li>✓ Ministerial Support Offices – Hand-over</li> <li>✓ Ministerial Support Offices – Operations</li> <li>✓ Reporting – monthly</li> <li>✓ Reporting – annually</li> <li>✓ Trust Accounts</li> </ul> </li> </ul>	<p><a href="#">Part D Section 9</a></p> <p><a href="#">Part D Section 6</a></p> <p><a href="#">Part D Section 8</a></p> <p><a href="#">Part B Section 6</a></p> <p><a href="#">Part D Section 10</a></p> <p><a href="#">Part D Section 15</a></p> <p><a href="#">Part D Section 4</a></p> <p><a href="#">Part D Section 5</a></p> <p><a href="#">Part B Section 18</a></p>

## 6.0 Inventory and Receivable Policies and Procedures

	Procedure
<ul style="list-style-type: none"> <li>• <b><u>Inventory</u></b> <ul style="list-style-type: none"> <li>✓ Costing</li> <li>✓ Write Off</li> <li>✓ Stock take</li> <li>✓ Register</li> </ul> </li> </ul>	<p><a href="#">Part B Section 17</a></p> <p><a href="#">Part B Section 17</a></p> <p><a href="#">Part B Section 17</a></p> <p><a href="#">Part B Section 17</a></p>
<ul style="list-style-type: none"> <li>• <b><u>Accounts Receivable</u></b> <ul style="list-style-type: none"> <li>✓ Recording credit sales</li> <li>✓ Processing payments for credit sales</li> <li>✓ Bad Debts</li> <li>✓ Provision for Doubtful Debts</li> </ul> </li> </ul>	<p><a href="#">Part C Section 4</a></p> <p><a href="#">Part D Section 8</a></p> <p><a href="#">Part D Section 12</a></p> <p><a href="#">Part D Section 12</a></p>

## 1 – Capital Expenditure

### 1.0 Purpose

- 1.1 To ensure that all Capital Expenditure complies with acceptable standards of accountability and transparency.
- 1.2 To ensure that appropriate research and analysis of capital expenditure is undertaken before commitments are made.
- 1.3 To ensure the correct purchasing procedures are followed.

### 2.0 Mandatory Requirements

- 2.1 Cabinet approval for the purchase of all Capital Expenditure over \$3,000.
- 2.2 Compliance with *Part D Section 2 - Purchase & Sale of Goods and Services*.
- 2.3 Written approval obtained from the Financial Secretary where minor modifications are requested to approved Capital Expenditure. See *Part B Section 11 - Transfer between Capital Budgets*.
- 2.4 Capital Assets costing less than \$3,000 but more than \$1,000 can either be budgeted as Capital Items or purchased from Operating budget. Asset purchases of \$1,000 or less are budgeted and purchased from Operating budget. However, should there be insufficient funds within operating budgets, asset requests less than \$1,000 can be reviewed by the Capital Fund Committee on a case-by-case basis to ensure essential capital funding requirements are adequately provided for.
- 2.5 All capital items over \$1,000 are required to comply with the processes outlined in this manual.
- 2.6 Capital purchases can only be made for the net total in the Appropriation Bill. It is not permissible to “top up” a capital purchase with operating funds.

### 3.0 Process

#### 3.1 Budgeting for Capital

- 3.1.1 All budget submissions for Capital Expenditure shall be forwarded to MFEM for compilation as part of the budget process. Attachment 1 outlines a checklist to assist planning.
- 3.1.2 Cost/benefit or other such analysis are required to be carried out for all capital projects over \$20,000 before a submission is made for consideration in the budget. See Attachment 2.
- 3.1.3 All budget submissions for Capital Expenditure shall have supporting documentation (such as quotations) maintained within the Ministry, Office or Island Administration.
- 3.1.4 The labour and operational content of Capital Projects are to be included in the budget processes. The accounting of these

should be included in the costs of Capital Projects and not as Operational Costs. These include PAYE, Time Sheets, Tendering of labour, superannuation eligibilities, Contractor vs. Employees of the Crown.

3.1.5 After the budget is passed, those Ministries allocated specific capital items will be provided with a “Capex Code” for each item approved by parliament. This number must be quoted when seeking funding.

### 3.2 Ministry Spending of Capital Funds

3.2.1 The purchasing procedures outlined in *Part D Section 2 - Purchase & Sale of Goods and Services* and *Part D Section 3 – Public Tendering* must be complied with for all capital spending, whether the spending is the purchase of a physical asset or work on a capital project.

3.2.2 Commitments and work must not be undertaken if the policies and procedures have not been complied with. MFEM will not fund capital spending unless it meets the policies and procedures even if the Ministry has committed to the work or purchase, or the Ministry have paid for such out of operating funds.

3.2.3 The phasing of capital expenditure is agreed with Ministries at the commencement of the year, although this may be modified later in the year where warranted. Refer to *Part D Part 7 – Cashflow Management*. Capital expenditure may only be incurred in accordance with the phased funding. Should Government Revenue fall short of the forecast in the Appropriation, action will be taken to cancel or defer some capital expenditure.

### 3.3 Funding of Capital to the Ministry

3.3.1 Capital expenditure will be funded to Ministries on an item by item basis on presentation of appropriate vouchers, invoices with the Capex Code.

3.3.2 MFEM will provide funding within 1 working day upon the following conditions;

- a) Payment voucher template provided by MFEM has been fully completed;
- b) All requirements stated on payment vouchers has been complied with;
- c) Any suggestion that the purchase or tender process was not conducted to satisfactory standards will result in the funding being delayed further until MFEM is satisfied that all requirements are met;

- d) Should MFEM note any non-compliance the Administration/Support Office/Ministry will be notified.
- 3.3.3 Funding for capital expenditure will be made directly to the supplier and copies of these payments will be made available to the Ministry.
- 3.3.4 Funding for capital expenditure must be shown as an increase to taxpayers funds and NOT as revenue. The following is the entries when posting into the accounting system:
- |    |                                    |     |
|----|------------------------------------|-----|
| DR | Asset                              | XXX |
| DR | VAT Paid                           | XXX |
| CR | Capital Funding (Tax Payers Funds) | XXX |
- 3.3.5 VAT is added to any domestic Capital Purchases made by Ministries, Offices and Island Administrations unless the supplier is not VAT registered.
- 3.3.6 Levy is paid upon receipt of the RMD's Import Entry at the time of the importation.
- 3.3.7 VAT on Levy on imported items will be paid on the receipt of the Import Entry from RMD. The calculation of VAT payable to Ministries, Offices and Island Administrations will be determined by VAT already paid on purchase price less VAT owing on the Import Entry from RMD.
- 3.4 Other
- 3.4.1 Where minor modifications are requested to approved Capital Expenditure, this shall require the written approval of the Financial Secretary. See *Part B Section 11 - Transfer between Capital Budgets*.
- 3.4.2 Savings upon the purchase of Capital Expenditure from the original amount approved are not the entitlement of the Ministry, Office or Island Administration. The use of these savings requires the written approval of the Financial Secretary (with the concurrence of the Minister of Finance). If approved, savings can only be utilised for capital expenditure, and this procedure and other related procedures applies.
- 3.4.3 Defer any unappropriated capital purchases until appropriated in an Appropriation. In an emergency, Ministries may apply under the Capital Contingency Funds for assistance (*Refer Part B Section 16 - Capital Contingency Funds*).
- 3.4.4 A request to carry forward capital expenditure must comply with *Part D Section 11 – Carry Forward of Expenditure*.

3.4.5 The total value of all Capital Expenditure is to be recorded in the Asset Register and General Ledger as per *Part B Section 2 - Asset Management*.

### 3.5 Outer Islands and Project Based Capital

3.5.1 Outer Islands and Project Based Capital is covered by a separate procedure – *Part B Section 13 – Outer Islands and Project Based Capital Expenditure* which includes:

3.5.1.1 Parliamentary approval of the Outer Islands Contingency Fund and specific infrastructure projects funded to Ministries.

3.5.1.2 Small Capital items less than \$3,000 purchased at the discretion of Island Administration or HOM and must follow the Capital Expenditure procedure *Part B Section 1 – Capital Expenditure*.

3.5.1.3 All machinery, motor vehicles and other infrastructure upgrades to follow the Project Coordinating Committee (PCC) process.

3.5.1.4 The guiding principles of the Cook Islands Government Financial Policies & Procedures summarised in *Part A Section 4 – Guiding Principles* apply at all times.

### 3.6 Unallocated Capital Funds

3.6.1 The use of this fund is covered by a separate procedure – *Part B Section 14 – Unallocated Capital Funds* which includes:

3.6.1.1. Cabinet approval for all Unallocated Capital Funding.

3.6.1.2 Small Capital items less than \$3,000 purchased at the discretion of the Head of Ministry and must follow the Capital Expenditure procedure *Part B Section 1 – Capital Expenditure*.

3.6.1.3 Machinery, equipment and motor vehicles to follow the CFC process (*Part B Section 14 – Unallocated Capital Funds*).

3.6.1.4 Major infrastructure projects costing \$50,000 or more to follow PCC Process (*Part B Section 13 – Outer Islands and Project Based Capital Expenditure*).

3.6.1.5 All motor vehicle purchases to follow *Part B Section 15 – Motor Vehicle*.

## 4.0 Summary

4.1 Capital Item: Any expenditure that is appropriated as capital is a Capital Item, irrespective of the amount. Capital Items are to be



recorded in the asset register and depreciated according to the depreciation rates set out in Part B Section 4.

- 4.2 Capital Projects: Any expenditure that is appropriated as a Capital project is related to minor infrastructure upgrades or those projects which contribute to the infrastructure of that Ministry/Crown Agency. E.g Harbours, Airports whereby at the end of the process (project) these capital projects are considered fixed assets belonging to the Crown.
- 4.3 Expensed Asset: Any purchase, under \$3,000, that is not *appropriated* as a capital item is an expensed asset and is not depreciated. (*Refer Part C Section 9*)

	\$1,000 or less	\$1,001 - \$2,999		\$3,000 or more
<b>Budgeted as capital</b>	<b>No</b>	<b>CAN be</b>		<b>MUST be</b>
<b>Met out of Operating Funding</b>	<b>Yes</b>	<b>If No</b>	<b>If Yes</b>	
		<b>Yes</b>	<b>No</b>	<b>No</b>
Recorded on asset register:	Yes	Yes	Yes	Yes
-expensed asset	Yes	Yes	No	No
-depreciating asset	No	No	Yes	Yes
Record in P&L				
-full cost of expensed asset	Yes	Yes	No	No
-depreciation	No	No	Yes	Yes

Attachment 1 – Planning/Budgeting for Capital Acquisition

- A. Buildings
- B. Machineries
- C. Equipments
- D. Motor Vehicles

Attachment 2 – Cost benefit analysis example

Attachment 1 - Planning / Budgeting for Capital Acquisition

A. Buildings – An immobile structure or office block belonging to the Crown. |

- 1) Why is the building a priority?
- 2) Is there alternative accommodation? Detail if yes.
- 3) What is the location of the proposed building?
  - Is it Crown or Private land? – If private, has this been leased to Crown? When does the lease expire? Is it worth investing in given the time left on the lease and have landowners agreed to extend the lease?
- 4) Can the private sector support the proposed operation by the supply of materials, the employment of workers to undertake the construction of the building or will this building compete with the private sector?
- 5) Detail appropriate plans for the building including:
  - Durability of building (this should also be covered in the feasibility study at the outset of the project)
  - Materials required – do you have the appropriate suppliers? Have you obtained quotes for the supply of materials – a Schedule of quantities are required to be submitted at the time of capital draw down.
  - Do you have a design and construction plan? Is this plan in compliance with the building codes of the Ministry of Works? Detail if yes.
- 6) Can private enterprise be supported through a donor such as Outer Islands Development Grant Fund (OIDGF) to start a business venture instead of government plant ownership and operation?
- 7) Have you considered the labour content of the project? Outline of yes.
  - Will you employ a private contractor or use Government agencies such as CIIC to undertake the construction?
  - Are there skilled or appropriate labourers available for the duration of project implementation?
- 8) Has funding been budgeted for, to cover maintenance, depreciation, and the undertaking of the proposed work under the operations budget? Provide supporting documentation if yes.
- 9) Have you considered the equipment required for the job? If yes, give full details.
  - Do you have the necessary equipment?
  - Are these equipments available for the duration required?
  - Have you accounted for shipment & cartage?
  - Volume of fuel required?
  - Appropriate storage for the equipments
  - The availability of construction materials?
    - ✓ Sand
    - ✓ Aggregate / Kirikiri Toka
    - ✓ Fresh Water
- 10) Have you considered on-going repairs & maintenance (long term concern)? Has the project been fully costed? Provide supporting documentation if yes.
- 11) Is the work ongoing (will there be future work for the building)? If yes, give full details.

- 12) Is the building multi-functional or job specific? Give full details.
- 13) What is the availability of skilled maintenance technicians?
- 14) Are there any other items or modifications required to complement the purchase? If yes, give full details.
- 15) Are there any special shipping and handling requirements for building materials? If yes, give full details.
- 16) Is there freight costs or insurance costs in the price? If yes, give full details, if no then how are you going to cover these costs?

Attachment 1 - Planning / Budgeting for Capital Acquisition

B. Machineries – An appliance or device which assists that Ministry/Crown Agency carry out its core responsibilities e.g Tractor, Grader Blades, Crusher for Outer Island Projects

- 1) Why is this a priority purchase? Is it fully costed? If yes, give full details.
- 2) Have you consulted the appropriate expertise about the machineries? Provide supporting documentation if yes.
- 3) Do you have a clear, defined specification of the machineries required? If yes, provide this.
  - ✓ Fuel Type
  - ✓ Tyre Size
  - ✓ Capacity
  - ✓ Specified modifications / attachments
- 4) Can the private sector support the proposed operation? Will this machinery compete with the private sector? Give full details.
- 5) Can private enterprise be supported through a donor such as Outer Islands Development Grant Fund (OIDGF) to start a business venture instead of government machinery ownership and operation?
- 6) Has funding been budgeted on the operating budget for maintenance, depreciation and to carry out the proposed work? Provide supporting documentation if yes.
- 7) How much work (days, months, years) is there and how often is the machine to be used?
- 8) Is the work ongoing (will there be future work for the equipment)? If yes, give full details.
- 9) Can other machineries be borrowed, shared, hired from another Island / Ministry if the work is only short term or the machinery is used infrequently? If yes, give full details.
- 10) Describe how the machinery is compatible with other similar machines already owned by Government?
- 11) Is the machinery multi functional or job specific?
- 12) Outline why this is the best type of machinery for the work intended?
- 13) What is the availability of a skilled operator? If one cannot be secured, how are you going to fund training costs for local personnel to be trained? How are you going to ensure that parts are readily available in cases of emergencies?
- 14) Detail the availability of a skilled maintenance technician?
- 15) Outline the provisions made to house the machinery when not in use?
- 16) Detail the consideration given to the advantages of purchasing new / second hand?
- 17) Describe any other items or modifications required to complement the purchase?
- 18) Detail any special shipping and handling requirements?
- 19) How much is the freight and insurance in the price?

Attachment 1 - Planning / Budgeting for Capital Acquisition

C. Equipments – A tool or instrument which assists a Ministry/Crown Agency to operate e.g Laptops, Computers, Printers, Photocopiers.

- 1) Why is this a priority purchase?
- 2) Can the private sector support the proposed operation? Will this equipment compete with the private sector? Give full details.
- 3) Can private enterprise be supported through a donor such as Outer Islands Development Grant Fund (OIDGF) to start a business venture instead of government equipment ownership and operation?
- 4) Has funding been appropriated on the operating budget for maintenance, depreciation and to carry out the proposed work? Provide supporting documentation if yes.
- 5) How much work (days, months, years) is there and how often is the equipment to be used?
- 6) Is the work ongoing (will there be future work for the equipment)? If yes, give full details.
- 7) Can other equipment be borrowed, shared, hired from another Island / Ministry if the work is only short term or the equipment is used infrequently? If yes, give full details.
- 8) Describe how the machinery is compatible with other similar machines already owned by Government?
- 9) Is the equipment multi functional or job specific?
- 10) Outline the durability of the equipment?
- 11) Outline why this is the best type of machinery for the work intended?
- 12) What is the availability of a skilled operator? If one cannot be secured, how are you going to fund training costs for local personnel to be trained? How are you going to ensure that parts are readily available in cases of emergencies?
- 13) Detail the availability of a skilled maintenance technician?
- 14) Outline the provisions made to house the machinery when not in use?
- 15) Detail the consideration given to the advantages of purchasing new / second hand?
- 16) Describe any other items or modifications required to complement the purchase?
- 17) Detail any special shipping and handling requirements?
- 18) How much is the freight and insurance in the price?

Attachment 1 - Planning / Budgeting for Capital Acquisition

D. Motor Vehicles (*Refer Part B Section 15*)

- 1) Why is this a priority purchase?
- 2) If the vehicle is a replacement, consider the life of the previous vehicle and document any reason why it must be replaced. This may have a bearing on the type of replacement and how it will be housed and maintained.
- 3) Can the private sector support the proposed operation? Will this vehicle compete with the private sector? Give full details.
- 4) Can private enterprise be supported through a donor such as Outer Islands Development Grant Fund (OIDGF) to start a business venture instead of government vehicle ownership and operation?
- 5) Has funding been appropriated on the operating budget for maintenance, depreciation and to carry out the proposed work? Provide supporting documentation if yes.
- 6) Will the Motor Vehicle be multi-functional or job specific?
- 7) Have you secured a vehicle maintenance contract with local vehicle specialists? If yes, give full details.
- 8) Outline your consideration of the application / appropriateness of the proposed vehicle?
  - ✓ What is the purpose of the vehicle?
- 9) What are the capacity restrictions
  - ✓ Fuel implications
  - ✓ Petrol vs. diesel vehicles
- 10) Describe why this is the best type of vehicle for the proposed work?
- 11) Outline the provisions made to house the motor vehicle when not in use?
- 12) Describe any other items or modifications required to complement the purchase?
- 13) Detail any special shipping and handling requirements?
- 14) How much is the freight and insurance in the price?

## Attachment 2

### Cost v Benefit analysis

Include all the costs of a project, eg:

- Cost of asset including:
  - Freight
  - Installation
  - Training
  - Exchange rate changes
  - Levies
- Future cost including
  - Depreciation
  - Fuel
  - Repairs & Maintenance
  - Personnel costs
    - Direct labour
    - Ongoing training
    - Backup staff

What benefits will arise from your new asset?

- Savings in future operating costs
  - Fuel efficiency
  - Reduced labour cost
  - Efficiency gains
- Increased revenue
  - New product
  - Increase service
- Better value to customers
  - Very hard to quantify in \$ terms

See Example next page.

## Attachment 2 (continued)

### Example

Comparing buying v hiring – Which is the best option?

You have the option of buying or hiring a piece of equipment.

- Hire costs \$10/hour, you expect to use it for 5 hours a month, operating costs \$20/mth
- Purchase \$2,000, operating costs \$20/mth

**Payback period** is a useful and simple method of helping to decide which is the best option:

How many years/months of hire payments will it take before the total hire payments equals the purchase price?

Monthly hire cost = \$10/hour multiplied by 5 hours = \$50/month

\$2000 divided by \$50/month equals 40 months or 3 years and 6 months

The payback period is 3 ½ years, or if you intend to use the asset longer than 3 ½ years, you would be better off buying it.

Other things to consider.

- Life of asset – how long will it last, wear & tear, quality of asset
- Change in technology
- Increased running costs

There are more sophisticated procedures for evaluating capital purchases, e.g. Net Present Value (NPV), however this example provides a rough guide for small to medium sized purchases.

If you have any questions in analysing a purchasing option, please contact MFEM.



## 2- Asset Management

### 1.0 Purpose

- 1.1 To maintain complete and accurate accounting for fixed assets.
- 1.2 To ensure that fixed assets are safeguarded.
- 1.3 The physical control and accounting for assets is the responsibility of the Head of the Ministry, Office or Island Administration.

### 2.0 Mandatory Requirements

- 2.1 All fixed assets are to be recorded in the asset register of the Ministry, Office or Island Administration.
  - 2.1.1 A separate section be allocated to each of the following:
    - 2.1.1.1 Plant, property and equipment.
      - 2.1.1.1.1 This should be split into: office equipment and computers, furniture and fittings, plant and equipment, buildings, motor vehicles and building/leasehold improvements
    - 2.1.1.2 Infrastructure Assets.
      - 2.1.1.2.1 Split by harbours/ports, airports, roading, water
    - 2.1.1.3 Intangible Assets.
      - 2.1.1.3.1 Split by software developed in-house, purchased software, other
    - 2.1.1.4 Work in Progress should be split between each of the categories above as appropriate.
- 2.2 The asset register shall agree in total to the general ledger balance. An annual stocktake should be undertaken to ensure this is the case so that when annual accounts are produced (refer to Part D, Section 5), the ledger and the FAR are in complete agreement.
- 2.3 Differences identified in the annual fixed asset stocktake between the physical count of assets and the asset register shall be referred in writing to the Financial Secretary to be dealt with appropriately eg. write offs etc
- 2.4 Any alteration of asset values is only to be carried out with the approval of the Financial Secretary.
- 2.5 Any purchase or sale of assets must follow *Part D Section 2 - Purchase & Sale of Goods & Services* and *Part D Section 3A Public Tendering – Sale of Assets*.

- 2.6 Any disposal of fixed assets must follow *Part B Section 10 - Disposal of Fixed Assets*.
- 2.7 All fixed assets are to be stored securely at all times.
- 2.8 All fixed assets are to be kept on the Ministry, Office or Island Administration's premises. Public assets are not to be held privately.
- 2.9 All fixed assets of the Ministry, Office or Island Administration will be the responsibility of the HOM. A HOM will be responsible for any asset misplacement/mismanagement etc.

### 3.0 Process

- 3.1 All capital expenditure will be reflected as an asset in the Fixed Asset Register. These items will be subject to depreciation refer to *Part B Section 4 - Depreciation*. This also applies to items obtained under a capital appropriation for less than \$3,000.
- 3.2 If assets are purchased through operating expenditure (ie expensed assets) they must still be entered into the FAR (most likely the Plant, Property, and Equipment section in 2.1.1.1 above) but under a separate split labeled "Expensed Assets". These assets are not depreciated but are on the FAR to assist in accountability purposes and for the Audit Office to verify.
- 3.3 All Fixed Assets must be separately identifiable and if they are not they should have a Fixed Asset Control Number and be tagged or marked (See Section 3.9 below).
- 3.4 All Fixed Assets will be subject to an annual stock take (refer to Stocktake Procedures Part D, Section 17).
- 3.5 Differences identified in the annual stocktake between the physical count of fixed assets and the Fixed Asset Register shall be notified in writing to the Financial Secretary.
- 3.6 Where no value is known, a certified professional (eg mechanic) should be hired to value those capital items the Ministry does not have knowledge of.
- 3.7 Asset revaluations are not permitted under the Accounting Policies adopted by the Crown.
  - 3.7.1 However, assets should be regularly subject to an impairment test. This is where an asset's value is reduced due to unanticipated wear etc. In this case, the change in value is written off to the P&L through the following entries:  
  
Dr Impairment of Assets (P&L)  
  
Cr Asset Cost
- 3.8 Fixed Asset Register
  - 3.8.1 Attachment 1 shows an example of the layout and content of a Fixed Asset Register.

- 3.8.2 The Fixed Assets Register includes all assets that are in use (or have a book value). Note assets that are in use and have a zero book value should still be included in the Fixed Assets Register.
- 3.8.3 The Fixed Assets Register is reconciled to the following General Ledger accounts by asset category:
  - 3.8.3.1 Cost of Fixed Assets
  - 3.8.3.2 Accumulated Depreciation
  - 3.8.3.3 Current year depreciation

### 3.9 Fixed Asset Control Number

- 3.9.1 All fixed assets need to be uniquely identifiable. One way of achieving this is by using a fixed asset control number upon the purchase of the item. This number may take the form of marking, engraving, stencil, self adhesive metal tags or other suitable tags that can be pre-numbered and affixed to the asset.
- 3.9.2 Only items of equipment and furniture will need to be physically tagged with fixed asset control numbers. For control purposes, fixed assets such as buildings are assigned sequentially numbered fixed asset control numbers. Registration plate numbers and serial numbers can be used for unique identification.
- 3.9.3 The fixed asset tag shall then be recorded in the Fixed Asset Register with all of the associated details including asset description, manufacturer's serial number, transportation costs and installation costs if applicable. For example the purchase of an air conditioner may originally cost \$3,000 but in addition may also include transportation costs of \$300 and installation costs of \$250, therefore the total cost of the fixed asset in the asset register and subject to depreciation is \$3,550.
- 3.9.4 All unused fixed asset control tags shall be kept in a secure location.

### 3.10 Fixed Asset Stocktake

- 3.10.1 For detailed instructions, refer to Part D, Section 17
- 3.10.2 All fixed assets shall be subject to an annual stocktake by the Ministry, Office or Island Administration to ensure the existence, security and condition of each item. This stocktake shall then be reconciled to the asset register. Any proposed adjustments shall be referred to the Financial Secretary.
- 3.10.3 This stock take shall be conducted either as part of the annual closing process (June 30) or on a cyclical basis during the year. In all instances documentation must be maintained of what was counted and by whom as shown within attachment 2 - 'Fixed Asset Inventory' form. The HOM, Chief Executive or Island Secretary must sign the 'Fixed Asset Inventory' form.

Attachment

Attachment 1 - Fixed Asset Register Example

Attachment 2 - Annual Stocktake Form

**Example of a Fixed Asset Register**

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
Date of Purchase	Asset ID	Item Description	Expensed Assets	Opening Cost	Additions	Disposals	Closing Cost	Depn Rate	Annual Depn	Opening Accum Depn	Depn	Accum Depn on disposals	Closing Accum Depn	Net Book Value
		Category												

Key

- A Records the month and year of purchase.
- B Unique Identification of the Asset (eg Number Plate, Asset Number etc)
- C Provides a reasonable enough description for the asset to be easily identified.
- D The assets purchased from operational funding (which must be less than \$3,000) are recorded here at cost. No other cells in this row are filled in.
- E This is the opening cost of an asset purchased in a previous financial year. The value in this cell should equal the closing cost value from the previous year.
- F New assets purchased during the year (as per a specific capital expenditure appropriation) are recorded in this column. Do not enter purchases during the year into E.
- G When an asset is disposed of, the cost of that asset, as recorded in either column E or F is entered here into G.
- H H is a summing column, and equals E + F - G.
- I This column records the depreciation rate as set out in the relevant procedure.
- J J is the sum of H x I. This column provides the annual depreciation expense to be used when budgeting for the following year. Remember to delete any value from this cell when an asset is fully depreciated.
- K The closing accumulated depreciation from the previous year becomes the opening accumulated depreciation for the current year. Like Column E, the value in this cell must agree to what the closing accumulated depreciation was in the previous year.
- L Where an asset has an opening cost (E), this cell should be set to calculate J, the yearly depreciation expense. If the asset is purchased part way through the year the depreciation should be calculated from the time of purchase to the year end. If being disposed, adjust what was in this cell (which would have been depreciation for the full year) to reflect the depreciation only up until the date of disposal.
- M When an asset is being disposed, it will have an accumulated and current depreciation value. Adjust the depreciation (cell L) as noted above to reflect the depreciation only up until the date of disposal. Enter into M the combined value of K and L, but as a negative.
- N N is another summing cell. It sums K + L + M. The column M is added because the cells contain negative values.
- O O is also a summing cell. H - N = O.

At the end of the financial year, save this version as the Fixed Asset Register for that year and then save it again as the Fixed Asset Register for the next financial year. It then becomes the Fixed Asset Register for the new year. Write over all of the values in E with the ones that are in H, and delete all of the values in F and G. This establishes the opening cost, which equals the previous years closing cost. Write over all of the values in K with the ones from N, thereby establishing the opening accumulated depreciation which agrees to the previous years closing. For assets that were disposed of in the previous year, delete the whole row. This deletes all values in column M. Assets that were purchased during the last year need to have the depreciation column (L) adjusted to be a full year rather than the part year depreciation that will be in that cell.

The register now reflects what the current year ends position will be, and only needs to be updated when a new asset is purchased or an existing asset is disposed of.



### 3 – Fixed Assets Accounting Transactions

#### 1.0 Purpose

- 1.1 The transactions of the sale and purchase of assets need to be correctly recorded.
- 1.2 Assets being disposed of need to be removed from the accounts.
- 1.3 Any profit or loss on disposal needs to be disclosed

#### 2.0 Mandatory Requirements

- 2.1 Parliamentary approval for the purchase of all Capital Expenditure.
- 2.2 Adherence to *Part D Section 2 – Purchase & Sale of Goods & Services*, *Part B Section 10 - Disposal of Fixed Assets*, and *Part B Section 1 - Capital Expenditure*.
- 2.3 Transactions are correctly reflected in Financial Accounts.

#### 3.0 Process

- 3.1 Ensure that procedures noted under *Part D Section 2 - Purchase & Sale of Goods & Services and Part B Section 10 – Disposal of Fixed Assets* are followed.
- 3.2 Ensure assets sold or traded are correctly identified and follow the detail of the item shown within the asset register and general ledger.
- 3.3 Ensure that where an asset is to be purchased that it has approval per the Budget Appropriation as passed by Parliament.
- 3.4 Process sale transactions direct to the affected accounts (see example at paragraph 4.1).
- 3.5 The fixed asset sold or traded is then to be removed from the asset register at the end of the financial year.

#### 4.0 Example of Sale and Purchase of Motor Vehicle - Accounting Entries

Your Ministry has a motor vehicle with a cost value of \$20,000 in the general ledger. It was purchased three years ago and with the depreciation rate of 25% now has accumulated depreciation of \$15,000. Therefore the book value of the motor vehicle in the general ledger has a net worth of \$5,000 (\$20,000 less \$15,000 = \$5,000).

Your Ministry has purchased a new motor vehicle with a sale price of \$25,000 (\$28,125 incl VAT) and has included the old vehicle (noted above) as a trade in. However the trade in price for the old motor vehicle is \$8,000 (\$9,000 incl VAT).

#### 4.1 Purchase of New Vehicle Using Old One as a Trade In

These entries are shown below so it can be seen simply the accounting transactions necessary:

Dr	Motor Vehicle Assets – New Vehicle	\$25,000	
Dr	Accum Depreciation – Motor Vehicle (Old)	\$15,000	
Dr	VAT Payable	\$3,125	
Cr	Bank (Diff between \$28,125 and \$9,000)		\$19,125
Cr	Motor Vehicles Assets – Old Vehicle		\$20,000
Cr	VAT Received (on Trade-in price)		\$1,000
Cr	Gain on Sale of Assets (P&L)		\$3,000
	Being sale transactions of old motor vehicle		

#### 4.2 Purchase of New Vehicle (not as Trade In)

These entries would be done if the details in the above example were for a non-trade in purchase:

Dr	Motor Vehicle Assets – New Vehicle	\$25,000	
Dr	VAT Payable	\$3,125	
Cr	Bank		\$28,125
	Being purchase of new motor vehicle		

#### 4.3 The following entries are for the sale of a vehicle or other fixed asset (not as a trade in)

These entries would be done if the details in the above example were for a non-trade in sale:

Dr	Bank	\$9,000	
Dr	Accumulated Depn	\$15,000	
Cr	Fixed Assets		\$20,000
Cr	VAT Received		\$1,000
Cr	Gain on sale of Fixed Assets		\$3,000
	Being sale of fixed asset		

#### 4.4 Funding and Purchase of Asset

The accounting entries for the capital funding of vehicle new fixed asset would be as follows (for the example above):

Dr	Bank	\$28,125	
Cr	VAT Received		\$3,125
Cr	Capital Funding (Equity/Taxpayers Funds)		\$25,000
	Being capital funding received		

4.5 If there are any other examples not mentioned above, please contact the Crown Accounting Team and they will advise on the proper accounting treatment to be applied.



## 4 – Depreciation & Amortisation

### 1.0 Purpose

- 1.1 Depreciation/amortisation is the allocation or spreading of the cost of an asset over its service life, instead of applying the cost of the asset in the year it is purchased.
- 1.2 Include Aid funded assets in calculation of depreciation.
- 2.0 Definitions
  - 2.1 “Depreciation” – is the measure of deterioration of a fixed asset. All assets are expected to wear out, and become less efficient. Depreciation is calculated as the estimate of this measure of wearing out and is a charge in the Profit & Loss.
  - 2.2 “Accumulated Depreciation” – is the total depreciation charges to date deducted from the cost of fixed assets to show net book value in the Balance Sheet.
  - 2.3 “Amortisation” – is the same as depreciation but it relates to intangible assets such as software or goodwill (though goodwill is not expected to be an issue for Crown Agencies).

### 3.0 Mandatory Requirements

- 3.1 Correct monthly allocation.
- 3.2 Depreciation in the FAR should reconcile to the P&L.
- 3.3 The policy adopted by the Crown mandates the straight-line method of depreciation.

### 4.0 Process

- 4.1 Refer to *Part B Section 1 – Capital Expenditure* to identify what a depreciating asset is.
- 4.2 Once the asset has been purchased ensure it is recorded in the Fixed Asset Register (Refer to *Part B Section 2 - Asset Management*). Note the complete asset cost should be capitalised for depreciation purposes, this may include additional delivery or fit out costs.
- 4.3 Aid funded assets are included in the FAR and are subject to depreciation in the same way purchased assets are. (Refer to *Part B Section 5 - Aid Funded Assets*.)
- 4.4 Ensure the rate of depreciation to be calculated is as per Attachment 1.

- 4.5 Each month, depreciation is debited to the Depreciation Expense Account and credited to the Accumulated Depreciation Account as shown in the Attachment 2.
- 4.6 This entry may be recorded as a „recurring journal“ entry in your month end transactions (however if additions, disposals are made during the year, the journal will need to be adjusted to account for the new assets).
- 4.7 Update the Fixed Assets Register to ensure the depreciation expensed on an asset does not exceed its cost. As soon as the NBV is zero, then that asset should not be depreciated anymore.
- 4.8 If newly acquired assets are received and ready for use before the 15<sup>th</sup> of the month, depreciation expenditure begins incurring in that month. If received and ready for use after the 15<sup>th</sup> of the month, depreciation begins incurring in the following month.
- 4.9 Depreciation expense must be accounted for on all asset purchases or aid funded assets even if there is no depreciation budget appropriated. See *Part C Section 6 – Depreciation Funding* for details of budgeting for depreciation.
- 4.10 All Ministries, Island Administrations and Offices, must return the higher of actual depreciation or the budgeted depreciation to the Crown at year end to enable the funding of future capital expenditures. See *Part D Section 14 – Surplus/Depreciation Payable Calculations* for a detailed procedure.

### Attachment

Attachment 1 – Depreciation Rates

Attachment 2 – Example of Depreciation Accounting Entries

## Attachment 1

### Depreciation Rates

The following depreciation rates apply for all Ministries, Offices and Administrations  
Variation to these rates requires the written approval of the Financial Secretary.

The depreciation method used by the Cook Islands Government is the Straight Line method.

#### Computer Equipment

- Not in air conditioned office 3 years @ 33% per annum
- In air conditioned office 4 years @ 25% per annum

Office Equipment 5 years @ 20% per annum

Furniture and Fittings 4 - 10 years @ 10-25% per annum

Motor Vehicles 5 years @ 20% per annum

Buildings & infrastructure projects,  
(e.g. wharf/harbour structures) 10 years @ 10% per annum

Heavy Plant and Equipment Machinery, (e.g. tractors, rollers, excavators)

- Estimated useful life 5 years 5 years @ 20% per annum
- Estimated useful life 10 years 10 years @ 10% per annum
- Estimated useful life 15 years 15 years @ 7% per annum

### Amortisation Rates

The following amortisation rates apply for all Ministries, Offices and Administrations  
Variation to these rates requires the written approval of the Financial Secretary.

The amortisation method used by the Cook Islands Government is the Straight Line method.

#### Intangible Assets

- Software 3-4 years @ 25-33% per annum

## Attachment 2

### Example of Depreciation Accounting Entries

Your Ministry purchases a motor vehicle to the value of \$24,000. The resale or residual value is determined as nil.

The depreciation rate as determined from the depreciation schedule is 25% over four years. The motor vehicle has a depreciation expense of \$6,000 per year over the four year period. This equates to \$500 per month. It was purchased on 4<sup>th</sup> January and therefore will only have 6 months or \$3,000 depreciation expense in the first year.

The accounting entry each month is as follows:

Dr Depreciation Expense	\$500	
Cr Accumulated Depreciation - Motor Vehicle		\$500

## 5 – Aid Funded Assets

### 1.0 Purpose

- 1.1 To ensure that all aid funded assets are correctly recorded in both the asset register and general ledger of the Ministry, Office or Island Administration responsible for its management.

### 2.0 Mandatory Requirements

- 2.1 Aid funded assets are all assets over \$3,000 that are either purchased with donor funding or received direct from donors. Aid funding under \$3,000 is addressed in *Part C Section 5 – Aid funding for operating expenses*. The procedure to apply depends on whether the funding is provided through Aid Management Division of MFEM or direct to the Ministry.
- 2.2 Aid funded assets are recorded in the balance sheet and are depreciated according to prescribed methods.
- 2.3 All conditions of the Donor Agency to be complied with in the purchase of the asset.
- 2.4 Where 2.3 above doesn't override them, *Part D Section 2 – Purchase & Sale of Goods & Services* and *Part D Section 3 – Public Tendering* of this procedure manual apply.
- 2.5 All local contribution expenditure to be approved by Parliament in the Annual or Supplementary Budget.
- 2.6 A copy of the relevant clauses relating to the purchase, or the contract itself, to be retained on file by the Ministry, Office or Island Administration.

### 3.0 Definitions

- 3.1 Aid funded assets must be recognised by a Ministry when:
  - 3.1.1 Aid Management Division pays a supplier direct for an asset that the Ministry physically controls.
  - 3.1.2 The Ministry physically pays for an asset and then receives reimbursement of the cash from the Aid Management Division.
  - 3.1.3 The Ministry receives an asset from a donor.
  - 3.1.4 The Ministry physically pays for an asset if it is to receive reimbursement of the cash from a donor.

## 4.0 Process

### 4.1 Aid funding through Aid Management Division

- 4.1.1 All requests for Aid should be directed through the Aid Management Division of the Cook Island Government. In circumstances where Aid is provided directly to a government organisation written notification of the receipt of this asset to the Aid Division is required to be provided by the Ministry, Office or Island Administration concerned.
- 4.1.2 A copy of the relevant clauses relating to the purchase, or the contract itself, is required to be kept on file by the Ministry, Office or Island Administration. This will establish ownership and any specific requirements of the Donor Agency (for example reporting or audit requirements).
- 4.1.3 The total value of the asset is required to be recorded in the Asset Register. (Refer to *Part B Section 2 - Asset Management*). This will include all of the associated costs of transportation, preparation and other associated capital costs in bringing the asset to the site in a suitable condition, adequate for the purposes required (for example the cost of transporting a vehicle to an Outer Island or ensuring a barge is seaworthy).
- 4.1.4 Journal entries in Ministry accounts where Aid Management pays the supplier direct:

<b>Transaction</b>	<b>Dr</b>	<b>Cr</b>
Aid Management pays supplier	Asset	Taxpayers funds – “Aid Funded Assets”

4.1.4.1 As Aid Management only pays a supplier direct for an asset on a voucher prepared by the Ministry, the Ministry will have the information to post the journal. The journal must be entered by the Ministry when the voucher is sent to Aid Management.

4.1.4.2 The entries to the ledger will incorporate

- 4.1.4.2.1 Debit to an asset account of the total value of the asset.
- 4.1.4.2.2 Credit to Taxpayers funds ("Aid Funded Assets") the amount funded by donors.
- 4.1.4.2.3 Credit to Taxpayers Funds ("Capital funding") the amount of local contribution. This would be usually be funded through capital appropriation.

4.1.5 Journal entries in Ministry accounts where Aid Management reimburses the Ministry cash for the Ministry having made the payment:

<b>Transaction</b>	<b>Dr</b>	<b>Cr</b>
Ministry pays supplier	Asset	Bank
Ministry recognises Aid Management owes it cash	Debtor (Aid Management)	Taxpayers funds – “Aid Funded Assets”
Aid Management reimburses the Ministry	Bank	Debtor (Aid Management)

4.1.6 Where the aid funding is received by the Ministry via Aid Management Division it will be recognised as Aid Revenue by the Crown. The Crown will then make an equity contribution to the Ministry, similar to capital funding, and this is why Taxpayers funds are credited in the Ministry, rather than revenue.

4.1.7 On consolidation the credit to Taxpayers funds in the Ministry is eliminated against Aid Expenditure in Aid Management and thus the consolidated Crown position shows Aid Revenue and an increase in Assets.

4.2 Aid funding direct to the Ministry by the donor

4.2.1 In circumstances where Aid is provided directly to a government organisation written notification of the receipt of this asset to the Aid Division is required to be provided by the Ministry, Office or Island Administration concerned.

4.2.2 A copy of the relevant clauses relating to the purchase, or the contract itself, is required to be kept on file by the Ministry, Office or Island Administration. This will establish ownership and any specific requirements of the Donor Agency (for example reporting or audit requirements).

4.2.3 The total value of the asset is required to be recorded in the Asset Register. (Refer to *Part B Section 2 - Asset Management*). This will include all of the associated costs of transportation, preparation and other associated capital costs in bringing the asset to the site in a suitable condition, adequate for the purposes required (for example the cost of transporting a vehicle to an Outer Island or ensuring a barge is seaworthy).

4.2.4 Journal entries in Ministry accounts where the donor gives an asset to the Ministry:

<b>Transaction</b>	<b>Dr</b>	<b>Cr</b>
Donor gives the Ministry an asset	Asset	Aid Revenue

4.2.5 Journal entries in Ministry accounts where the donor reimburses the Ministry cash for the Ministry having made the payment:

<b>Transaction</b>	<b>Dr</b>	<b>Cr</b>
Ministry pays supplier	Asset	Bank
Ministry recognises the donor owes it cash	Debtor (Donor)	Aid Revenue
The donor reimburses the Ministry	Bank	Debtor (Donor)

4.2.6 Aid revenue must be separately recorded from appropriated or trade revenue in the Ministry's accounting ledger.

4.2.7 Aid revenue must be separately reported from appropriated or trade revenue in Ministry reports such as the Monthly Variance report or the Annual Accounts.

4.2.8 There is no elimination required on consolidation and the consolidated Crown position shows Aid Revenue and an increase in Assets.

### 4.3 Depreciation

4.3.1 Depreciation of aid funded assets is required as:

4.3.1.1 The true cost of achieving the outputs of a Ministry includes depreciation of all assets used by that Ministry, irrespective of how the assets were funded; and

4.3.1.2 Aid funded assets may require replacement and the Cook Islands Government needs to be able to do so without undue fiscal impact.

4.3.2 Aid funded assets will be subject to depreciation the same as all locally funded assets, as per *Part B Section 4 - Depreciation*.



- 4.3.3 Where aid funding is budgeted for in the Appropriation Bill, the Ministry will have a project plan in place. If the project plan includes the purchase of assets then depreciation for these aid funded assets must be budgeted for by the Ministry in the same Appropriation Bill.  
In this situation if depreciation is not budgeted for, due to poor planning, the Ministry would be required to meet the shortfall from savings in other areas of their appropriation.
- 4.3.4 Where the aid funded asset purchase was not planned at the time of the Appropriation Bill and is “unexpected”, depreciation will still be required to be costed.
- 4.3.5 “Unexpected” aid funded asset depreciation would be shown on the Monthly Variance Report as an overspending explanation. Where this depreciation causes the Ministry to overspend, the Ministry would be reported to PERC in the normal way, however PERC would recognize the reason and determine it is not a breach of the MFEM Legislation. This would only apply in the year the aid funded asset was acquired.
- 4.3.6 The Ministry would be required to provide substantiation to PERC that the aid funding was “unexpected”.
- 4.3.7 In all situations the depreciation for the aid funded asset should be included in subsequent budgets.
- 4.4 Where no value is known, a certified professional (eg mechanic) should be hired to value those capital items the ministry does not have knowledge of the current value of or are funded by aid.

## 6 - Bank Reconciliation

### 1.0 Purpose

- 1.1. To ensure the accuracy of the general ledger bank balance
- 1.2. To confirm the accuracy of bank transactions.

### 2.0 Mandatory Requirements

- 2.1. The general ledger bank account reconciles with the bank statement after identifying and explaining all variations.
- 2.2. All reconciling items are cleared in the following month.
- 2.3. All bank accounts are reconciled monthly.

### 3.0 Process

- 3.1. Bank reconciliations shall be performed on a monthly basis, signed and dated by the Preparer and Reviewer as shown on attachment 1. This should be filed in an easily accessible folder within the Finance Division.
- 3.2. A copy of all the monthly bank reconciliations must be included in the monthly report sent to the Crown Accounting Team (refer Part D, Section 4)
- 3.3. Complete all Bank Reconciliations using the Accounting Software package utilized by the Ministry/Island Administration/Support Offices (eg MYOB, Quickbooks).
- 3.4. See attachment 1 for an example of a Bank Reconciliation from the Accounting Software package utilized.
- 3.5. Any differences must be explained and separately identified. Any adjustments should be cleared within one month of arising.

Attachment 1

Example of Bank Reconciliation

Reconcile the cash book to the bank statement

Balance as per <b>cash book</b> as at ###/###/###	XXX	
Add unpresented cheques	XXX	
Less deposits not credited to bank account	XXX	
Add bank charges not processed	XXX	
Balance		XXX
Balance as per <b>bank statement</b> as at ###/###/###		<u>XXX</u>
Difference*		XXX

Reconcile the cash book to the general ledger

Balance as per cash book as at ###/###/###	XXX	
Balance as per general ledger as at ###/###/###		<u>XXX</u>
Difference*		XXX

\* All differences must be investigated and corrected.

Prepared by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_ / \_\_\_ / \_\_\_

Reviewed by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_ / \_\_\_ / \_\_\_

## 7 - VAT Returns

### 1.0 Purpose

- 1.1 Provide background to the effect of VAT on appropriations.
- 1.2 Correctly account for VAT in the monthly VAT returns.
- 1.3 Recording the transactions relating to the VAT return in the appropriate ledger accounts.

### 2.0 Background

- 2.1 The approved appropriation listed in the Appropriation Bill each year does not include VAT.
- 2.2 To ensure a cash neutral situation, an amount of 12.5% is added to Operating bulk funding and Capital appropriations when it is paid to Ministries. This amount is not added to Personnel or Depreciation appropriations.
- 2.3 The amount added to the capital and operating appropriations needs to be returned as “VAT collected” as per the VAT return.
- 2.4 Personnel appropriations and expenditure are not included in the VAT return.
- 2.5 VAT Paid/Receivable is an asset. VAT Collected/Payable is a liability. The asset account can be shown as a contra account to the liability account.

### 3.0 Mandatory Requirements

- 3.1 All Ministries, Island Administrations and Crown funded agencies are bound by the requirements of the Value Added Tax Act (1997) and published guidelines.
- 3.2 VAT returns are completed correctly and filed to the Revenue Management Division (RMD) at MFEM 10 working days after the close of the applicable month.
- 3.3 When submitting VAT Returns it must be accompanied by a Balance Sheet and also the VAT (“GST”) detailed reports from your accounting system.
- 3.4 Any payments payable must accompany the VAT return that is filed on the date due.
- 3.5 VAT payments and refunds are correctly accounted for and reconciled to the Balance Sheet.

## 4.0 Process

### 4.1 Completing VAT Returns - End of Month Overview

- 4.1.1 Print your VAT (“GST”) reports (if your accounting system performs this function).
- 4.1.2 Verify numbers and check that you have accounted for VAT correctly, i.e., VAT received on bulk funding, VAT on trading revenue is recognised and VAT is claimed only on purchases from VAT registered entities or persons.
- 4.1.3 Ensure that the balances in your VAT accounts on the Balance Sheet reconcile to those on your VAT report.
- 4.1.4 Reconcile any differences between the VAT report and the account balances shown on the Balance Sheet.
- 4.1.5 Complete your VAT return using the data from the Balance Sheet totals (see below).
- 4.1.6 Record your VAT return payment/refund in the balance sheet accounts (see below).

### 4.2 Completing your VAT return from the Balance Sheet

- 4.2.1 The Crown Accounting team has an excel template which automatically provides the return with a little data entry. If you wish to have this, contact the team and they will send a copy. If you are happy with your current methods, then proceed as normal.
- 4.2.2 VAT Collected / VAT Payable
  - 4.2.2.1 Take the balance, as at the end of the month, of the "VAT Collected" or “VAT Payable” account from the Balance Sheet and enter the value in Box 8 of the VAT return.
  - 4.2.2.2 Multiply this figure by 9 and enter in Box 5 of the VAT return.
  - 4.2.2.3 Enter any adjustments that may have resulted from discrepancies from past returns into Box 9.
  - 4.2.2.4 Add Box 8 & 9 to equal the "Total VAT collected" in Box 10.
- 4.2.3 VAT Paid / VAT Receivable
  - 4.2.3.1 Take the balance, as at the end of the month, of the "VAT Paid" or “VAT Receivable” account from the Balance Sheet and enter it in Box 12 of the VAT return. (Note: Exclude any VAT paid to customs from this figure).

- 4.2.3.2 Multiply this figure by 9 and enter in Box 11 of the VAT return.
- 4.2.3.3 If any VAT payments have been made to Customs, enter these into Box 13. (Note: These payments are excluded from your figures in Box 12).
- 4.2.3.4 Add Box 12, 13 & 14 to equal the "Total VAT paid" in Box 15
- 4.2.4 VAT to pay or refund due
  - 4.2.4.1 Enter the difference between Box 10 and Box 15 in Box 16.
  - 4.2.4.2 If you have VAT to pay, (ie Box 10 is greater than Box 15) you will need to write a cheque and send this with your VAT return.
  - 4.2.4.3 If you have a VAT refund, (ie Box 15 is greater than Box 10) you will receive a refund after you file your VAT return.
- 4.3 Recording VAT Payments and Refunds to the Balance Sheet accounts
  - 4.3.1 If you are paying VAT, record the Cheque as per below:
    - 4.3.1.1 Record the amount from Box 8 to your VAT Collected or VAT Payable account. (This will be a debit)
    - 4.3.1.2 Record the amount from Box 12 to your VAT Paid or VAT Receivable account as a negative. (This will be a credit)
    - 4.3.1.3 Record the amount from Box 13 to your Customs VAT Paid/Receivable account as a negative. (This will be a credit)
  - 4.3.2 If you are receiving a VAT refund record the Deposit as per below:
    - 4.3.2.1 Record the amount from Box 12 to your VAT Paid or VAT Receivable account. (This will be a credit)
    - 4.3.2.2 Record the amount from Box 13 to your Customs VAT Paid/Receivable account. (This will be a credit)
    - 4.3.2.3 Record the amount from Box 8 to your VAT Collected or VAT Payable account as a negative. (This will be a debit)
  - 4.3.3 The above transactions should be recorded on the first day of the following month to avoid confusion in the following month's return.

## 5.0 VAT Return Example:

### 5.1 Take the Balance Sheet Account Balances

A) VAT Paid / VAT Receivable Account

$$\$80 \text{ [Box 12]} \times 9 = \$720 \text{ [Box 11]}$$

B) VAT Collected / VAT Payable Account

$$\$100 \text{ [Box 8]} \times 9 = \$900 \text{ [Box 7]}$$

VAT Balance

$$\$20 \text{ [Box 16]}$$

### 5.2 Code the VAT payment/refund

C) VAT Collected / VAT Payable 100

D) VAT Paid / VAT Receivable -80

\$20

\$20 is the amount paid to Revenue Management and will be a decrease in your bank balance.

Attachment 1 VAT Return Extract

<b>Value added tax on you sales and income</b>	Total Sales and income for the period (including VAT)	5	→	
	Zero rated supplies included in box 5	6	→	
	Subtract Box 6 from Box 5	7		
	Divide Box 7 by nine	8		
	Add adjustments to VAT collected	9	→	
	Add boxes 8 and 9. This is your <b>Total VAT collected</b> on sales and income.	10		

<b>Value added tax on you purchases and expenses</b>	Total purchases and expenses (including VAT), excluding imports, wholly for the purpose of making taxable supplies for which invoicing requirements have been met	11	→	
	Divide Box 11 by nine	12		
	VAT paid to customs	13	→	
	Add adjustments to VAT paid	14	→	

Add boxes 12, 13 and 14. This is your **total VAT paid on purchases and expenses**

15	
16	→

**Print the difference between Box 10 and Box 15 here**  
If Box 15 is larger than Box 10, the difference is your VAT refund.  
If Box 10 is larger than Box 15 the difference is VAT to pay.



## 8 – Bulk Funded POBOCs

### 1.0 Purpose

- 1.1 This procedure is only used for POBOC funding that is made in bulk to the Ministry for them to administer.
- 1.2 Explain how to account for POBOC payments that are made in bulk.

### 2.0 Mandatory Requirements

- 2.1 Separately account for each POBOC.
- 2.2 Reconcile each account at year end.
- 2.3 POBOCs must not ever enter into the P&L of a ministry (except when a ministry has overspent – detailed below). All POBOC accounting remains within the Balance Sheet.
- 2.4 Unused funding must be paid back to the Crown as soon as it is apparent or within 20 days of the end of the financial year.

### 3.0 Process

- 3.1 All Crown agencies that require POBOC bulk funding are expected to provide MFEM with a Monthly forecast of the Annual Appropriation. (refer to Part D, Section 7 on Cashflow Management).

- 3.2 When funding is received, the following entry should occur:

*Dr Bank*

*Cr POBOC Liability*

*(To record the receipt of POBOC funding from the Crown)*

- 3.3 A separate ledger account must be used for each different POBOC that a ministry looks after. This makes it easier for the Ministry or the Crown to ascertain the unused or overspent amounts for each individual POBOC.

- 3.3.1 For example, a ministry might look after 3 POBOCs (A, B, and C). There would be a separate liability account for each one rather than one general POBOC liability where all three were combined. This will enable the ministry and MFEM to see quickly and easily whether each one is overspent or not.

- 3.4 All POBOC spending should either be coded to the same liability account relating to that POBOC or to an adjacent account and the two accounts subtotaled within the BS.

3.5 No payment should be made unless there are funds available in that liability account. All approvals for these payments should have attached a General Ledger print out showing that funds are available.

3.5.1 It is the Ministry's responsibility to manage the cashflow around the POBOC so that funds are available when needed (refer to Part D, Section 7).

3.6 Balances of these accounts must **not** be in Debit. This indicates an overspend against the budget and must be investigated immediately.

3.7 At the end of the financial year any credit balances (under spending) must be paid back to the crown within 20 days of year-end.

3.8 If the balance is in debit (ie overspent) and the full appropriation has been paid to the ministry, then details of the over spending must be explained in writing to the Financial Secretary for review by Cabinet. The overspent balance must be transferred to the operating expenditure in the P&L of the agency:

Dr POBOC Overspending (P&L)

Cr POBOC Liability

3.9 POBOC variance reporting is to be included in the Monthly Variance Report from the responsible Ministry. (*See Part D Section 4 – Financial Reporting.*)

3.10 Ministries are just as accountable for ensuring POBOC monies are expended for the purpose intended as they are for expenditure of normal ministry funds. The same rigorous level of supporting documentation, justification and approval applies to all expenditure appropriated to a Ministry, be it operating expenditure or POBOC.

## 9 – Contingent Liabilities

### 1.0 Purpose

- 1.1 To ensure that all Contingent Liabilities are disclosed in the 'Statement of Fiscal Risks' included within the Annual Budget.
- 1.2 To ensure that all Contingent Liabilities are included within the Annual Financial Statements.

### 2.0 Background

- 2.1 Contingent liabilities reflect existing commitments which are dependent on future events that may or may not happen. Contingent liabilities may or may not evolve into an actual liability depending on what happens with the individual situation.
- 2.2 Under accrual accounting, contingent liabilities require disclosure
- 2.3 Accurate reporting of Contingent Liabilities will assist the government to manage financial risk, as they will be aware of the possibility of certain events and the associated financial consequences.

### 3.0 Mandatory Requirements

- 3.1 Disclosure of all Contingent Liabilities by Ministries, Offices and Island Administrations for inclusion in the Annual Budget and Financial Statements.

### 4.0 Process

- 4.1 A record of the Contingent Liabilities of the Government to be included in the Annual Budget and Audited Financial Statements. This record to be termed 'Statement of Financial Risks'.
- 4.2 This Statement of Financial Risks to include a brief indication of the nature of each Contingent Liability and the potential beneficiaries. This will enable some assessment of the potential financial significance. In addition an estimate of the expected cost and the basis of the estimate to be included in this Statement.
- 4.3 Each Ministry, Office or Island Administration to provide a list of perceived Contingent Liabilities to MFEM for inclusion within the Annual Budget.
- 4.4 Each Ministry, Office or Island Administration to provide a list of perceived Contingent Liabilities to MFEM for inclusion within the Annual Financial Statements, such Contingent Liabilities to be disclosed with monthly statements.

## 10 – Disposal of Fixed Assets

### 1.0 Purpose

- 1.1 To ensure the correct accounting process is followed when assets are sold or otherwise disposed of.
- 1.2 To ensure any cash proceeds are repaid to the Crown correctly.

### 2.0 Definitions

- 2.1 “Gain on sale” – where sale proceeds are in excess of the net book value at the time of sale
- 2.2 “Loss on sale” - where sale proceeds are less than the net book value at the time of sale. This means there is a loss of public resources, and this procedure applies
- 2.3 “Net book value” – the cost of the asset less accumulated depreciation
- 2.4 “Write off of an asset” – Removing an asset from the asset register and the net book value of the asset from the balance sheet.
- 2.5 “Trade-in” (as used in Appropriation Bill) - estimated sale value expected to be obtained when replaced asset (vehicle) traded or sold.

### 3.0 Mandatory Requirements

- 3.1 Compliance with *Part D Section 2 – Purchase & Sale of Goods and Services*.
- 3.2 Section 42 of the MFEM Act states: “No losses of public resources shall be written off without the authority of the Financial Secretary acting with the concurrence of the Minister of Finance”.
  - 3.2.1 Write-off of all assets, except motor vehicles and heavy machinery, with a net book value of \$1,000 and over requires the authorisation of the Financial Secretary acting with the concurrence of the Minister.

#### 3.2.1a This will occur upon the following circumstances

Event	Report required	
i) Lost/Stolen	A report stating how it was lost and what actions has the Government Agency done to try to recover it. Signed by the HOM.  Police Report	Made available and verified by Audit.
ii) Obsolete or no longer	A mechanics or	Made available and

useful	engineer's report.	verified by Audit.
--------	--------------------	--------------------

- 3.2.2 Write-off of all assets, except motor vehicles and heavy machinery, with a net book value between \$300 and \$1000 require the authorisation of the Financial Secretary only.
  - 3.2.3 Write-off of all assets, except motor vehicles and heavy machinery, with a net book value below \$300 require the authorisation of the Head of Ministry only.
  - 3.2.4 Write-off of motor vehicles and heavy machinery, irrespective of the net book value, requires the authorisation of the Financial Secretary.
  - 3.2.5 All write-offs should be formally documented and filed separately, and available for Audit.
- 3.3 Sale proceeds cannot be used to fund any further expenditure, except where it is shown as being the trade-in contribution to the purchase of an asset approved by parliament.
- 3.4 Sale proceeds (regardless of whether it results in a gain or loss) must be remitted to the Crown.
- 3.5 Sale proceeds in excess of the net book value at the time of sale must be treated as additional earnings under Section 38 of the MFEM Act, unless specifically identified in the Appropriation.
- 3.5.1 Application must be made to the Financial Secretary (with the concurrence of the Minister of Finance) in writing to utilise sale proceeds in excess of the net book value at the time of sale for operating expenditure.
  - 3.5.2 If the Financial Secretary does not agree to the utilisation of the gain on sale, then the funds shall be repaid to the Crown immediately.

#### 4.0 Process

- 4.1 As the sale of assets does not happen very often, in many cases it will be advisable to contact MFEM for advice and guidance.
- 4.2 Refer to *Part D Section 2 – Purchase & Sale of Goods and Services* to ensure that the correct selling process is followed.
- 4.3 If the sale price of the asset is less than the book value, then under section 42 of the MFEM Act written authority is required from the Financial Secretary acting with the concurrence of the Minister before the sale is concluded.
  - 4.3.1 This applies not only when the asset is sold but also when the asset is written off because it is lost, unusable or stolen.

- 4.3.2 Requests for the approval to write off any losses on disposal of assets must follow the requirements of paragraph 3.2.
- 4.3.3 All write-offs should be made as soon as the loss is known.
- 4.4 Record the sale/disposal of the asset as per *Part B Section 3 – Fixed Asset Accounting Transactions*.
- 4.5 Show the disposal in the Fixed Asset Register.
- 4.6 Remit the lesser of the book value at the time of sale or the total sale proceeds back to the Crown and debit the Capital Introduced section of Tax Payers Funds.
- 4.7 Any balance of cash received from the sale, after remitting to the crown as above, is a gain on the sale of the asset and is not additional cash available for spending.
- 4.8 Any gains on the sale of assets are treated as additional earnings under section 38 of the MFEM Act, if not specifically identified in the budget appropriation.
- 4.9 If the Ministry wishes to apply that revenue to the production of outputs they must request the Financial Secretary for approval, in concurrence with the Minister of Finance.
  - 4.9.1 The request must outline the reason for sale and also the reason for the need to apply the funds for the production of outputs.
  - 4.9.2 Gains on sale are to be treated separately to Trading Revenue and cannot be used to compensate for reduced Trading Revenue without the approval above.
- 4.10 The Ministry's performance against its appropriation must not include any gains and losses on the disposal of assets unless approval has been provided from the Financial Secretary (per above) to utilise the sales funds.
- 4.11 When the purchase price of a new asset (vehicle) includes an amount to be obtained by way of trade in, the following process is required:
  - 4.11.1 The funding for the new vehicle is limited to the net appropriation plus what is actually obtained by way of Trade in or sale.
  - 4.11.2 Any timing difference between the purchase of the new vehicle and the sale of the old vehicle can not be covered by crown funding.
  - 4.11.3 If the amount received by trade in or sale is greater than estimated in the appropriation, then any additional cash should be treated as described in 4.6 to 4.8 above.

## 11 – Transfer between Capital Budgets

### 1.0 Purpose

- 1.1 To ensure that any transfer/reallocation of capital budget is in line with Ministry outputs and Government policy.
- 1.2 To ensure that capital transfers / reallocations have the appropriate approval.
- 1.3 To ensure that capital reallocations are fully justified by Ministries, Island Administrations and Crown agencies.
- 1.4 This procedure only applies when all other external sources of funding are exhausted.

### 2.0 Mandatory Requirement

- 2.1 Parliamentary approval for all capital expenditure over \$3,000.
- 2.2 Capital appropriations can only be transferred between organisations using an appropriation through Parliament.
- 2.3 Written approval must be obtained from the Financial Secretary for transfers under \$5,000 between capital projects.
- 2.4 Written approval must be obtained from the Financial Secretary acting in concurrence with the Minister of Finance for transfers \$5,000 or over between capital projects.
- 2.5 Ministries, Island Administrations and Crown agencies must remain within the overall capital budget appropriation for that ministry for that financial year.

### 3.0 Process

- 3.1 All applications to transfer or reallocate capital funding between projects must be addressed to “Treasury Operations Manager”, MFEM.
- 3.2 Requests for transfer or reallocation must be justified with supporting documentation stating the reasons for the transfer or reallocation and its budgetary implications in the long term. The documentation submitted should outline full costings and details relating to the request to transfer or reallocate to the new capital project or item, along with a full explanation and costings as to why the existing capital funded project is no longer required.

The following should be taken into account when preparing the submission and all criteria in *Part B Section 1 Capital Expenditure* should apply:

- 3.2.1 Capital Item and code to be transferred from.
- 3.2.2 Reason and justification why funding for the existing project is no longer required

- 3.2.2.1 What is being forfeited, should the appropriation transfer or reallocation be approved?
- 3.2.2.2 Are there alternative sources of funding available from AID donor agencies or other means, to cover the forfeited capital project or item?
- 3.2.2.3 Are there alternative sources of funding available from AID donor agencies or other means, to cover the proposed capital project or item?
- 3.2.2.4 What are the implications on the delivery of outputs, should the transfer or reallocation take place?
- 3.2.2.5 If the capital project or item is no longer required, explain reasons.
- 3.2.2.6 For what reasons are the Ministry, Island Administration or Crown agency unable to wait until the next budget bids to request funding for the new capital project or item?
- 3.2.3 Description of new item.
- 3.2.4 Total value of transfer, including cost of asset and all associated capital costs.
- 3.2.5 Justification for the new asset. The criteria as set out in *Part B Section 1 - Capital Expenditure* will apply. The justification is to be included in the submission outlined in 3.2.
- 3.2.6 Implications of transfer on existing and future operating costs e.g. if Depreciation is increased due to the approval of the transfer or reallocation of the capital budget, your operating expenditure must be reduced to cater for this. If the depreciation is reduced, then your existing net appropriation will be reduced accordingly.
- 3.3 The Treasury Management Division will ensure all the necessary information is received from the Ministry, Island Administration or Crown agency, compiled and forwarded to the Financial Secretary for review.
- 3.4 The Financial Secretary will confirm or decline the request, where appropriate in concurrence with the Minister of Finance, in writing to the Ministry. The Head of Ministry, Island Administration or Crown agency is responsible for filing a copy of the advice and any other related documentation, and this is to be made available to the Audit Office upon request.
- 3.5 The Treasury Management Division of MFEM will advise the Ministry of the new capital code when the transfer or reallocation is approved.
- 3.6 The approved transfer or reallocation must be reflected in any subsequent amendment to the appropriation.



## 12 – Asset Transfers to Crown & CIGPC

### 1.0 Purpose

- 1.1 To ensure that all infrastructure and building assets are transferred to their correct owner or accounting entity.
- 1.2 To ensure the correct accounting entries are processed.

### 2.0 Mandatory Requirements

- 2.1 All infrastructure and building assets must be transferred to the owner of the asset at the end of the financial year in which they are completed.
- 2.2 All infrastructure and building assets that are to be completed and transferred in the current year must be identified and the Crown Accounting team at MFEM notified by 31<sup>st</sup> May of that financial year.
- 2.3 Where aid contributions are involved, speak to the Crown Accounting team at MFEM before capitalising aid contributions in the Ministry's accounts. Refer to *Part B Section 5 – Aid Funded Assets*.

### 3.0 Process

- 3.1 All projects (assets) that are owned by the Crown and CIGPC (and managed by CIIC) and fall into the following Categories must be transferred to the Crown. This should only be done at the end of the year the project is completed.

#### 3.1.1 Categories:

Infrastructure Assets
Roads & Roads Upgrades
Coastal Protection
Water
Airports
Harbours
Buildings & Building Upgrades

Note: the list above covers the major categories. There may be other assets identified that should be transferred to the Crown to which this procedure should apply. If there is any doubt about whether an asset should be transferred, contact the Crown Accounting team, MFEM for advice.

- 3.2 When an asset is to be transferred, the Finance Officer must fill in the Asset Transfer form in Attachment 1.

3.3 Journal entries for Government-funded assets being transferred to Crown:

3.3.1 Ministry entries:

Dr	Assets transferred (TPF)	XX	
Cr	Asset WIP		XX

3.3.2 Crown entries:

Dr	Fixed Assets	XX	
Cr	Assets transferred (TPF)		XX

3.4 Journal entries for Aid-funded assets being transferred to Crown:

3.4.1 Ministry entries:

Dr	Assets transferred (TPF)	XX	
Cr	Asset WIP		XX

3.4.2 Crown entries:

Dr	Fixed Assets	XX	
Cr	Aid Revenue		XX

3.5 Journal entries to transfer asset from Crown to CIIC:

3.5.1 Crown entries:

Dr	Investment in CIIC	XX	
Cr	Fixed Assets		XX

3.5.2 CIIC entries:

Dr	Fixed Assets	XX	
Cr	Capital Introduced (Equity)		XX

3.6 The asset must also be shown as a disposal in the Ministry's Fixed Asset Register.

3.6.1 Journals associated with this "disposal" will need to be done (please refer to Section B10 and B3 for instructions about the process and accounting entries).

- 3.7 The HOM and Finance Officer must sign the Asset Transfer form then send it to the Crown Accounting team at MFEM.
- 3.8 The Crown Accounting team at MFEM will make appropriate accounting entries in the Crown, sign the form and return a copy to the Ministry.
- 3.9 Infrastructure and building assets should not be depreciated in the Ministry's accounts.

Attachment 1 – Asset Transfer form

See the following page.

Attachment 1

**ASSET TRANSFER FORM**

Asset Description	*Journal Entries	Start Date	Completion Date	Amount (\$)
			<b>Total</b>	\$

\*Please tick this box if you have done the journal entries in the Procedure manual *Part B Section 12, subsection 3.3*

**Finance Officer:** \_\_\_\_\_ **Date:** \_\_\_\_\_ **HOM:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Crown Accounting:** \_\_\_\_\_ **Date:** \_\_\_\_\_

## 12A – Asset Transfers to Other Crown Entities

### 1.0 Purpose

- 1.1 To ensure that all assets transferred to other Crown agencies are authorised by the proper authority.
- 1.2 To ensure the correct accounting entries are processed.

### 2.0 Mandatory Requirements

- 2.1 Head of Crown agency to request the approval in writing of the Financial Secretary for ALL transfer of assets between Ministries, Offices and Island Administrations.
- 2.2 The Asset Transfer form (in Attachment 1) shall be filled out for Audit purposes. Supporting documents should be attached to the Asset Transfer Form.
- 2.3 The transferring HOM and the receiving HOM to agree to the asset transfer taking place and at the book values as per the asset register.
- 2.4 The transferring HOM and the receiving HOM should both have the same copy of form and supporting documents.

### 3.0 Process

- 3.1 When an asset is to be transferred, the Head of Ministry, Office or Island Administrations must seek the written approval of the Financial Secretary.
  - 3.1.1 A letter from the HOM who currently owns the asset needs to be written to the Financial Secretary who will then approve or deny the transfer.
  - 3.1.2 The request for approval will need to justify the reason for the transfer because a transfer of depreciation budget will also be required.
- 3.2 Once approved by the Financial Secretary, transferred letter will be sent to both HOMs. The Finance Officer of the “sending ministry” must fill in the Asset Transfer form in Attachment 1. This must be signed off by the HOM.
- 3.3 That Ministry must then process the following accounting entry in their ledger at the original value of the asset:

Dr	Assets transferred (TPF)	XX	
Dr	Accumulated depreciation	XX	
Cr	Fixed assets		XX

3.4 The asset must also be shown as a disposal in the Ministry's Fixed Asset Register.

3.5 The sending ministry must send the signed Asset Transfer form to the receiving ministry.

3.6 The Ministry receiving the asset will sign the form to accept the transfer after making the following accounting entry to record the book value of the asset:

Dr	Fixed assets	XX	
Cr	Assets transferred (TPF)		XX

3.7 A copy of the signed form must be kept in both offices for audit purposes.

3.8 The depreciation budget will be included in the next budget round for the agency receiving the asset.



## 13 – Outer Islands Capital & Major Infrastructure Expenditure

### 1.0 Purpose

- 1.1 To ensure that Island Administrations and MOIP follow the proper procedure for acquiring capital items appropriated in the Budget.
- 1.2 To ensure that appropriate research and analysis of capital expenditure is undertaken before commitments are made.
- 1.3 To ensure the correct purchasing procedures are followed.

### 2.0 Mandatory Requirements

- 2.1 Parliamentary approval of the outer islands capital and major infrastructural Projects.
- 2.2 Small Capital items less than \$5,000 purchased at the discretion of Island Administration and must follow the Capital Expenditure procedure *Part B Section 1 – Capital Expenditure*.
- 2.3 All machinery, outer islands motor vehicles and other infrastructure upgrades to follow the Infrastructure Committee process.
- 2.4 All Work in Progress (WIP) is to be recorded by the Agency managing the project (eg. MOIP) and then transferred to the Agency that will maintain and own the asset once complete
  - 2.4.1 Completion of Asset Transfer process required (refer to Part B, Section 12 and 12A).

### 3.0 Process

- 3.1 There are three categories of Outer Islands capital expenditure, each with different processes:
  - Category 1 – Small capital items costing less than \$5,000.
  - Category 2 – Outer islands machinery, equipment, motor vehicles and minor infrastructure upgrades costing less than \$50,000.
  - Category 3 – Major infrastructure projects costing \$50,000 or more.
- 3.2 Category 1 – Small Capital Items
  - 3.2.1 Each Island Administration is appropriated an amount for small capital items. For small Capital items costing under \$5,000 (eg computers, fax machines, grass cutters etc), these items are to assist in the operation of the outputs for the Administration as the Island Administration would have the discretion as to what items they need in accordance with its priorities.
  - 3.2.2 Requests for funds from the small capital items go directly to Funds Management, MFEM, and will be required to follow the process outlined in *Part B Section 1- Capital Expenditure* of the procedure manual.



### 3.3 Category 2 – Machinery, Equipment, Motor Vehicles and Minor Infrastructure Projects costing less than \$50,000

3.3.1 Any Island Administration that needs to purchase machinery, motor vehicles and minor infrastructure upgrades (costing less than \$50,000) will need to submit the request to the Ministry of Infrastructure and Planning (MOIP) to prepare the project brief for submission to IC for approval. The proposal should meet the requirements set out in Part B, Section 1 Capital Expenditure, including planning/budgeting issues and a simple cost-benefit analysis.

### 3.4 Major Infrastructure Projects \$50,000 or more

3.4.1 The IC procedure flowchart shown below (refer attachment 1)

3.4.2 The first step in the IC procedure is for MOIP to prepare a Project Brief on behalf of the Island Administrations. The Project Brief template is shown in Attachment 2 along with an example of how to prepare the brief. Reference should also be made to *Part B Section 1- Capital Expenditure* of the procedure manual for detailed attachments of what to consider when planning and applying for capital expenditure.

### 3.5 Funding of Projects

3.5.1 Funding of the projects must meet requirements as set out in Part D Section 2 of Procedures Manual.

3.5.2 Details of costs will appear in the monthly Solomons report for the Agency managing the project and must be reconciled and incorporated into their balance sheet through the WIP account.

Dr Work In Progress

Cr Capital Funding from Crown (Equity)

3.5.3 At the completion of the project, the process of transferring assets must be complied with (Part B, Section 12,12A)

Dr Assets Transferred (Equity)

Cr WIP

(Entries for the Agency managing the project to do once approval to transfer is received)

Dr Assets

Assets Transferred (Equity)

(Entries for the receiving Agency to do once the approval to transfer is received)

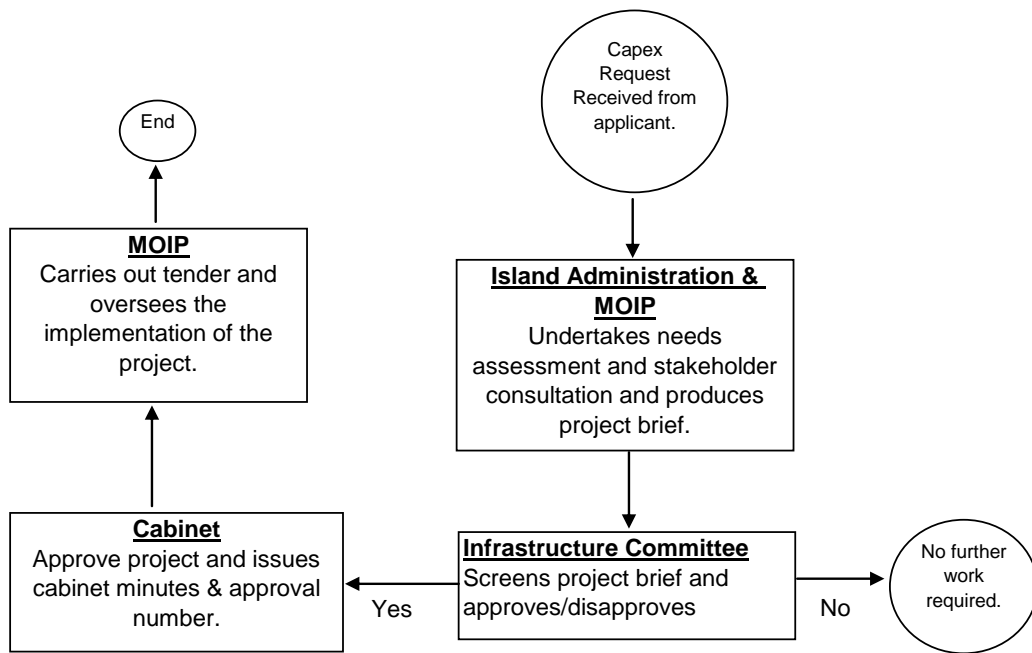
### 3.6 Changes to Cost of Project in Category 1 and Category 2

3.6.1 The formal process for changes to cost of project in Category 1 and Category 2.

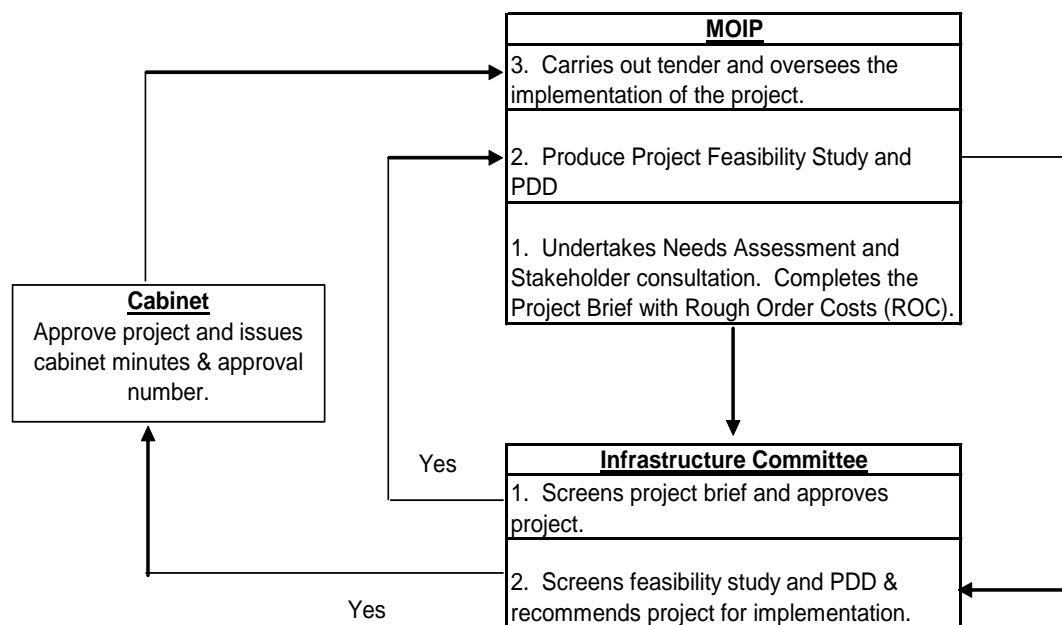
<b>Change to Total Cost</b>	<b>Documents Required</b>	<b>1<sup>st</sup> level of approval</b>	<b>2<sup>nd</sup> level of approval</b>
\$1,000.00 to \$5,000.00	Letter to MFEM	Island Secretary	Nil
> \$5,000.00	Resubmit proposal to IC detailing reasons for change in cost of project.	Infrastructure Committee	Cabinet

Attachment 1

Project Assessment for Category 2 Projects



Project Assessment for Category 3 Projects



Attachment 2

## **PROJECT BRIEF TEMPLATE**

### **PROJECT PROFILE**

Project Title: \_\_\_\_\_

Island(s) of Implementation: \_\_\_\_\_

Rough Order Cost Estimate: \_\_\_\_\_

Project Summary:

*The project summary should include background to set the scene for the project, outline the current situation and the existing problems that the project is intended to alleviate. The summary should then outline the proposed solution including the size, scope, and an estimate of time to undertake and complete the works. Identify the beneficiaries and expected benefits as a result of the completion of the project.*

### **SUPPORTING ATTACHMENTS**

Attach copies of any quotes, drawing, photographs, previous reports and any other relevant information etc, if any, that supports the proposal.

**EXAMPLE: (This is not a real project, it is for example purposes only)**

### **PROJECT PROFILE**

**Project Title:** Manuae Harbour Development

**Island(s) of Implementation:** Manuae

**Rough Order Cost Estimate:** \$200,000

**Project Summary:**

The people of Manuae's link to the sea is vital for subsistence fishing and for the importation of goods via inter-island cargo ships. Their reliance is critical because there is no airport servicing the island. Current access to the sea is via a narrow and shallow channel through the reef leading straight up the beach. The channel is often rough and difficult to manoeuvre in. There is no sheltered area in which to unload cargo/catches. There are safety issues for fishermen and people unloading cargo using the existing facilities. On rough days cargo is often damaged in the unloading process.

It is proposed to increase the channel size and provide a sheltered basin protected by small breakwaters. The basin should be large enough to turn small outrigger fishing canoes and the cargo lighters. Based on similar harbour developments in other islands (eg Takutea) the upgrade cost will be roughly \$200,000 and take 2 months for a private contractor to complete.

The expected benefits are a safer sea access for those people using them, increased number of fishable days, a decrease in cargo damaged when unloading and an increase in days cargo can be unloaded. The main beneficiaries will be the fishermen who regularly use the harbour, but also the community as a whole from improved access to undamaged cargo supplies.

**SUPPORTING ATTACHMENTS** (these are examples only, each project will differ and there may be other supporting attachments that should be provided in other cases)

1. Quote/s from potential suppliers
2. Draft plans of the development
3. Photos of current situation
4. Photos of other islands similar developments
5. Previous reports/feasibility studies if any.

## 14 - Unallocated Capital Funding

### 1.0 Purpose

- 1.1 To guide the distribution of unallocated capital funds, for the procurement of standard motor vehicles, boats and office equipments in a robust, transparent and equitable manner.
- 1.2 To encourage the consideration of alternative procurement approaches to include, bulk purchasing and standardisation of capital items such as vehicles and office equipments.

### 2.0 Mandatory Requirements

#### 2.1 Capital Funding Committee (CFC)

- 2.1.1 MFEM will provide Secretariat assistance to the Capital Funding Committee and will assess capital expenditure proposals for subsequent consideration by the committee.

#### 2.2 The CFC will:

- 2.2.1 Be the focal point for consultation on government capital funding matters costing \$50,000 or less.
- 2.2.2 Be made up of one representative from MFEM, CIIC and Private Sector.
- 2.2.3 Ensure that capital requests are consistent with *Part B, Section 1 – Capital Expenditure* prior to making capital funding recommendations to Cabinet.
- 2.2.4 Meet on a quarterly basis (March, June, September, December), or as required depending on the number and circumstances of requests to review and make funding recommendations on. (Also refer to „Urgent Requests“ – 3.2)

#### 2.3 The committee is responsible for:

- 2.3.1 Reviewing and recommending the purchase and replacement of specific capital items requested by Ministries.
- 2.3.2 Considering suggestions to improve capital management in government.
- 2.3.3 Promoting the standardization of vehicles/equipments purchased for government purposes whenever it is cost-effective while maintaining operational effectiveness.
- 2.3.4 Making recommendations to Cabinet on capital expenditure policies and specific capital expenditure proposals for their consideration and endorsement.

- 2.3.5 Reporting to Cabinet on the progress departments are making in using capital appropriations as well as other policy issues relating to capital funding.
- 2.3.6 Developing and negotiating where appropriate, bulk purchasing initiatives among government agencies where two or more capital items exceeding \$30,000 are required at any one time or where it considers it appropriate to do so.

#### 2.4 Capital Allocations

- 2.4.1 Where capital funds have not been allocated by Parliament for specific capital items, the authority to make funding recommendations to Cabinet for items over \$3,000 but less than \$50,000 will rest with the Capital Funding Committee (CFC).
- 2.4.2 Capital Funding Proposals must meet the criteria as established by Cabinet:
  - I. The Capital Funding request must meet the priorities of the Budget Policy Statement
  - II. The items requested must be necessary to deliver the outputs of the Government entity
  - III. The Capital Funding Request was included in the Government Entity's Budget Submissions to the Budget Committee in that financial year.
  - IV. If in excess of \$20, 000, the items requested must comply with *Part B, Section 1; 3.1.2* of the Cook Islands Government Financial Policies and Procedures which requires a cost/benefit analysis to justify the request.
- 2.4.3 Items valued less than \$3,000 which are consistent with the *Part B, Section 1- Capital Expenditure* will be reviewed and processed by the funds management division of MFEM. Where MFEM does not consider the proposal suitable for funding, it will refer the request to the CFC.
- 2.4.4 Project based capital requested and administered by central agencies and the Outer Islands shall follow the Project Coordinating Committee process (Refer *Part B, Section 13 - Outer Islands and Project Based Capital Expenditure*).
- 2.4.5 MFEM will review capital requests lodged during the budget process by each agency, according to the priorities in the Budget Policy Statement, and in line with Part B, Section 1– Capital Expenditure. This will result in the proposals being ranked in a whole-of-government context (e.g the first three proposals ranked by one entity may be deemed to have a higher priority than the proposal ranked first by another entity) and provided to the CFC.

- 2.4.6 Special Circumstances – Only in special circumstances will consideration be given to capital requests that have not been included in the Budget bidding process. These special circumstances include:
- There is an urgent need for the capital request due to unforeseen events not obvious during the consistent budget process and the CFC is satisfied that this is the case. The lack of forward planning by Ministries is not an acceptable reason for „urgency“ of need for capital.
- 2.4.7 Capital requests, which are not consistent with *Part B, Section 1 – Capital Expenditure*, may be returned to Ministries for reworking and resubmission. Resubmissions must be received by MFEM by the last day of the month prior to the next immediate CFC meeting (February, May, August, November) to allow time for further review if necessary and submission to the CFC.
- 2.4.8 The funding of capital items shall be determined on a needs basis according to priorities as ratified by the CFC, within the capital appropriation parameters approved by Parliament in a particular year.
- 2.4.9 Only in exceptional circumstances will CFC consider approving additional funds to top up Capital requests. This additional top up cannot exceed the Ministry or Crown Agency’s submitted capital submission. For example a Ministry may have initially requested in their submission a vehicle for \$20,000, at the time of review by CFC the price for vehicle increased to \$22,000. Provided that the additional \$2,000 does not exceed the Ministry’s total Capital request during the budget process CFC may approve additional cost.
- 2.4.10 CFC approval for Capital funding is specific to capital request applications submitted to MFEM as part of the Ministries/Crown Agencies/Ministerial Support Offices Capital Request submission during the budget process. If for justifiable reasons a Ministry decides to go outside of what was requested, then approval must be sought from CFC. Failure to obtain this may affect future capital requests.
- 2.4.11 Capital requests provided to MFEM outside the formal budgetary process will be considered as a separate request, under the „capital contingency funds“ (Refer *Part B, Section 16 – Capital Contingency Funds*).
- 2.5 Cooperative Purchasing
- 2.5.1 Government Ministries/Crown Agencies/Ministerial Support Offices are to implement cooperative purchasing arrangements wherever practical in order to save time and take advantage of competitive prices consistent with quality and service



requirements of government. This includes the exchange of price information, vendor lists, and standard specifications.

- 2.5.2 After the Budget has passed for that particular year, MFEM will identify and request Ministries/Crown Agencies/Ministerial Support Offices which have common capital requests under \$30,000.00 in a particular year to work together and explore avenues of achieving maximum value for their purchases through bulk volume discounts, lower contract prices, and enhanced service and maintenance arrangements with potential suppliers. However, if the cost of similar items are over and above the \$30,000.00 threshold these common capital items will need to carry out the „Public Tendering“ process. (Refer Part D – Section 3 – Public Tendering).
- 2.5.3 Those Ministries/Crown Agencies/Ministerial Support Offices that have been suggested to collaborate and make cooperative purchasing arrangements for capital requests under \$30,000.00, will be required to provide documents relating to the efforts they have made to collaborate and pursue opportunities for obtaining competitively priced products, service and maintenance arrangements from at least 2 or 3 service providers. However, if the cost of similar items are over and above the \$30,000.00 threshold these common capital items will need to carry out the „Public Tendering“ process. (Refer Part D – Section 3 – Public Tendering). Where funds are generated from the sale of capital items deemed in capital submissions to be replaced this should be returned to MFEM.
- 2.5.4 Any excess capital funding allocated for a Ministry/Crown Agencies/Ministerial Support Offices must be returned back to MFEM.

### 3.0 Process

- 3.1.1 Within the first month after Parliament has approved the budget, MFEM will pass on to the CFC Secretariat capital requests which were received during the budget process. The CFC Secretariat will review and ensure all requests are in line with *Part B, Section 1 – Capital Expenditure*. Comments regarding the quality and detail of each submission will be provided to the CFC together with the list of capital requests.
- 3.1.2 The capital list will allow the committee to identify ways of negotiating for the cooperative purchasing arrangements of similar capital requirements with suppliers wherever practical and arrange for further discussions with relevant Ministries/Crown Agencies/Ministerial Support Offices.
- 3.1.3 Requests that are inconsistent with Capital Expenditure requirements will be returned to requesting Ministries/Crown Agencies/Ministerial Support Offices for reworking if appropriate.

- 3.1.4 Once the CFC has reviewed and made recommendation on capital items to be funded, a report detailing the items recommended for funding will be provided to Cabinet for their consideration and endorsement.
- 3.1.5 Upon receiving Cabinet approval to fund capital items, the CFC will publish in the local newspapers a list and description/quantity of common capital items which collectively exceeds \$30,000 inviting suppliers to submit tenders for specific items in a particular year. Thereafter, the Secretariat to the CFC (MFEM) will coordinate all activities relating to public tendering in line with *Part D, Section 3 – Public Tendering*.
- 3.1.6 Once the requirements of *Part D, Section 2 – Purchase & Sale of Goods & Services* and *Part D, Section 3 – Public Tendering* have been met by Ministries/CFC Secretariat, the Funds Management Division of MFEM will process payments to successful tenderers. This will be done upon receipt of invoices for capital items. Copies of payments/invoice details will be forwarded to the relevant Ministries.

### 3.2 Urgent CFC Requests

- 3.2.1 Urgent CFC applications or requests will only be considered by the Committee due to unforeseen events not obvious during the budget process. For e.g Fire causing damage to a particular Ministry/Crown Agency building/equipment/machinery, etc or in extreme cases, Natural Disasters such as a Cyclone, causing damage to existing capital items belonging to a particular Ministry/Crown Agency.
- 3.2.2 If one of the above events had taken place then CFC will need to meet as soon as practicable to consider these urgent CFC requests, preferably within 3 - 5 working days of receiving notification from that particular Ministry/Crown Agency.

#### 3.2.2.1 That Ministry/Crown Agency, shall submit to the CFC:

- a) A list of all those damaged/destroyed items including values of these items, if information is readily available.
- b) A copy of a list of assets held on record by MFEM i.e Fixed Asset Register.
- c) A list of „Basic“ items which will be considered for „immediate“ purchase. Note: This is dependent on each Ministries core responsibilities and whether or not it is a replacement item e.g Computer Desktops, Desks, Chairs, etc (Refer to table below for full listing of „Basic“ items).
- d) Depending on the nature of the capital item, an equivalent of at least 2 quotations from relevant suppliers. It is preferable that the Ministry/Crown Agency explore the market and look for the cheapest or most justifiable price of a particular capital item. Note: CFC will not consider „extravagant“ purchases for

capital items that the CFC deem not suitable to meet the Outputs or Core Responsibilities of that Ministry/Crown Agency.

3.2.2.2 After receiving the above documents the CFC will:

- a) Meet as soon as practicable preferably within 3 - 5 working days of receiving notification from that particular Ministry/Crown Agency.
- b) A quorum of 2 members on the Committee shall be physically present at this meeting.
- c) Advise the CFC Secretariat if there are missing documents or follow up requests. These will need to be submitted by the Ministry/Crown Agency to the CFC Secretariat within 1 - 2 working days.
- d) Upon receiving follow up documentation from that Ministry/Crown agency, a final decision will be made on the „Urgent Capital Requests.“ Note: If there were only 2 members present during the time the meeting took place, all discussions held in that meeting should be relayed to the third member of the CFC and a final decision will not be made until the third member has provided his/her recommendations.
- e) Once all members of CFC have reviewed and made recommendations on capital items to be funded, a report detailing the items recommended for funding will be provided to Cabinet for their consideration and endorsement.
- f) Upon receiving Cabinet approval to fund capital items, the CFC Secretariat will pass relevant documentation to the Funds Management Division of MFEM to process payments to successful suppliers.

Attachment 1 – CFC Template – General

Attachment 2 – CFC Template - Vehicle

Attachment 3 – CFC Checklist

See the following pages

Attachment 1:

**General Template for Capital Requests:**

<b>Capital Request #:</b> <i>(Office use only)</i>		<b>Capital Requested for Funding:</b>		<b>Date:</b>
<b>Contact from Requesting Government Entity:</b>		<b>Ministry or Government Entity making Capital Funding Request:</b>		
<b>Position:</b>		<b>Phone:</b>	<b>Fax:</b>	<b>Email:</b>
<b>Current Staff Numbers</b>				
<b>Replacement or New:</b>		<b>Estimated Cost Excluding VAT:</b>		
<b>CAPEX Details:</b> <i>(Attach extra pages should more space be required here)</i>				
<b>Justification for Capital Funding:</b> <i>(Attach extra pages should more space be required here)</i>				
<b>Which Output will this request be contributing to and how:</b>				
<b>ASSESSMENT FOR CAPEX APPLICATIONS - CHECKLIST</b> <i>(office use only)</i>				
<ol style="list-style-type: none"> <li>1. Applicant completed all details to the satisfaction of the committee</li> <li>2. Application adheres to the Government Financial Policies and Procedures Manual</li> <li>3. Application related to an output and is reasonably justifiable</li> </ol>				
<b>Checked and reviewed by CFC:</b>	<b>Recommended:</b> <i>(Chairman for CFC)</i>	<b>Endorsed:</b> <i>(CFC)</i>	<b>Approved:</b> <i>(Cabinet)*</i>	<b>Processed for payment</b> <i>(Treasury)</i>
		<ol style="list-style-type: none"> <li>1. Chairman</li> <li>2. CFC member</li> <li>3. CFC member</li> </ol>		

Attachment 2:  
**Template for Vehicle Requests:**

<b>Capital Request #:</b> <i>(Office use only)</i>		<b>Capital Requested for Funding:</b>		<b>Date:</b>
<b>Contact from Requesting Government Entity:</b>		<b>Ministry or Government Entity making Capital Funding Request:</b>		
<b>Position</b>		<b>Phone:</b>	<b>Fax:</b>	
		<b>Email:</b>		
<b>Current Staff Numbers:</b>		<b>List No. of Vehicles (Make/Model/Year/Registration No.) or Attach Current Fixed Asset Register</b>		
<b>Replacement or New Vehicle:</b>		<b>Estimated Cost Excluding VAT:</b>		
<b>CAPEX Details:</b> <i>(Attach extra pages should more space be required here)</i>				
<b>Justification for Capital Funding:</b> <i>(Attach extra pages should more space be required here)</i>				
<b>Which Output will this request be contributing to and how:</b>				
<b>ASSESSMENT FOR CAPEX APPLICATIONS - CHECKLIST</b> <i>(office use only)</i>				
<ul style="list-style-type: none"> <li>4. Applicant completed all details to the satisfaction of the committee</li> <li>5. Application adheres to the Government Financial Policies and Procedures Manual</li> <li>6. Application related to an output and is reasonably justifiable</li> </ul>				
<b>Checked and reviewed by CFC:</b>	<b>Recommended:</b> <i>(Chairman for CFC)</i>	<b>Endorsed:</b> <i>(CFC)</i>	<b>Approved:</b> <i>(Cabinet)*</i>	<b>Processed for payment</b> <i>(Treasury)</i>
		1. Chairman		
		2. CFC member		
		3. CFC member		

Attachment 3:

### CFC CHECKLIST

Utilise this Checklist to assist you to apply this procedure. If at any point you answer NO, stop the CFC process, take steps to remedy the situation and when the answer becomes YES, continue.

	Yes	No
1. Is the costing of each capital item requested greater than \$3,000 and less than \$50,000?	<input type="checkbox"/>	<input type="checkbox"/>
2. Have you indicated whether each capital item you are requesting for is “new” or a “replacement?”	<input type="checkbox"/>	<input type="checkbox"/>
3. Is your estimated cost of each capital item requested exclusive of VAT?	<input type="checkbox"/>	<input type="checkbox"/>
4. Have you provided full justification to CFC for Capital Funding for each capital item?	<input type="checkbox"/>	<input type="checkbox"/>
5. Have you provided the above information in the CFC template for each Capital item requested? (Note: Use “Vehicle Template” Attachment 2 for vehicles and “General Template” Attachment 1 for all other capital items).	<input type="checkbox"/>	<input type="checkbox"/>
6. Have you provided 3 quotes for each capital item requested?	<input type="checkbox"/>	<input type="checkbox"/>
7. If you are not able to provide 3 quotes, have you provided justification to CFC as to why?	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you included all capital items you are requesting in the current years’ budget?	<input type="checkbox"/>	<input type="checkbox"/>
9. Have you ensured that information contained in your CFC template is consistent with information contained in your budget submission for the current year?	<input type="checkbox"/>	<input type="checkbox"/>
10. If a capital item/project is over \$20,000, was a Cost/Benefit analysis carried out during the budget process? (Refer Part B Section 1 – Capital Expenditure, Attachment 2)	<input type="checkbox"/>	<input type="checkbox"/>
11. Have you attached a current fixed assets register	<input type="checkbox"/>	<input type="checkbox"/>

## 15 – Motor Vehicle Policy

### 1.0 Purpose

- 1.1 To ensure that government motor vehicles are selected, acquired, and used in ways that provide the best possible support to government operations and other government objectives.
- 1.2 To encourage the consideration of alternative procurement approaches when purchasing motor vehicles (to include bulk tendering and standardisation of vehicles).

### 2.0 Mandatory Requirements

- 2.1 Heads of Ministries must act with integrity and exercise prudence when acquiring and using government vehicles. The practice of purchasing expensive vehicles and/or features, which exceeds the agency's normal transportation requirements, is not in line with government's call for prudence.
- 2.2 Vehicle requests must be submitted to MFEM during the formal budgetary process in line with Part B, Section 1- Capital Expenditure. These requests shall be provided to the Capital Funding Committee for review and to make recommendations for purchase.
- 2.3 Where Ministries are required to provide further information, these must be submitted to MFEM 1 month prior to the CFC's subsequent quarterly meetings. However, if CFC meet outside of these quarterly meetings depending on the number and circumstances of requests to review, further information must be submitted at least one month prior to the meeting taking place.
- 2.4 Vehicles considered for government use must be adequate to meet government's operational requirements. Specifications for maximum price, size, type, model, and quality of government vehicles purchased should be comparable, in general, to that of vehicles purchased in the private sector for similar purposes (Refer Appendix 1).
- 2.5 Ideally, vehicles purchased for Government purposes should be brand new.
- 2.6 The standard time for replacing government vehicles which are categorised as 'basic' and/or 'standard' is 5 years of service or 100,000 kilometres, whichever comes first. However, there may be circumstances in which vehicles may be replaced sooner, such as excessive maintenance or repair costs. (Refer Appendix 1). In determining the vehicle replacement criterion the following factors should be considered:
  - a) maintenance costs of vehicle
  - b) resale/trade-in value
  - c) alignment with depreciation guidelines for government vehicles
  - d) kilometres travelled
- 2.7 Valid justifications must be provided to the CFC should Ministries request to replace their vehicles earlier or later.

- 2.8 Ministries are required to consult with MFEM or CFC Secretariat and provide justifications should they wish to deviate from the vehicle specifications stipulated in Appendix 1 before making any decision on the type of vehicle requested.
- 2.9 Government funds will not be used to pay for fines related to speeding, unauthorised parking and other traffic violations such as drunk driving. The vehicle user will personally pay costs related to these incidents.
- 2.10 All Government funded agencies must ensure that all Motor Vehicles purchased by the agency be registered as a Government vehicle, ie all vehicles must have a GA.... license number plate on the vehicle. In the event a Ministry/Crown Agency does not register their license plate as a GA.... or changes their GA license plate to a personal license plate, MFEM will repossess this vehicle until evidence is provided to show that the vehicle is licensed as a GA....
- 2.11 All Government agencies must ensure that a report of all Motor Vehicles including their current value are sent to MFEM annually for Insurance purposes as per CIGFPP part D section 4 attachment 1.

### 3.0 Process

- 3.1 The CFC will review vehicle requests in their usual quarterly meetings.
- 3.2 Requests must be received by MFEM no later than 30 days prior to the next immediate CFC meeting. This will allow MFEM time to review submissions in line with Part B, Section 1 - Capital Expenditure as well as those in Appendix 1.
- 3.3 Ministries/Agencies must provide a ratio of existing vehicles per management/staff numbers within that Ministry when submitting requests to CFC for new or replacement vehicles.
- 3.4 Only requests that are consistent with Capital Expenditure requirements will be provided to the CFC for consideration. Those that do not meet the requirements will be returned to the relevant Ministry/Agency for reworking.
- 3.5 The CFC will review submissions in line with Appendix 1 and standard Capital Expenditure requirements and will make their funding recommendations accordingly.
- 3.6 Once funding recommendations for vehicle purchases have been made by the CFC and approved by Cabinet, MFEM will process and notify Ministries within 5 days of receiving Cabinet endorsement.
- 3.7 Ministries/agencies will make purchases in line with Part D Section 2 – Purchase & Sale of Goods & Services and retain necessary documentation for Audit.
- 3.8 If funds are provided for replacement vehicles, the replaced vehicle **must** be disposed of through Sale or Trade In within 2-4 months of the new vehicle being purchased (Refer to Sales Tender Procedure).
- 3.9 It is the responsibility of the HOM/CEO of that Ministry/Crown Agency of which approval was granted for a replacement vehicle, to initiate the sale of tender process within 2 – 4 months of the new vehicle being purchased.



## Appendix 1

### Standard Vehicle Requirements

Vehicle requests shall comply with standard vehicles requirements that meet the needs of the Ministry and are cost efficient.

<b>Operating requirements/vehicle categories</b>	<b>Category</b>	<b>Specifications, make &amp; model</b>	<b>Max Gross Cost (excl VAT)</b>	<b>Replacement</b>
Office vehicle for General Office duties	Basic	Small Car or Small Van	\$25,000	5 years
Minister/HOM's/CEO Vehicles	Standard	Medium sized Sedan or similar (appropriate to their requirements)	\$35,000 - \$40,000	5 years
Diplomatic Vehicles e.g. for Prime Minister, Queen's Representative & Foreign Affairs Protocol Vehicles	Other	Large Sedan or similar (appropriate to their requirements)	\$50,000	5 years
Special purpose vehicles (e.g. Police, MOIP, Internal Affairs, Health, etc)*	Other	Utility 4WD Pickup Truck/Light Utility Truck 1.5 - 2.0 Tonne	\$40,000	5 years

\*Where the procurement of job specific vehicles is required (e.g. ambulance, police vehicles, fire trucks etc), agencies are to advertise for tender to allow manufacturers and suppliers to bid. (Refer to Part D, Sec 2 - Purchase & Sale of Goods & Services).

## 16 - Capital Contingency Funds

### 1.0 Purpose

- 1.1 To ensure that all Capital Contingency expenditure complies with acceptable standards of accountability and transparency.
- 1.2 To ensure that the correct procedures are followed.
- 1.3 To ensure that appropriate research and analysis of capital expenditure is undertaken before commitments are made.

### 2.0 Mandatory Requirements

- 2.1 In the event of a disaster, *Part D Section 16 – Disaster Management Funding Policy* shall apply.
- 2.2 Items previously requested during the budget process, which may have not been approved by the CFC, may not be considered for funding under ‘contingency funds’ unless the circumstances have changed and such changes are well justified.
- 2.3 The Head of Ministry may request for the use of capital contingency funds for emergency acquisitions consistent with *Part D Section 2 – Purchase & Sale of Goods & Services*. In requesting for capital contingency, specific guidelines will apply:
- 2.4 Paragraphs 3.2 and 3.3 of *Part B Section 1 – Capital Expenditure* shall apply.

### 3.0 Definition

- 3.1 An emergency is an unforeseen situation that adversely and unduly affects the life, health, or convenience of the citizens of the Cook Islands. It includes the replacement of unexpected capital breakdowns.

### 4.0 Process

- 4.1 In requesting for capital contingency, the following guidelines will apply:

<b>Category</b>	<b>Cost</b>	<b>Policy Guidelines</b>
1	Up to \$10,000	<p>Prior approval must be sought from the Financial Secretary in concurrence with the Minister of Finance. Request for approval shall be made in writing to include the following information:</p> <ul style="list-style-type: none"><li>• Explanation for the need to apply for capital contingency funds</li><li>• Detail of items to be purchased</li></ul>

<b>Category</b>	<b>Cost</b>	<b>Policy Guidelines</b>
2	\$10,001 - \$20,000	Prior approval must be sought from Cabinet. <ul style="list-style-type: none"><li>• A written Cabinet submission must be provided to the Minister of Finance <b>through the Financial Secretary</b> for submission to Cabinet detailing:<ul style="list-style-type: none"><li>✓ the need for funding</li><li>✓ items to be purchased</li></ul></li><li>• Attach 3 quotes with the submission wherever practical</li></ul>
3	\$20,000+	The Financial Secretary may require that the request be directed to the CFC (Rarotongan based capital) or the PCC (Outer Islands Capital). Otherwise, requesting agencies may be advised to follow the guidelines in Category 2.

4.2 MFEM will provide a year-to-date report to Cabinet in the crown monthly reports regarding the use of contingency funds (if at all).

## 17- Inventory

### 1.0 Purpose

- 1.1 To maintain complete and accurate accounting for inventory
- 1.2 To ensure that inventory is safeguarded.
- 1.3 The physical control and accounting for inventory is the responsibility of the Head of the Ministry, Office or Island Administration.

### 2.0 Definition

Inventories are assets: *(as per IPSAS 12)*

- (a) In the form of materials or supplies to be consumed in the production process;
- (b) In the form of materials or supplies to be consumed or distributed in the rendering of services;
- (c) Held for sale or distribution in the ordinary course of operations; or
- (d) In the process of production for sale or distribution.

### 3.0 Mandatory Requirements

- 3.1 All inventory to be recorded in a stock register of the Ministry, Office or Island Administration.
- 3.2 The stock register shall agree in total to the general ledger balance.
- 3.3 The cost of inventory must be assigned by using either the first-in, first out (FIFO) or weighted average cost formulas. Inventory is **not** to be costed using the last-in, first-out (LIFO) formula.
- 3.4 Differences identified in the annual inventory stocktake between the physical count of inventory and the stock register shall be referred in writing to the relevant Head of the Ministry, Office or Island Administration, or equivalent.
- 3.5 Any alteration of inventory values is only to be carried out with the approval of the Financial Secretary.
- 3.6 All inventory is to be stored securely at all times.
- 3.7 All inventory to be kept on the Ministry, Office or Island Administration's premises. Public inventory is not to be held privately.

### 4.0 Process

#### 4.1 Inventory Register

- 4.1.1 Any Ministry, Office or Island Administration that has inventory must have a stock record system that allows them to accurately account for and monitor the movement of stock, and its value.

- 4.1.2 All inventory produced (such as DVD's or videos) or purchased will be recorded in the stock register. A common and effective method of maintaining a stock register is to use stock cards. A simple example is shown at Attachment 1.
- 4.1.3 A separate stock card is created for each item, in each pack size and strength. E.g. a separate stock card would be created for each of: the DVD of Te Maeva Nui 2006, the video of Te Maeva Nui 2006, the DVD of Te Maeva Nui 2005, the video of Te Meava Nui 2005 and so on. Another example is that a separate card would be created for paracetamol tablets 10s, 100s and for paracetamol elixir 50ml.
- 4.1.4 Stock cards can be physical cards or kept on computer but they should be close to the physical stock so as to be maintained whenever inventory comes in or goes out.
- 4.1.5 All inventory sales or issues (such as pharmaceuticals) will be recorded in the stock register.

#### 4.2 Cost of Inventory

- 4.2.1 Inventories should be recognised at cost. The cost should comprise all costs of purchase, costs of conversion (to convert into the finished good) and other costs incurred in bringing the inventories to their present location and condition.
- 4.2.2 Where inventory is donated to a Ministry, Office or Island Administration, it should be recorded at the current replacement cost (i.e. the cost you would incur if you had to buy it yourself).
- 4.2.3 The cost of inventory should be assigned by using the first-in, first out (FIFO) or weighted average cost formulas. Inventory is **not** to be costed using the last-in, first-out (LIFO) formula.
- 4.2.4 FIFO
  - 4.2.4.1 The FIFO formula assumes that the items of inventory which were purchased first are sold first, and consequently the items remaining in inventory at the end of the year are those most recently purchased or produced.
  - 4.2.4.2 This method should be used for inventory that is individual units e.g. pharmaceuticals, publications, coins, DVDs, videos, drums of bitumen.

#### 4.2.4.3 Example:

Item/Product: White Plastic Chairs Model 875T      Item ID: FURN103

Date	Details	Qty In	Qty Out	Qty Balance	Unit cost	Item \$ Movement	Item \$ Balance
12/02/06	Donation	100		100	\$20.00	\$2,000.00	\$2,000.00
18/03/06	Purchase (Whouse)	60		160	\$25.00	\$1,500.00	\$3,500.00
23/03/06	Sell to Xpert		50	110	\$20.00	(\$2,000.00)	\$2,500.00
2/05/06	Sell to Primo		50	60	\$20.00	(\$1,000.00)	\$1,500.00
2/05/06	Sell to Primo		25	35	\$25.00	(\$625.00)	\$875.00
18/06/06	Purchase (Whouse)	65		100	\$22.50	\$1,462.50	\$2,337.50

4.2.4.4 Note that on 2/05/06, **75** units were sold. The first 50 units sold were the remaining 50 from the first quantity in (costed at \$20), and only when all the units from the first quantity in were sold did the 25 units from the second quantity in (costed at \$25) get sold.

4.2.4.5 The inventory balance at 30 June 2006 in the general ledger would be \$2,337.50. This is 35 units at \$25.00 and 65 units at \$22.50.

#### 4.2.5 Weighted Average Cost

4.2.5.1 Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending on the circumstances of the entity.

4.2.5.2 This method should be used for inventory where units are not easily individually separate. E.g fuel, gravel, nails.

#### 4.2.5.3 Example:

Item/Product: Fuel

Date	Details	Qty In	Qty Out	Qty Balance	Unit cost
12/02/06	Shipment	100		100	\$20.00
18/03/06	Shipment	60		160	\$25.00
23/03/06	Sell to Xpert		50	110	
2/05/06	Sell to Primo		75	35	
18/06/06	Shipment	65		100	\$22.50

4.2.5.4 The inventory balance at 30 June 2006 in the general ledger would be \$2,125.00. The weighted average cost per unit is  $(\$20+\$22.50)/2=\$21.25$ , and there are 100 units.

4.2.6 Revaluations of inventory are unlikely to be necessary. If this is required, request for revaluations of over \$300 is to be approved by the Financial Secretary before being actioned. Revaluations under \$300 require the authorisation of the Head of Ministry.

#### 4.3 Inventory Stocktake

- 4.3.1 All inventories shall be subject to an annual stocktake by the Ministry, Office or Island Administration to ensure the existence, security and condition of each item. This stocktake shall then be reconciled to the stock cards. Any proposed significant adjustments over \$300 shall be referred to the Financial Secretary.
- 4.3.2 Valuable stock (eg. coins/currency), must have an Audit Office representative sign off on the stocktake.
- 4.3.3 The stocktake should be undertaken by more than one staff member, both of whom sign the completed form.
- 4.3.4 Staffs who undertake the stocktake should not be the same staff who handle the production/purchase and issue/sale of inventory or who update the inventory register/stock cards.
- 4.3.5 This stock take shall be conducted either as part of the annual closing process (June 30) or on a cyclical basis during the year. In all instances documentation must be maintained of what was counted and by whom as shown within attachment 2 - 'Inventory Stocktake' form. The HOM, Chief Executive or Island Secretary must sign the 'Inventory Stocktake' form.

#### 4.4 Inventory Write Off

4.4.1 Section 42 of the MFEM Act states: “No losses of public resources shall be written off without the authority of the Financial Secretary acting with the concurrence of the Minister of Finance”.

4.4.1.1 Write-off of inventory with a book value of \$1,000 and over requires the authorisation of the Financial Secretary acting with the concurrence of the Minister.

4.4.1.2 Write-off of inventory with a book value between \$300 and \$1000 requires the authorisation of the Financial Secretary only.

4.4.1.3 Write-off of inventory with a book value below \$300 requires the authorisation of the Head of Ministry only.

4.4.2 The accounting entries for a write off of inventory would be:

4.4.2.1 Dr     Obsolete Stock Expense                     (P&L)

4.4.2.2 Cr     Inventory   (Asset)

#### 4.5 Inventory Storage

4.5.1 All inventory is to be stored securely at all times.

4.5.2 All inventory to be kept on the Ministry, Office or Island Administration’s premises. Public inventory is not to be held privately.

4.5.3 Access to inventory is to be restricted to authorised personnel only.

4.5.4 Where inventory is not used on a regular basis (eg. currency, collector’s coins etc.), it may be counted and placed into a sealed container and sighted and signed off by Audit. A stocktake need only be undertaken once the seal on the inventory is broken.

#### Attachment

Attachment 1 – Stock Card Example

Attachment 2 - Inventory Stocktake Form



### ATTACHMENT 1

Example of a Stock Card for inventory costed using FIFO

Item/Product: \_\_\_\_\_ Item ID: \_\_\_\_\_

Date	Details	Quantity In	Quantity Out	Quantity Balance	Unit cost	Item \$ Movement	Item \$ Balance

Example of a Stock Card for inventory costed using weighted average cost

Item/Product: Fuel

Date	Details	Qty In	Qty Out	Qty Balance	Unit cost

Note: These are examples only. Those Ministries, Offices or Island Administrations that already have their own stock record system that allows them to accurately account for and monitor the movement of stock, and it's value,



## Trust Fund Account

### 1.0 Purpose

- 1.1 The intent of the Trust Fund Account policy is to define the various categories of trust funds and procedures for establishment and management of these funds.

### 2.0 Mandatory Requirements

- 2.1 Section 46 (1) of the MFEM Act states that the following money shall be deemed to be trust money:

- 2.1.1 money that is deposited with the Crown pending the completion of a transaction or dispute and which may become repayable to the depositor or payable to the Crown or any other person;
- 2.1.2 all money that is paid into Court for possible repayment to the payee or a third party, by virtue of an Act, rule, or authority whatsoever;
- 2.1.3 unclaimed money that is due to or belongs to any person and is deposited with the Crown;
- 2.1.4 all money that is paid to the Crown in trust for any purpose;**
- 2.1.5 money that belongs to or is due to any person and is collected by the Crown pursuant to any agreement between the Crown and that person.

- 2.2 Funds deposited for the purpose of 2.1.1 to 2.1.3 and 2.1.4 above may not need to be appropriated and trustee will be responsible for the drawing down on the fund.

- 2.3 Funds that fall under 2.1.4 above which are to be spent on government programs/projects (including Donor funds) must have an appropriation as income and outgoing in the budget estimates before it can be expended.

- 2.4 A separate trust bank account shall be opened for the sole purpose of operating trust funds.

- 2.5 Trust Fund Accounts will not be permitted to operate in a deficit.

- 2.6 Net of interest earned and bank fees incurred are processed in to the Trust fund unless there is specific policy by the Trustees to transfer as contribution to Crown appropriation.

- 2.7 Trust funds will be created to distribute income for specific purposes. Distributions from trust funds can only be made when the trustees of the trust fund approve a distribution.

- 2.8 The distribution must be made in accordance with the original trust purposes

- 2.9 All trust money shall be the responsibility of the Ministry appointed on behalf of the Crown to manage it and shall be managed in a manner consistent with the requirements laid down by the Ministry, Legislation or Policy.



- 3.6.4 At the end of each year the administering agency for the fund will complete a Trust fund financials to be signed by the Head of the Department to acknowledge the funds have been spent in accordance with the purposes of the Trust.
- 3.6.5 Trust Fund activities may be audited at year end together with the Agency's financial audit or at the request of the Trustees.

## 1 – Expenditure Category Transfer

### 1.0 Purpose

- 1.1 To ensure that the MFEM legislation is adhered to.
- 1.2 Provide background on the subject

### 2.0 Background

- 2.1 For each Ministry, Island Administration or Office the Appropriation Bill specifies the category under which expenditure has been allocated, this could include categories for
  - 2.1.1 Operating (outputs)
  - 2.1.2 Depreciation
  - 2.1.3 Capital acquisitions, or
  - 2.1.4 POBOC's (Payments on Behalf of the Crown).
- 2.2 Section 32 (2) of the MFEM legislation applies in this instance, and does not allow the transfer between the various categories of expenditure. For instance it is not permissible to transfer expenditure between Operating and Capital Expenditure, or transfer between Depreciation and Operating Expenditure. This is because depreciation is a non-cash amount.
- 2.3 Refer to the Transfer between Outputs procedure (Part C Section 2) for details on transfer of expenditure within Operating Expenditure.

### 3.0 Mandatory Requirement

- 3.1 Section 32 (2) of the MFEM legislation states: "A separate appropriation shall be made within the estimates for each of the following categories: (a) outputs; (b) categories of benefits or other unrequited expenses; c) categories of borrowing expenses and repayment of debt (d) categories .of other non- operating expenditure; (e) capital acquisitions and capital contributions".
- 3.2 Therefore as there is no section of the legislation which relates to transfer between categories, it is not permissible to transfer between categories. For instance it is not permissible to transfer expenditure between Capital and Operating Expenditure, or Operating Expenditure and Borrowing Expenditure, or between Depreciation and Operational Expenditure.

## 2 – Transfer between Outputs.

### 1.0 Purpose

- 1.1 To ensure the MFEM legislation is adhered to.
- 1.2 To ensure that the concepts of accountability and transparency are followed in transferring appropriation between outputs.
- 1.3 To outline when and how the transfers of appropriations between outputs can happen.
- 1.4 Explain and give logistical clarity to Section 34 of the MFEM legislation which details the requirements for this transfer.
- 1.5 Note that while transferring appropriation between outputs is possible, the Ministry, Island Administration or Office is still required to deliver the outputs originally stated in the Budget Appropriation.

### 2.0 Definitions

- 2.1 “Agency” is a Crown Agency such as a ministry, island administration, or ministerial support office.
- 2.2 “Outputs” are the deliverable elements of an Agency
  - 2.2.1 These are the list of outputs under each agency found in Schedule 3 of the Appropriation Bill or the relevant Appropriation Amendment Bill of a given financial year
  - 2.2.2 Also, included would be the POBOCs managed by an agency

### 3.0 Mandatory Requirements

- 3.1 Section 34 of the MFEM legislation states: "Transfer of resources between outputs. (1) Notwithstanding subsection (2) section 32 of this Act, the Head of a Government Department may from time to time transfer an amount appropriated for a prescribed output to another output where - (a) the transfer of that amount does not conflict with budget policy; and (b) the total amount appropriated for that financial year for all outputs for that Government Department is unaltered. (2) The Head of the Government Department will advise the Minister of Finance who shall ensure that sufficient details to explain any transfer made pursuant to subsection (1) shall be included in the next Appropriation Bill."

## 4.0 Process

### 4.1 Production Outputs

- 4.1.1 The HOM or Island Secretary will identify where/when a transfer of resources between outputs is required.
- 4.1.2 The HOM will ask for written approval from the Financial Secretary to transfer amounts between outputs during the financial year.
  - 4.1.2.1 The HOM or Island Secretary shall provide written assurance that the transfer will not compromise the ability of that Agency to act efficiently and effectively through the outputs as shown in the Appropriation Act.
- 4.1.3 The Minister of Finance shall be advised of the transfer as part of the Financial Secretaries monthly reporting.

### 4.2 POBOC Outputs

- 4.2.1 The POBOCs managed by an Agency also count as outputs and as such, a transfer can be made between those POBOCs managed by that particular Agency.
- 4.2.2 The HOM will ask for written approval from the Financial Secretary to transfer amounts between POBOCs during the financial year.
  - 4.2.2.1 The HOM or Island Secretary shall provide written assurance that the transfer will not compromise the ability of that Agency to meet all requirements under the purposes of the effected POBOCs.
- 4.2.3 The Minister of Finance shall be advised of the transfer as part of the Financial Secretaries monthly reporting.

### 4.3 Cashflow Management

- 4.3.1 The Agency shall send in a revised cashflow to MFEM advising of changes and the effect this has on monthly bulk funding as a result of transfers from 4.1 and 4.2 above.
- 4.3.2 No approval required from the Financial Secretary if the transfer is within the same output .i.e movement between personnel and operating.
- 4.3.3 The HOM or Secretary must sign this revised cashflow.
- 4.3.4 Refer to Part D, Section 7 for more information around cashflows.



## 3 – Maintenance Expenditure

### 1.0 Purpose

- 1.1 To identify the meaning of maintenance expenditure and the accounting treatment.
- 1.2 To differentiate between maintenance and capital expenditure

### 2.0 Mandatory Requirements

- 2.1 Parliamentary approval for the purchase of all Capital Expenditure.
- 2.2 Building maintenance to be referred to the Cook Island Investment Corporation for inclusion in their budget.
- 2.3 Other maintenance expenditure to be included as an operating expense.
- 2.4 Maintenance expenditure included as an operating expense over \$3,000 should be justified by way of written detail included in a particular maintenance program document. This should be filed made available to Audit if and when required.

### 3.0 Process

- 3.1 The accounting treatment of maintenance expenditure is quite different to that of capital expenditure. Determine if the expenditure item is maintenance and therefore an operating expenditure from the definition noted below.
- 3.2 Maintenance expenditure is returning an asset to what its potential was when it was purchased. Eg;
  - 3.2.1 Fixing broken windows and a leaking roof are maintenance costs and are treated as operating expenses.
  - 3.2.2 Procuring a part of a motor vehicle is considered maintenance cost and should also be treated as operating expenditure. If this cost is more than \$3,000 then this should clearly be identified and written in a maintenance program for the financial year.
  - 3.2.3 Where a piece of equipment or machinery is purchased with the sole intention of using the parts to repair and maintain other existing equipment and machinery, then this is maintenance expenditure. The disbursement and use of the parts must be clearly documented to substantiate the intention. Use of the equipment or machinery as a working asset, even once, will result in the expenditure being regarded as capital.

3.3 Capital expenditure is generally for new items, for instance a motor vehicle, or an improvement in an existing item beyond its original state.  
Eg;

3.3.1 Adding a new room to an existing building would be capital expenditure and not maintenance.

3.3.2 Attachments for machinery that extend the uses for the asset.

3.4 It should be noted that as per the Capital Expenditure procedure all assets with a value greater than \$3,000 are regarded as Capital Expenditure and require specific Parliamentary approval. Capital expenditure items are assets and subject to depreciation.

## **4 – Trading Revenue**

### **1.0 Purpose**

- 1.1 To ensure that all trading revenue is correctly disclosed and accounted for.

### **2.0 Definition**

- 2.1 “Trading revenue” – the income derived as a cost recovery for goods or services supplied by Ministries, Crown Agencies or Island Administration in producing their outputs. It may include the proceeds from permits, sale of goods and services, or electricity etc.
- 2.2 In other words, trading revenue is also known as “sales” and it represents the sales value of the goods and services made to customers during the period. Sales are incurred during a period and can be paid for by customers immediately (cash sales) and/or paid later (credit sales) after receiving the goods/services provided by the ministry.

### **3.0 Mandatory Requirements**

- 3.1 Trading revenue must be identified in the budget appropriation
- 3.2 Where the Ministry has excess trading revenue, which they have the intention of using to increase gross expenditure, Section 38 of the MFEM Amendment Act 1997 applies.

"Additional Earnings: (1) Where a Government Department derives revenue in connection with its outputs in any financial year in excess of the anticipated income for those outputs as provided in the Appropriation Act for that year, the Head of the Government Department may apply that revenue to an amount approved by the Financial Secretary with the concurrence of the Minister in accordance with its outputs for that year or the subsequent year. (2) Where the Financial Secretary with the concurrence of the Minister direct the revenue in excess of the anticipated income, or any part thereof, be paid into the Cook Islands Government Account, the Head of the Government Department shall make payment of the amount accordingly"

- 3.3 Use of additional trading revenue beyond that budgeted must be disclosed to the Financial Secretary for action and approval.
  - 3.3.1 This requirement applies only to Government Departments funded through Ministry Outputs, as per Schedule 5 of the Budget Estimates Part 1. It does not apply to organisations funded through POBOCs, as per Schedule 8 of the Budget Estimates Part 1.
  - 3.3.2 In the case of Island Administrations, the Financial Secretary shall approve applications to use excess trading revenue to increase gross expenditure, except in exceptional circumstances. This is consistent with the recommendations of

the Review of Funding for Island Administrations, as approved by Cabinet in June 2006

- 3.4 All trading revenue (cash or credit sales) to be recorded in the general ledger of the Ministry, Office or Island Administration.

#### 4.0 Process

- 4.1 Trading revenue is shown as a deduction from the Gross Expenditure to derive Net Appropriation. Therefore the funding appropriated to each Ministry or Island Administration is reduced by the amount of trading revenue they have approved in the budget process.

- 4.2 All trading revenue shall be recorded in the general ledger of the Ministry or Island Administration in the month in which it is owed or receivable. In terms of accrual accounting there may be difference between when the trading revenue is receivable and when the cash is physically received.

- 4.2.1 When posting cash sales in the general ledger, the following are the accounting entries:

*Dr Bank*  
*Cr Sales / Trading Revenue*

- 4.2.2 When posting credit sales in the subsidiary ledger, the following are the accounting entries:

*Dr Accounts Receivable*  
*Cr Sales/Trading Revenue*

This posting is to be done using the sales module of your accounting software. It is only on rare occasions that you should need to do this entry using a general journal.

In receiving payment of the credit sale, the following is the accounting entry:

*Dr Bank*  
*Cr Accounts Receivable*

Payment should be put against the debtor/customer through the subsidiary ledger or the sales module of the accounting software.

- 4.3 The trading revenue shall be monitored against the Appropriation Bill or Budget to ensure that it is in line with expectations. Should the trading revenue exceed the amount budgeted, this must be disclosed to the Financial Secretary in writing as soon it is identified, if there is the intention to use it to increase gross expenditure.
- 4.4 The Financial Secretary shall then determine the action to be taken with this trading revenue after discussion with the Minister and the responsible HOM or Island Secretary.

- 4.5 All such actions shall be in writing, signed, dated and filed. Such files shall be available for audit review.

## **4 – ROBOCs (Revenue Earned on Behalf of Crown)**

### 1.0 Purpose:

1.1 To ensure that all ROBOC is correctly disclosed and accounted for.

### 2.0 Definition

2.1 ROBOCs are included in a separate schedule within the Appropriation Bill, and include items such as VAT, Income Tax, Import levies and Company Tax. In addition other sundry Crown Revenue such as from the Financial Supervisory Commission, Immigration Permits, Fisheries Licenses and Numismatic Fees are included as a ROBOC. ROBOCs are those revenue items that are set by the Crown through legislation or in schedules of fees

### 3.0 Mandatory requirements

3.1 Under No circumstances is a Ministry permitted to spend ROBOCs

3.2 All ROBOCs should be disclosed in the Monthly variance report as a separate line item. If your ministry is administering more than one ROBOC than each ROBOC should be reported separately. Refer Part D, Section 4, Reports requirement schedule.

### 4.0 Process

4.1 Each Ministry is to include ROBOC items in its Cashflow. As per Part D Section 7

4.2 Ministries must use the Cook Islands Government receipt book provided by Treasury unless special arrangements have been made with MFEM to use their own receipt books

4.3 The banking of all ROBOCs be done daily to the Cook Island Government Public Account (01-271074-01) Westpac Banking Corporation (WBC)

4.4 All banking into the Westpac Public Account must have a request to the bank to „narrate“ the deposit. For example if the Ministry of Culture is depositing a ROBOC, it should narrate “Ministry of Culture – [ROBOC Name]”. Failure to do so will result in the Ministry’s Bank Account being charged with the search fee by the Bank

4.5 All Ministries and Crown Agencies that receive ROBOCs must submit to the Treasury Division of MFEM on the day of the banking the following documents:

- Copy of the Banking/Summary. This should include the relevant account numbers; account; the bank’s stamp; where the funds were received from the other related details.
- Copy of receipts issued

- Failure to submit these documents within 2 days may result in the Ministry's bulk funding being suspended.
- 4.6 Ministries that have transactions in excess of 20 per day MUST utilize an *electronically generated receipting* system to facilitate their cash transactions.
- a) At end of day, **one** receipt using the Cook Islands Government receipt book shall be written out to assist with cash reconciliations.
  - b) When submitting the government duplicate receipt to MFEM, a copy of the activity report of the transactions made and electronically generated receipts (where relevant) must be attached.
- 4.7 Copy of Banking/Summary, Receipts and Activity Reports of the transactions MUST be submitted to the Treasury Division of MFEM on the day of the Banking or the day after. Non-compliance will result in Bulk funding being suspended.
- 4.8 All ROBOCs are to be included and reported in the Monthly Variance Report as per Part D Section 4 . An explanation must be provided for any variance between actual and budget for each type of ROBOC.
- 4.9 All reimbursements, refunds and duplicate receipts must note the previous receipt numbers in which the reimbursement or refund is produced.
- 5.0 It is to the Ministry/Agency or Administrations discretion to accept cheques as part of the ROBOC payments, if these cheques are dishonoured, the fees will be transferred to the responsible ministry/agency or administration's bank account.

## 5 - Aid funding for operating expenses

### 1.0 Purpose

- 1.1 To ensure Aid funding for capital items are treated separately to Aid for operational expenditure.
- 1.2 To ensure that Aid funds received by Ministries for operational expenditure are correctly accounted for.

### 2.0 Mandatory Requirements

- 2.1 Aid funds received are split between capital and operating.
- 2.2 Operational Aid revenue and expenditure must be accounted for separate to Government appropriations and expenditure.
- 2.3 Refer to *Part B Section 5 – Aid Funded Assets* for treatment of capital items.
- 2.4 The procedure to apply depends on whether the funding is provided through Aid Management Division (AMD) of MFEM or direct to the Ministry.
- 2.5 All aid received directly from donors must be reported to Aid Management, MFEM.
- 2.6 Ministries must be able to split their Aid funding between that which is received direct from donors and that which is received from AMD. This will be disclosed differently within the annual accounts at year end.
- 2.7 Aid Revenue and Aid Expenses must always match with the Agency's general ledger.

### 3.0 Process

- 3.1 Ensure in the general ledger that the Aid Revenue is easily classified as received direct from the donor or from AMD.
  - 3.1.1 This may be done by using several different Aid Revenue accounts so this can be done for annual reporting purposes.
- 3.2 Make sure that Aid Revenue and Aid Expenses always match in the general ledger.
- 3.3 Operating Aid funding through Aid Management Division
  - 3.3.1 Where Aid Management pays the supplier direct for operating expenditure the Ministry still needs to recognise the transaction. The journal required is below:

*Dr Aid Expenses*



*Cr Aid Revenue*

*(To recognise the Aid benefit which was paid directly by AMD)*

- 3.3.2 Where Aid Management reimburses the Ministry cash for the Ministry having made the payment:

*Dr Aid Receivable*

*Cr Bank*

*(To record the payment of expense relating to the Aid project)*

*Dr Aid Expenses*

*Cr Aid Revenue*

*(To record the Aid benefit to the Agency – record at the same time as when the payment is made)*

*Dr Bank*

*Cr Aid Receivable*

*(To record the reimbursement from AMD for expenses incurred)*

3.4 Operating Aid funding direct to the Ministry

- 3.4.1 Journal entries in Ministry accounts where the donor funds operating expenditure for the Ministry by paying the supplier direct:

*Dr Aid Expenses*

*Cr Aid Revenue*

*(To record the Aid benefit for the Agency)*

- 3.4.2 Journal entries in Ministry accounts where the donor reimburses the Ministry cash for the Ministry having made the payment:

*Dr Aid Receivable*

*Cr Bank*

*(To record the payment of the expense by the Agency)*

*Dr Aid Expenses*

*Dr Aid Revenue*

*(To record the Aid benefit to the Agency - same time as above entry is done)*

*Dr Bank*

*Aid Receivable*

*(To record the reimbursement by the Aid donor)*

- 3.4.3 Journal entries in Ministry accounts where the cash is received from the donor, then the Ministry makes payments:

*Dr Bank*

*Cr Aid Liability*

*(To record the receipt of Aid Funds)*

*Dr Aid Liability*  
*Cr Bank*  
(To record the payment using the Aid funds)

*Dr Aid Expenses*  
*Cr Aid Revenue*  
(To record the Aid benefit to the Agency – same time as the payment in the above journal)

3.4.4 Journal entries in Ministry accounts where the donor reimburses the ministry for personnel costs paid through MFEM:

3.4.4.1 The staff are paid as per any normal staff member through the MFEM payroll.

3.4.4.2 When a donor is reimbursing the ministry for these staff, the money must be reimbursed to MFEM not to the ministry as that is where the personnel is paid from.

3.4.4.3 If a donor supplies money directly to the Ministry, then these funds should be forwarded immediately to MFEM.

3.4.4.4 MFEM will put a credit into the Solomons report for the reimbursed amount and this will clear any variance between Solomons and the personnel appropriation income and personnel expenses within the ministry.

*Dr Aid Expenses*  
*Cr Aid Revenue*  
(To record the personnel costs included in the personnel section in the monthly Solomons which relate to Aid – this will create a temporary variance between Solomons and personnel expenses until the donor credit is received)

3.5 Funding arrangements such as EU Funding

3.5.1 In some funding situations, of which EU funding is a prime example, the cash is received first by the Crown, in a public account, then paid out to the Ministry by MFEM. This is usually due to the donor funding projects in more than one Ministry.

3.5.2 As the funding is not being handled by the Aid Management Division, and MFEM is simply acting as a financial “channel”, in these situations the cash is considered to be going direct to the Ministry. 3.4 would apply in these situations.

3.6 Reporting

- 3.6.1 MFEM has developed a new annual accounts template which features some enhanced Aid reporting within it:
  - 3.6.1.1 Splitting Aid Revenue between that received direct from donor, and that received direct from AMD
  - 3.6.1.2 Aid revenue and expenses being then disclosed additionally by the source donor: eg. NZ Aid, EU, UN etc
  - 3.6.1.3 Aid Liabilities being split per donor (if applicable)
  - 3.6.1.4 Trust accounts being split per donor (if applicable)
  - 3.6.1.5 The Agency will only be required to do some data entry and the template will take care of the rest. As long as Agency is recording the original transactions as per the guidance further up, then there will be no issues entering the correct data in the template.
- 3.6.2 Revenue and expenditure from Aid should not be shown in the Appropriation Variance report which is submitted monthly to MFEM.

## 6 – Depreciation Funding

### Purpose

- 1.1 To ensure that there is adequate funding for depreciation in the appropriation of all Ministries, Island Administrations and other Crown Funded Agencies.
- 1.2 To ensure that the treatment of depreciation is consistent across all Ministries, Island Administrations and Crown Funded Agencies.
- 1.3 To allocate the appropriated Capital Distribution Fund for Depreciation administered under MFEM to recognise the depreciation on capital purchased through the Capital Distribution Fund.

### 2.0 Mandatory Requirements

- 2.1 An appropriation to cover all depreciation requirements is approved by Parliament.
- 2.2 Depreciation is to be identified separately from other operating expenditure.
- 2.3 Budgeted funding for depreciation will not to be transferred to cover other cash expenditures as it is a non-cash item.
- 2.4 Depreciation must cover existing assets, additional asset purchases and aid funded assets.

### 3.0 Process

- 3.1 Each Ministry and Crown Funded Agency shall include complete depreciation costs in their budget requests. Depreciation costs for anticipated capital acquisitions or aid funded assets in the next financial year must also be included.
- 3.2 Depreciation budgets will include the annual cost of each capital item in line with depreciation rates (refer to *Part B Section 4 – Depreciation: Attachment I*).
- 3.3 Once Parliamentary approval has been granted for Ministry budgets, the depreciation component must be shown separately in the monthly cash flow that is provided to MFEM (refer to *Part D Section 7 – Cashflow Management*).
- 3.4 Depreciation under spending will not be used to offset overspending in other areas of the Ministry budget as it is a non cash expenditure item.
- 3.5 Any shortfall in the budget for depreciation will be met by the Ministry or Crown Agency from savings in other areas of their appropriation. If this results in an overspend against the overall appropriation, then this will be referred to PERC for their review.
- 3.6 Depreciation is a non cash expenditure item and will not be funded during the year.

- 3.7 At year end, if actual depreciation expenditure is *higher* than budgeted depreciation;
- 3.7.1 and the variance *is related* to newly acquired capital purchased through unallocated capital funds. Funding will be allocated to the relevant government department from the unallocated capital fund's associated depreciation fund administered under MFEM to cover the variance related to capital acquired through the unallocated capital funds.
  - 3.7.2 and the variance *is not related* to newly acquired capital purchased through unallocated capital funds. The government department will cover the variance from its operating budget as per 3.5 above.
- 3.8 At year end, if actual depreciation expenditure is *less* than budgeted depreciation and the government department has acquired capital through unallocated capital funds, no further depreciation allocation will be provided for out of the unallocated capital fund's associated depreciation fund in the current fiscal year.
- 3.9 At year end, depreciation will be repayable to the Crown (refer *Part D Section 14 – Surplus/Depreciation Payable Calculation*) by the Ministry or Crown Agency. Budgeted depreciation will be payable by the Crown (refer *Part D Section 5 – Year End Reporting*) to the Ministry or Crown Agency.

## 7 – Ministry Expenditure

### 1.0 Purpose

- 1.1 To ensure that all Expenditure by Ministries and Crown Funded Agencies complies with acceptable standards of accountability and transparency.
- 1.2 To ensure that all expenditure is in line with the Appropriation for each Ministry or Crown Agency.

### 2.0 Mandatory Requirements

#### 2.1 Parliamentary approval for all Ministry Expenditure.

Section 39 of the MFEM Act states that:

*(1) “Upon the passing of an Appropriation Act, the Head of a Government Department responsible for the appropriation may authorise expenditure but only in accordance with the allocations specified and voted in that Act, and the Head of Government Department alone shall be responsible for ensuring that the moneys are expended for the purposes intended.*

*(2) All Heads of Government Departments shall be responsible for ensuring that there is adequate control over the release of and use of funds in accordance with Section 29.*

*(3) No money may be withdrawn from the Public Account otherwise than in payment of expenditure that has been duly authorised in accordance with this section.”*

### 3.0 Process

- 3.1 Operating expenditure incurred by all Ministries, Island Administrations and Crown Agencies, shall be in line with the Appropriation allocated to that Entity.
- 3.2 Appropriation for depreciation expenditure shall be separately identified from the normal operating expenditure, but forming part of the appropriation, as it is a non-cash item (refer *Part C Section 6 – Depreciation Funding*).
- 3.3 Appropriation for Ministerial Support Offices is identified with a Ministerial position and not the portfolio(s) of that minister.
- 3.4 Each Head of Ministry, Island Administration or Crown Agency shall be responsible for ensuring that all financial commitments are in line with the appropriation for the financial year concerned.

- 3.5 A decision to incur financial expenditure outside the budget appropriation for that financial year is not permitted unless authorisation is granted by the Minister of Finance in line with Section 70 of the Cook Islands Constitution.
- 3.6 Apart from Section 70 of the Cook Islands Constitution, expenditure must be appropriated, by way of an Appropriation Act that is passed by Parliament. Expenditure based on the promise of additional funding in an Appropriation Amendment, whether given by Cabinet or a Minister, **MUST NOT** be incurred. If expenditure is incurred, the Head of Ministry, Island Administration or Crown Agency is personally responsible for breach of Section 39 of the MFEM Act, whether or not there is a subsequent Appropriation Amendment approving the expenditure.

## 8 – POBOC Expenditure

### Purpose

- 1.1 To establish uniform procedures for Payments on Behalf of the Crown (POBOC) expenditure across Ministries and other Crown Funded Agencies
- 1.2 To ensure that all POBOC funding complies with acceptable standards of accountability and transparency.
- 1.3 To ensure that POBOC funding is released at the request of appropriate authorities
- 1.4 The three main categories of POBOCs are: Legislative/Contractual, Subscriptions and other Crown Commitments, Grants and other Funds.

### 2.0 Mandatory Requirements

- 2.1 Parliamentary approval of all POBOC Expenditure.
- 2.2 POBOCs are not an Output of a specific Ministry, but are managed or administered by the Ministry on behalf of Government.
- 2.3 The Head of Ministry is responsible for the use and management of the funds in line with the appropriation
- 2.4 POBOC funds are disbursed according to POBOC policies of that specific fund. Eg there must be a policy for administering Economic Development Initiatives POBOC. This shall be developed by the Ministry administering the POBOC funds according to MFEM guidelines.
- 2.5 Only Parliament can authorise transfers between POBOC items.

### 3.0 Process

- 3.1 All budget submissions for POBOC Expenditure shall be forwarded to MFEM for compilation as part of the budget process by Ministries responsible for the administration of the POBOC item. Details of each expenditure category relating to the POBOC item must be included with the budget request with appropriate justification for each.
- 3.2 Parliament approves the funding to the appropriate Crown Funded Agency
- 3.3 All funding requests for POBOC shall have supporting documentation, such as invoices, receipts and copy of signed payment voucher (if any) provided to the Treasury Division. All requests must be signed off by the Head of Ministry or a delegated authority before the release of funds. All payments are to be made directly to bank accounts which the requesting ministry is responsible for obtaining them.



- 3.4 Savings on each POBOC item at the end of the financial year are not the entitlement of the responsible Ministry, Office or Island Administration. All savings shall be returned to Crown.
- 3.5 Each Ministry, Office or Island Administration shall maintain appropriate records on all transactions relating to each POBOC item.
- 3.6 Where a POBOC is funded in bulk refer to *Part B Section 8 – Bulk Funded POBOC's*.
- 3.7 POBOC variance reporting is to be included in the Monthly Variance Report from the responsible Ministry. *See Part D Section 4 – Financial Reporting*.
- 3.8 Ministries are just as accountable for ensuring POBOC monies are expended for the purpose intended as they are for expenditure of normal ministry funds. The same rigorous level of supporting documentation, justification and approval applies to all expenditure appropriated to a Ministry, be it operating expenditure or POBOC.
- 3.9 If a POBOC is administered by a separate entity rather than a ministry that the POBOC is under eg CISNF Office, the entity will be treated the same as any other ministry.
- 3.10 Where POBOC funding is required to purchase fixed asset more than \$3,000 refer to *Part B Section 1 – Capital Expenditure and Part B Section 14 – Unallocated Capital Funding*
  - 3.10.1 The ministry administering the POBOC or the POBOC entity will be responsible for keeping and reconciling their Fixed Asset register.
  - 3.10.2 The asset register must be filed with MFEM at year end to be consolidated into the Crown's asset register.
  - 3.10.3 Depreciation funding allocated for asset funded to POBOC will be held by the Crown and there will be no need for depreciation repayable to Crown.

## 9 – Expensed Assets

### 1.0 Purpose

- 1.1 To establish uniform procedures for the purchase of assets across Ministries, Island Administrations and Crown funded Agencies where there is no Capital appropriation and the cost (exclusive of VAT) for a single unit of the asset does not exceed \$3,000. These are labelled “expensed assets” and are purchased from operating funding or donor funding, or are donated.
- 1.2 To ensure that only authorised employees are delegated to purchase expensed assets within the limit of that authority.
- 1.3 To ensure the accounting of the purchase transactions comply with generally accepted accounting practices for Government agencies.

### 2.0 Mandatory Requirements

- 2.1 All asset purchases exceeding \$3,000 must have parliamentary approval by way of an appropriation bill, as capital expenditure (See *Part B Section 1- Capital Expenditure*). Expensed assets are assets purchased from the operating funding or donor funding, or are donated, and the cost (excluding VAT) does not exceed \$3,000.
- 2.2 Purchases of a group of assets exceeding \$3,000 can still be expensed as long as the cost of each individual unit of asset does not exceed the \$3,000 threshold. For example, buying more than one office chair may cost more than \$3,000 but individually they cost less than \$3,000 and hence could be expensed.
- 2.3 All staff responsible for the purchase of assets are delegated the appropriate authority to do so.
- 2.4 All Ministries, Island Administrations and Crown funded agencies must follow appropriate procedures for all expensed asset purchases.

### 3.0 Process

#### 3.1 Purchasing the Expensed Asset

- 3.1.1 The purchase of expensed assets should be contestable, transparent, accountable, arms length and without favouritism.
- 3.1.2 It is recommended that comparison shopping or the obtaining of quotes is undertaken to ensure that the transaction not only meets the criteria in 3.1.1 but that the Ministry obtains value for money. 3 quotes would be appropriate.

- 3.1.3 Ensure that you fully consider, and document what the specifications of the expensed asset are in order to be able to make valid price comparisons or obtain quotes.
- 3.1.4 The Head of Ministry, Island Administration and Crown funded agency delegates the appropriate authority to Heads of Department, Finance or Purchasing personnel for purchases.

### 3.2 Recording the expensed assets

- 3.2.1 All Ministries, Island Administrations and Crown funded agencies must have a fixed asset register schedule that includes all purchases, sales and write off of fixed assets for the entity. Refer to *Part B Section 2 - Asset Management*.
- 3.2.2 The cost and relevant details of all expensed assets must be recorded on the fixed asset register schedule in the same financial year that the transaction occurred.
- 3.2.3 The expensed assets should be labelled for easy identification and a record should be maintained to show who each expensed asset is assigned to in the entity.
- 3.2.4 The fixed assets register schedule must disclose all expensed assets purchased within the financial year.
- 3.2.5 When recording the expensed asset in the General Ledger of the Ministry's accounting system, the transaction should be as follows:

#### Purchased asset

*Dr Expensed Asset (Expense account)*  
*Cr Bank*

#### Donated asset

*Dr Expensed Asset (Expense account)*  
*Cr Aid Revenue*

- 3.3 A stocktake should be performed at the end of each year to confirm the status of each expensed asset.

### 3.4 Disposal of Expensed Asset

- 3.4.1 To write off or to remove an expensed asset from the fixed asset register will require the authorisation of the HOM.
- 3.4.2 **No** adjustment to the General Ledger is required for the above.
- 3.4.3 If expensed asset is sold, proceeds from this sale will be revenue to the Crown agency.

*Dr Bank*  
*Cr Other Revenue*

- 3.4.4 All write offs should be formally documented and be made available to audit.
- 3.5 All expensed assets are the property of the Crown and should therefore be stored in the premises of the Crown agency. The HOM alone may authorise if any expensed asset should be stored elsewhere, and a report explaining the reasons for movement should be signed by the HOM as authorisation for this action.
- 3.6 Where a Head of Ministry is unsure of or has difficulty in comprehending any part of this procedure or believes their situation is not covered, clarification should be sought from MFEM.
- 3.7 All associated documentation should be filed and made available for Audit.

## 10 – Remuneration, Superannuation and Payroll

### 1.0 Purpose

- 1.1 To ensure that there is Appropriation for remuneration costs.
- 1.2 To ensure full accountability for each personnel payment from Ministries, Island Administrations and Crown Funded Agencies.
- 1.3 To ensure correct and accurate deduction of superannuation contributions
- 1.4 To ensure consistent process for remuneration, wages and salary adjustments.
- 1.5 To ensure that the physical operation of the payroll is efficient and follows best business practice.

### 2.0 Mandatory Requirements

- 2.1 All remuneration entitlements are for services rendered to the Crown, verified against timesheets provided to the MFEM Treasury Division and in line with the „Bands“ of the Job Sizing regime inclusive of compulsory superannuation deductions.
- 2.2 All adjustments to remuneration entitlements are to be submitted by the Head of Ministry with appropriate justification and approval.
- 2.3 Adjustments to remuneration entitlements for Heads of Ministry or Island Secretaries are to be submitted with appropriate justification and the approval of the Public Service Commissioner, the Board Chairman or employer as per the employment contract. Such adjustments shall only be initiated by the employer.
- 2.4 All timesheets are to be signed by the Head of Ministry or an authorised signatory and co-signed by the Finance Officer, total to the appropriate number of hours and be submitted on time.

### 3.0 Process

#### 3.1 Payroll System

- 3.1.1 Treasury Division of MFEM is the agency approved to manage the payroll system including processing timesheets, superannuation deductions and the payroll, payroll detail maintenance and providing payment details to the banks.
- 3.1.2 All additions, deletions, and changes to remuneration details in the payroll system are requested by the Ministry and are required to be signed by the Head of Ministry or a delegated signatory.

#### 3.2 Appropriation

- 3.2.1 Personnel funding must have an appropriation and be phased in the Ministry's cash-flow submitted to MFEM for funding. Refer *Part D Section 7 – Cashflow Management*.

- 3.2.2 Personnel funding includes gross wages and salaries, higher duties allowances, bonuses and 3 year long service payments inclusive of compulsory employer superannuation contributions.

### 3.3 Remuneration

- 3.3.1 When there are changes to remuneration entitlements the Treasury Division within MFEM requires the written authorisation of the HOM before any changes can be processed in the payroll system. Verbal instructions will not be accepted. (*Refer to Attachment 2 & 3*)
- 3.3.2 When advising MFEM of a remuneration package for an employee, a job sizing band for the position should be provided.
- 3.3.3 Where a salary adjustment exceeds the job sizing band for the position, the position must be resubmitted to PSC by the Ministry for a re-evaluation. The onus and responsibility for payments outside the job sizing band lies with the HOM. Refer to PSC for more information regarding job sizing.
- 3.3.4 Any request for a salary adjustment must be within the annual Ministry appropriation. The Ministry should ensure that files for audit contain appropriate justification for the adjustment and, where appropriate, the endorsement from the Public Service Commissioner.
- 3.3.5 HOM's have the jurisdiction to reward staff with bonuses. All performance bonuses should be made transparent with performance measures and the value placed against the measure.
- 3.3.6 Any changes, additions, deletions or bonuses for HOMs must be provided and approved by the Public Service Commissioner, the employer Board or employer as per the employment contract.

### 3.4 Performance Bonus Payments

- 3.4.1 All requests for Performance Bonus payments must be consistent with the PSC Policy on awarding these payments. HOM's must ensure that this is done before the submission is lodged with MFEM for processing. (*Refer Part C Section 10A Performance Bonus Payments*)

### 3.5 Timesheets

- 3.5.1 Only authorised signatories can sign timesheets.
- 3.5.2 Time sheets must specify the **name of the employee, location and employee number, date and hours worked**. Please ensure the timesheet is filled out correctly to avoid delays in processing the payroll. If you are in doubt refer to the attachment 1 – Timesheet template.

- 3.5.3 All wages time sheets must total to 35 or 40 hours for each employee, depending on their employment.
- 3.5.4 All salary time sheets must total to 70 hours for each employee.
- 3.5.5 All wage time sheets must be submitted to the Payroll Clerk, Treasury Division fax 29-652, **each Monday morning**. Failure to meet this deadline may mean employees not being paid their salaries
- 3.5.6 Wages timesheets should show the hours for the previous week and will be paid on the Friday following the Monday timesheet submittal. E.g;

November 2005						
M	T	W	T	F	S	S
31	1	2	3	4	5	6
<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	12	13
<b>14</b>	15	<b>16</b>	<b>17</b>	<b>18</b>	19	20
<b>21</b>	22	<b>23</b>	<b>24</b>	<b>25</b>	26	27
<b>28</b>	29	30				

Timesheet received	Week hours should relate to	When Paid
Monday 14 <sup>th</sup> November	7 <sup>th</sup> to 11 <sup>th</sup> November	Friday 18 <sup>th</sup> November

- 3.5.7 All salary timesheets must be submitted to the Payroll Clerk Treasury Division fax 29-652, on **the Thursday after the fortnight**. (Refer to Attachment 1.) **Failure to meet this deadline may mean employees not being paid their salaries.** Only exceptional circumstances and if prior arrangements has been made can a Crown Agency wave requirement. This shall be a one-off.
- 3.5.8 Salary timesheets should show the hours for the previous fortnight and will be paid on the second Wednesday following the Thursday timesheet submittal. E.g;

November 2005						
M	T	W	T	F	S	S
31	1	2	3	4	5	6
<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	12	13
<b>14</b>	15	<b>16</b>	<b>17</b>	<b>18</b>	19	20
<b>21</b>	22	<b>23</b>	<b>24</b>	<b>25</b>	26	27
<b>28</b>	29	30				

Timesheet received	Fortnight hours should relate to	When Paid
Thursday 17 <sup>th</sup> November	3 <sup>rd</sup> to 16 <sup>th</sup> November	Wednesday 30 <sup>th</sup> November

- 3.5.9 If prior arrangements have not been made with the Payroll Clerk, the late receipt of timesheets will result in a delay of payments to nominated accounts. Payments will be released on the next release of payroll information to the banks.

### 3.6 Leave

- 3.6.1 All leave taken must be shown on the timesheet.
- 3.6.2 It is the Ministry's responsibility to maintain leave records for all staff. These will be audited and outstanding annual leave entitlements must be shown in the Ministry's annual accounts. Refer *Part D Section 5 – Year End Accounts Preparation*.

### 3.7 Loose Vouchers

- 3.7.1 As from 01<sup>st</sup> October 2008, the processing of ALL personnel related loose vouchers will be done together with the normal payroll processing. (*refer to memo dated 18/09/08-Payroll Loose Voucher Processing*) All loose vouchers must include compulsory superannuation deductions
- 3.7.2 The payments that will be affected are listed below:
- Long service leave (3yr service)
  - Salary arrears
  - Employees missed from the time sheet
  - Staff Bonus
  - Reliever employees
  - High duty allowance
- 3.7.3 Special one off cases will be assessed on a case by case basis. This is not encouraged.
- 3.7.4 Loose vouchers must show Gross Pay, PAYE and superannuation calculations. If you are unsure what rates to use (it varies with each person), then contact the Payroll Officer (*Part E Section 1 – MFEM Contacts*).
- 3.7.5 Loose vouchers must be appropriately authorised. Heads of Ministry cannot authorise payments to themselves, they require the authorisation of their employer – e.g. Public Service Commissioner or Chairman of the Board.
- 3.7.6 Sufficient time must be given to MFEM to process special case loose vouchers. MFEM will endeavour to process loose vouchers within 1 working day provided the voucher is completed correctly, is appropriately signed and has all necessary supporting documentation. Do not expect to be able to present a voucher and wait for the cheque, particularly at 2.55pm of an afternoon.
- 3.7.7 In the instance that a special case-Loose voucher will be done, the cheque will not be made out to "Cash". In circumstances where the voucher is deemed to be a regular payroll payment (e.g. new staff member on the payroll who started after the pay fortnight) and



the amount is less than \$1,000.00, the cheque will be made out to the staff member and additionally stamped and signed as “Please Pay Cash”.

- 3.7.8 Bonus payments and other “irregular” personnel payments, and cheques over \$1000.00 will be required to clear as per any other cheque. All must go through the system either before or after.



**ATTACHMENT 2 NOTICE OF APPOINTMENT TEMPLATE**



GOVERNMENT OF THE COOK ISLANDS

**MINISTRY OF FINANCE &  
ECONOMIC MANAGEMENT**

**\*Fiscal & Economic Advice & Management, \*Effective Fiscal & Economic Management, \*Taxation  
& Border Management Taxes, \*Relevant Statistical Data, \*Administration of Donor Assistance**

PO. Box 99, Rarotonga, Cook Islands \* Telephone: (682) 22-878 \* Facsimile: (682) 23-877  
Email: cifinsec@mfem.gov.ck

**ATTENTION: Priscilla Maruariki  
Treasury Operations Manager  
MFEM**

**NOTICE OF APPOINTMENT**

1. Appointee: Elizabeth POINT  
(as per passport or birth certificate, pls also supply a copy of proof of identification)  
  
DOB: 12<sup>th</sup> September 1981
2. Position: Finance Officer
3. Ministry: Finance & Economic Management
4. Division: Aid Management
5. Location: Rarotonga
6. Salary Range : Minimum: \$15,964  
Mid-Point: \$17,161  
Maximum: \$18,358
7. Job Sizing Band: Band E
8. Remuneration : a) Salary(without Super):\$14,980 p.a.  
  
b) Superannuation: \$749p.a NSF Contribution  
\$749p.a NSF Subsidy  
\$150p.a Voluntary Contribution

(Deduction is 5% of Gross Wages, Salary, Bonuses or remuneration of any kind)  
(Voluntary Contribution requires 1% minimum of annual salary)

c) Other Entitlements:		
	Housing	\$2,800 p.a.
	Transport	<u>\$1,500 p.a.</u>
Total Remuneration:		\$20,928 p.a.

***(Must show breakdown of base salary & other entitlements where relevant)***

9. Effective from: Monday 3rd September 2009

10. Leave Entitlement: Annual Leave 10 days per annum  
Sick leave 10 days per annum

11. Other Entitlements: *(Please provide in detail)*

12. Other Information:  
*(Indicate whether request for Appointment has sufficient budget for per Annum Salary, must be within the annual Ministry Appropriation. The Ministry should ensure that files for Audit contain appropriate justification for the new appointment.)*

---

David Jones Snr  
**FINANCIAL SECRETARY**

**ATTACHMENT 3 NOTIFICATION OF REMUNERATION ADJUSTMENT  
TEMPLATE**



GOVERNMENT OF THE COOK ISLANDS

**MINISTRY OF FINANCE &  
ECONOMIC MANAGEMENT**

**\*Fiscal & Economic Advice & Management, \*Effective Fiscal & Economic Management, \*Taxation  
& Border Management Taxes, \*Relevant Statistical Data, \*Administration of Donor Assistance**

PO. Box 99, Rarotonga, Cook Islands \* Telephone: (682) 22-878 \* Facsimile: (682) 23-877  
Email: [cifinsec@mfem.gov.ck](mailto:cifinsec@mfem.gov.ck)

**ATTENTION: Priscilla Maruariki  
Treasury Operations Manager  
MFEM**

**NOTICE OF REMUNERATION ADJUSTMENT**

1. Appointee: Joe Apii  
(as per passport or birth certificate, pls also supply a copy of proof of identification)  
  
DOB: 5<sup>th</sup> April 1982
2. Employee Number: 15246 (*as per payroll system*)
3. Position: Finance Officer
4. Ministry: Finance & Economic Management
5. Division: Treasury Management
6. Location: Rarotonga
7. Salary Range :  
Minimum \$15,964  
Mid-Point \$17,161  
Maximum \$18,358
8. Job Sizing Band: Band E
9. Current Salary: a) Salary: \$14,980 p.a.  
b) NSF Subsidy \$749 p.a.

- |  |                        |                    |
|--|------------------------|--------------------|
|  | NSF Contribution       | \$749 p.a.         |
|  | NSF Voluntary          | \$150 p.a.         |
|  | b) Other Entitlements: | <u>\$2,800 p.a</u> |
|  | Total Remuneration:    | \$19,428 p.a.      |
10. New Salary:
- |                        |                    |
|------------------------|--------------------|
| a) Salary:             | \$15,358 p.a.      |
| b) NSF Subsidy:        | \$768 p.a.         |
| NSF Contribution       | \$768 p.a.         |
| NSF Voluntary          | \$154 p.a.         |
| b) Other Entitlements: | <u>\$3,000 p.a</u> |
| Total Remuneration:    | \$20,048 p.a.      |
11. Effective from: Monday 24th September 2007
12. Leave Entitlement: Annual Leave 10 days per annum  
Sick leave 10 days per annum
13. Other Entitlements: *(Please provide in detail)*
14. Other Information:  
*(Indicate whether request for Appointment has sufficient budget for per Annum Salary, must be within the annual Ministry Appropriation. The Ministry should ensure that files for Audit contain appropriate justification for the remuneration adjustment.)*

---

David Jones Snr  
**FINANCIAL SECRETARY**

## Performance Bonus Payments

### 1.0 Objective

- 1.1 Bonus Pay is intended to reward high performance of staff, or recognize exceptional work in service of a Ministry, and attract, motivate, and retain exceptional employees where warranted.
- 1.2 It may be used to recognize individual accomplishments in support of the organizations performance effectiveness occurring outside the boundaries of the expected performance of the staff member's job description.
- 1.3 In general, extraordinary achievement is a succession of noteworthy actions over a predetermined period of time.
- 1.4 As a program of rewarding exceptional performance, it is expected that bonus payments would not be awarded to all employees in a given year.
- 1.5 Whilst acknowledging that all employees contribute, in varying ways, toward advancing the Ministry's mission, this alone does not oblige a bonus payment. When deciding on the level of reward to recommend for a bonus payment, the nature of the work performed should be taken into consideration.

### 2.0 Policy

- 2.1 Application for a bonus payment can only be considered when:
  - 2.1.1 a salary increment is not a suitable method of rewarding the employee for performance during the year or
  - 2.1.2 an officer is at the top of his/her salary band
- 2.2 A bonus:
  - 2.2.1 Is a one-off payment which is not consolidated into basic pay, and has to be re-earned during each appraisal period.
  - 2.2.2 Cannot be made more than once within a single financial year to the same staff member.
  - 2.2.3 Will not be made for work which has already been rewarded in other ways. For example, a bonus cannot be paid for work which has already been recognized through a prior higher duties allowance payment, salary increment, overtime payment in the same financial year.
  - 2.2.4 It cannot be used as a means to reward those employed on a probationary basis

### 3.0 Performance Measures

- 3.1 Performance must be rated at the 'exceptional' level to qualify for consideration of a bonus payment; and one of the following to apply:
- 3.1.1 The employee performs substantially above and beyond expectation in a specified job.
  - 3.1.2 The employee makes a contribution that has a significant impact on the departments core objectives
  - 3.1.3 The employee goes above and beyond the normal responsibilities required in the job description
  - 3.1.4 The employee assumes added responsibilities which have not been rewarded in other ways.

### 4.0 Purpose

- 4.1 to encourage Government Departments and staff to deliver exceptional services
- 4.2 to promote individual recognition
- 4.3 to allow for effective management and uphold good employer principles
- 4.4 promote fairness and consistency in the rewarding of public servants within budget constraints of the relevant Ministry.

### 5.0 Specific Requirements

- 5.1 All Expenditure must be within the approved appropriation by Parliament.
- 5.2 HOM have discretion to award performance bonus payments to staff
- 5.3 All HOMs to conduct comprehensive performance appraisals of all staff before determining whether to award performance bonus payments
- 5.4 Information in 5.3 to be filed for Audit purposes and should be accompanied by justification in accordance with the policy and procedures set out in this document.
- 5.5 All requests to process payments through MFEM must have HOM signature

### 6.0 Process

- 6.1 HOMs in line with good employer principles shall conduct periodic reviews of performance in their ministries for all staff members.



- 6.2 The HOM, following its conduct of performance reviews, have the discretion to who he/she thinks should be accorded performance bonus in the year concerned.
- 6.3 A provision of 1% of the gross personnel appropriation of a Ministry shall be allocated specifically for performance bonus payments in each financial year
- 6.4 Performance bonus entitlement in each year is for the top performing employees in the organisation, thereby providing a competitive incentive for exceptional performance.
- 6.5 HOMs are to determine an equitable method for identifying top performers particularly in bigger organisations as well as those with employees based in the outer islands and overseas
- 6.6 The amount of bonus payments to staff is at the discretion of the HOM however it is recommended to be no more than 5% of an employee's annual base salary in any one financial year.
- 6.7 Documentation relating to performance bonus payments must be checked against this policy before submitting to MFEM for processing.
- 6.8 To promote consistency in the timing of processing performance bonus payments, requests for the payment of performance bonuses shall be lodged with MFEM in the first quarter of the financial year i.e between July Aug & Sept.
- 6.9 HOMs are responsible to ensure that their performance appraisal exercise is conducted and submitted during this period to ensure timely processing and payment of requests.
- 6.10 Ultimate responsibility lies with the HOM to ensure that they have funds in their budget to make performance bonus payments.
- 6.11 Requests that are inconsistent with the provisions of this policy will be returned to requesting Ministries for reworking where appropriate.

<b>Checklist for lodging Performance Bonus Requests/Vouchers</b>	<b>✓</b>
HOM signature	
Within 1% of 'gross' personnel budget	
Appraisal Performed for all staff	
Within timeframe stipulated	
Payments awarded to exceptional performers in the organisation	
Payments not exceeding 5% of a single employees annual base salary	
Documents appropriately filed for audit	

## 5A - Bulk Funded Aid Funding

### 1.0 Purpose

- 1.1 To ensure that Aid funds bulk funded to Ministries for operational and aid project expenditure are correctly accounted for.
- 1.2 To ensure that Ministries getting bulk funded Aid funding provide financial reports to MFEM/ Aid Management Division (AMD) accurately and on a timely basis.
- 1.3 Ensure that the AMD reports provided to Donors are accurate, reliable and relevant.

### 2.0 Mandatory Requirements

- 2.1 A separate trust bank account shall be opened for the bulk funded Aid funding.
- 2.2 Monthly financial reports (including reconciliations of individual trust bank account) to be provided to AMD by the tenth (10<sup>th</sup>) working day of each month, unless advised separately.

### 3.0 Process

- 3.1 All Crown Agencies that require bulk funded Aid funding will provide AMD with a monthly forecast of the approved funding from the donors.
- 3.2 Deposit the funding from the donor to the separate bank account opened for this specific purpose.
- 3.3 In the ledger please post the entries below to your accounting system

*Dr Bank Account*  
*Cr Aid Liability*  
(To record funding received from donors)

- 3.4 When paying for expenses, please follow Part D, Section 2 of the Cook Islands Procedure manual and for recording see below:

*Dr Aid Liability*  
*Cr Bank Account*  
(Record payment made from aid funds)

*Dr Aid Expense*  
*Cr Aid Revenue*  
(Record Aid benefit to the agency – same time as above journal)

- 3.5 If the funding is going to be used to contribute towards the purchase / building of an asset, refer to *Part B Section 5 – Aid Funded Assets*. The journals for this process are detailed there.

3.6 A variance report on the actual spending must be filed with Aid Management Division (AMD) within 10 working days after month end. Please refer to Part D Section 4 for requirement on monthly reporting

3.7 At the end of the financial year.

3.7.1 Aid revenue must always equal Aid expenses

3.7.2 The Trust Accounts must always match the Aid Liabilities.

3.7.3 If a separate data file is being kept for a particular Aid Fund, then the balances at year-end will need to be journaled into the main data file for the Agency.

*Dr Aid Expenses*

*Dr Bank Account (Trust Accounts)*

*Cr Aid Revenue*

*Cr Aid Liability*

3.8 The bank balance at year end (reflected in the Trust account and matched by the Aid Liability) can either be refunded back to the donor or be rolled forward to the next financial year. This will depend on the agreement.

## 1 - Procedure Control

### 1.0 Purpose

1.1 Each section of this manual is laid out with a similar structure.

- 1.1.1 Purpose - Outlines the reason for the procedure or policy
- 1.1.2 Mandatory Requirements - These requirements must be met or results that must be achieved. They seldom prescribe the way in which the process must be done.
- 1.1.3 Process - This gives details and guidance of the process as a method of achieving the requirements. In some cases the process is mandatory, but this is clearly identified.

Only justifiable departures from the Process should be carried out.

Ensure these procedures are maintained with the most up to date version.

These procedures are promulgated under section 63 of the Ministry of Finance and Economic Management Act 1995-96;

*63. Ministry instructions - Subject to the provisions of this Act and any regulations made pursuant thereto, the Ministry may from time to time issue instructions to ensure compliance with the recognised financial disciplines provided for in this Act.*

### 2.0 Mandatory Requirements

- 2.1 A member of staff is to be appointed as being responsible for this manual. They must ensure all staff in their Ministry or Crown Agency who should be, are aware of its contents and requirements and have access to this manual.
- 2.2 All updates are filed as per instructions.
- 2.3 Any errors or omissions are identified and forwarded to MFEM as per Attachment 1.

### 3.0 Process

- 3.1 Procedure updates will be emailed to the Head of Ministry or Crown Agency.
- 3.2 One person (usually the Finance Officer) is appointed as responsible for keeping the manual up to date with modified versions.
- 3.3 When a new version is received, the existing file is replaced with the updated version.

- 3.3.1 The new should be filed in the exact same location as the previous version unless instructed by management.
- 3.3.2 All old versions of the procedure must be deleted.
- 3.3.3
- 3.4 Each time there are changes (updates) revised Contents pages will be issued. This records the correct version for each procedure. Destroy the old version of the Contents pages.
- 3.5 *The contents page also* provides a list of the updates to the manual and the date they became effective.
- 3.6 Any errors, omissions or suggestions are to be forward to MFEM as per Attachment 1.

Attachment 1

**Procedure Amendment/ Addition Request**

Part: \_\_\_\_\_ Section: \_\_\_\_\_ Name: \_\_\_\_\_

Your name: \_\_\_\_\_ Ministry: \_\_\_\_\_

Details:

Please photocopy this sheet for additional forms.

**Fax to MFEM (29-652)**

## 2 – Purchase & Sale of Goods & Services

### 1.0 Purpose

- 1.1 To establish uniform procedures for the purchase and sale of goods and services (including assets) across Ministries, Island Administrations and Crown Funded Agencies.
- 1.2 To ensure that staff delegated authority to purchase or sell goods or services shall make such purchases and sales within the limit of that authority.
- 1.3 To ensure that purchases and sales transactions comply with suitable standards of accountability and transparency.

### 2.0 Mandatory Requirements

- 2.1 Parliamentary approval for all operating and capital expenditure.
- 2.2 All staff responsible for the purchase and sale of goods & services are delegated the appropriate authority to do so.
- 2.3 All Ministries, Island Administrations and Crown Funded Agencies follow appropriate procedures for all purchases and sales.
- 2.4 Purchases and sales may not be divided up (eg into component parts), or paid via instalment transactions, in order to circumvent these requirements.
- 2.5 Capital purchases can only be made for the net total in the Appropriation Bill. It is not permissible to “top up” a capital purchase with operating funds.
- 2.6 Where identified this procedure refers directly to *Part D Section 3 - Public Tendering*.

### 3.0 Process

#### 3.1 Delegation of Authority

- 3.1.1 Parliament appropriates funds to crown funded agencies.
- 3.1.2 The Head of Ministry is responsible for the use of the funds, as set down in Section 39 of the MFEM legislation.
- 3.1.3 The Head of Ministry must delegate the appropriate authority in writing to Heads of Department, Finance & Purchasing personnel and/or any other relevant personnel.
- 3.1.4 When delegating authority to purchase goods and services to people not employed by the organisation concerned it must be subject to the procedures issued particularly as they relate to obtaining quotations and tendering.

- 3.1.5 Members of Parliament or Island Councils may not be delegated authority to purchase goods or services. This does not mean that they cannot be consulted or offer advice. It just means that they cannot act as agents.
  - 3.1.6 Any payments to the Head of Ministry must be countersigned by the Senior Finance Officer and where possible another manager. A copy of this approved invoice must be kept on a separate file and be made available to Audit.
  - 3.1.7 Documentation of the level of authority delegated should include the following information:
    - 3.1.7.1 The type of transaction authorised, e.g. operating expenditure or capital expenditure
    - 3.1.7.2 The level of expenditure authorised.
    - 3.1.7.3 The area of the organisation, or the appropriation, to which the authority extends. E.g. Management Accounting Division of MFEM only.
  - 3.1.8 Delegation authorities should take any relevant legislation into account, e.g. MFEM, PERCA, PSC Acts etc.
- 3.2 Transactions requiring a contestable process.
- 3.2.1 If the transaction is likely to be contestable, or be subject to public interest, then a competitive process must be undertaken.
  - 3.2.2 The process must comprise the following attributes:
    - 3.2.2.1 Contestable
    - 3.2.2.2 Transparent
    - 3.2.2.3 Accountable
    - 3.2.2.4 Arms Length
    - 3.2.2.5 Without favouritism
  - 3.2.3 The formal process for certain types and size of transactions is set out in Attachment 1
- 3.3 Tender Process
- 3.3.1 See *Part D Section 3 - Public Tendering*.
- 3.4 Quotations
- 3.4.1 Quotations should only be obtained from those genuinely interested in supplying the goods or service.
  - 3.4.2 At least 3 quotes should be obtained, unless circumstances dictate that fewer quotes are obtainable.



- 3.4.3 Ensure the same instructions/specifications are supplied to all parties furnishing quotations. Attachment 2 is list of issues to consider when obtaining a quote. This list is indicative only as each situation is different.
- 3.4.4 Ensure the requirements of Section 3.2.2 above are adhered to.
- 3.4.5 In the case of Asset Sales, at the very least, the sale of the asset must be advertised on the staff notice board(s) for one week before the closing of the quotes.
- 3.4.6 Ensure that the detail of the quotes is sufficient to be able to make valid comparisons e.g. if freight is included, make sure included as a separate line in all quotes.

### 3.5 Sale of Assets

- 3.5.1 All vehicles must be sold via the tender process
- 3.5.2 All other assets over \$3,000 in value must be sold via the tender process
- 3.5.3 Other assets under \$3,000 can be sold via advertising (paper, other media etc) on a “first-come, first-serve” basis

### 3.6 Conflict of Interest

- 3.6.1 Anyone intending to supply goods & services to the Ministry or to purchase an asset from the Ministry must not be involved in the process of evaluation of quotations or tenders.

3.7 Discounts for prompt payment should be taken advantage of as far as practical in all situations.

3.8 Where a Head of Ministry is unsure about deviation from these procedures clarification may be sought from MFEM.

3.9 All associated documentation should be filed and made available for Audit.

Attachment 1 – Transactions requiring a formal process

Attachment 2 – Instructions/specifications when obtaining a quotation

Attachment 3 – Check list for purchase of goods and services

Attachment 4 – Check list for sale of goods and services

Attachment 1

Transaction requiring a formal process

<b>Transaction Type</b>	<b>Estimate Cost / Sale price</b>	<b>Specific Process</b>	<b>See Section</b>
Capital Projects	Over \$30,000	Tender	3.3
	\$1,000 - \$29,999	Quotations	3.4
Operating Projects	Over \$30,000	Tender	3.3
	\$5,000 - \$29,999	Quotations	3.4
	Under \$5,000	HOM Approval	
Asset Sales	All Vehicles Other Assets over \$3,000	Tender	3.3, 3.5
	Under \$3,000	Advertising, First- come, First-serve basis	3.5

## Attachment 2

### Instructions/Specifications when obtaining a quote.

**This list is indicative only and instructions/specifications should not be limited to just those contained in this Attachment.**

- Full description of the purchase/sale item including, where relevant, size, weight  
.....
- Gross Amount
- Tax Amount
- Delivery date and availability
- If second hand, condition
- Warranty conditions
- Maintenance – is it available, is it included in price, what is the average maintenance cost?
- Levies
- Freight
- Payment requirements – discounts, payment terms and dates

Attachment 3

Where any points in the checklist have been marked „NO“, then immediate steps must be taken to resolve the issues in order to proceed any further into the Tender process.

**CHECK LIST FOR PURCHASE OF GOODS AND SERVICES**

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 1. Do you have authority, as HOM or through written delegation?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Have you ensured that all those involved in the evaluation of the quotations or tenders are not intending to supply goods and services or have any other conflict of interest? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Have you identified from Attachment 1 which process you are required to follow?  | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If a tender process is required, follow <i>Part D Section 3 – Public Tendering</i>   |                          |                          |
| b. If a quotation process is required:  |                          |                          |
| i. Have you fully considered and documented what instructions/specifications are to be given to all parties furnishing quotations?  | <input type="checkbox"/> | <input type="checkbox"/> |
| ii. Have the same instructions/specifications been given to all parties furnishing quotations?  | <input type="checkbox"/> | <input type="checkbox"/> |
| iii. Have you obtained <u>three</u> quotes?   | <input type="checkbox"/> | <input type="checkbox"/> |
| iv. If the quote accepted is higher than the other two quotes, do you have written justification as to why the higher quote was decided on?                                       | <input type="checkbox"/> | <input type="checkbox"/> |
| v. If you been unable to obtain three quotes have you fully documented the circumstances dictating that fewer quotes were obtainable?   | <input type="checkbox"/> | <input type="checkbox"/> |
| vi. Have you ensured that all quotes have the same level of detail to enable comparison?  | <input type="checkbox"/> | <input type="checkbox"/> |

\_\_\_\_\_  
Authorised purchaser's name

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_  
Date

Attachment 4

Where any points in the checklist have been marked „NO“, then immediate steps must be taken to resolve the issues in order to proceed any further into the Tender process.

**CHECK LIST FOR SALE OF GOODS AND SERVICES**

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 4. Do you have authority, as HOM or through written delegation?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Have you ensured that all those involved in the evaluation of the quotations or tenders are not intending to purchase goods and services or have any other conflict of interest? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Have you identified from Attachment 1 which process you are required to follow?  | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If a tender process is required follow <i>Part D Section 3 – Public Tendering</i>  |                          |                          |
| b. If a quotation process is required:  |                          |                          |
| i. Have you fully considered and documented what instructions/specifications are to be given to all parties furnishing quotations?  | <input type="checkbox"/> | <input type="checkbox"/> |
| ii. Have the same instructions/specifications been given to all parties furnishing quotations?  | <input type="checkbox"/> | <input type="checkbox"/> |
| iii. Have you obtained <u>three</u> quotes?   | <input type="checkbox"/> | <input type="checkbox"/> |
| iv. If the quote accepted is lesser than the other two quotes, do you have written justification as to why the lower quote was decided upon?  | <input type="checkbox"/> | <input type="checkbox"/> |
| v. If you have been unable to obtain three quotes have you fully documented the circumstances dictating that fewer quotes were obtainable?  | <input type="checkbox"/> | <input type="checkbox"/> |
| vi. Have you ensured that all quotes have the same level of detail to enable comparison?  | <input type="checkbox"/> | <input type="checkbox"/> |

\_\_\_\_\_

Authorised seller's name

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

Date

### 3 – Public Tendering

#### 1.0 Purpose

- 1.1 To achieve cost effectiveness in the expenditure of public funds, alternatively to procure the best goods and services for the price paid or getting the lowest price for an acceptable goods and services.
- 1.2 To establish consistent purchasing and sales procedures of goods and services across Ministries, Island Administrations and Crown Funded Agencies.
- 1.3 To ensure probity and accountability are integrated into the systems adopted by each Ministry, Island Administration and Crown Funded Agency for the Public Tendering process.
- 1.4 To eliminate or minimise the threat of :
  - 1.4.1 Misuse and misappropriation of Government resources or misapplication of public property,
  - 1.4.2 Conflict of interest,
  - 1.4.3 Theft, fraud or corruption,
  - 1.4.4 Other actions which may breach the public's trust.
- 1.5 For purchases and sales covered in Attachment 1 of *Part D Section 2 - Purchase & Sale of Goods & Services for any individual item equal to or more than \$30,000.*
- 1.6 To ensure that the appropriate expertise and financial controls are in place throughout the Tender process.
- 1.7 As most suppliers validate quotes or tenders for service for a period of 30 days, the process has been designed to ensure all steps are completed carefully within this period.
- 1.8 To ensure that the correct tendering procedures are followed.

#### 2.0 Mandatory Requirements

- 2.1 A documented tender process as described in this procedure must be complied with, allowing only justifiable departures. The process must be conducted in a manner that is honest, ethical and fair to all the participants involved.
- 2.2 All documentation of the tender process must be kept on file for inspection or review and audit verification purposes.
- 2.3 Purchases and sales may not be divided up (e.g. into component parts), or paid via instalment transactions, in order to circumvent these requirements.

- 2.4 Commitment to a supplier without the completion of the public tendering processes shall not be considered or permitted.
  - 2.5 Funding shall not be made available for any project that is subject to the requirements of the tender process, where this procedure has not been complied with.
  - 2.6 This procedure must be applied in conjunction with *Part D Section 2 - Purchase & Sale of Goods & Services*.
  - 2.7 If a Ministry wishes to carry out a closed tender process, they must follow Part D Section 3B – Closed Tender.
- 3.0 If a Ministry intends to deviate from sections in this policy i.e waiver Public Tendering Process, the Ministry must write to the Financial Secretary to obtain written approval. Note: This may only be considered in „urgent“ cases whereby there is an urgent need for the project to be carried out due to unforeseen events and the Tender Committee is satisfied of the case OR in cases whereby no tenderers have been received for a particular project. (See also Part D Section 3B – Closed Tender). It may also be considered in „exceptional circumstances“ for example, lack of response to invitation to tenders and/or tenderer costs exceeding budgeted costs. The lack of forward planning by Ministries is not an acceptable reason for „urgency“ nor will it be considered an „exceptional circumstance“ for a particular tender project.
- 3.1 Written application to be made to the Chairperson of the Tender Committee for any deviations from the policy for MFEM tenders. Approval is to be obtained with concurrence of the Minister of Finance.
  - 3.2 If no written approval is provided by the Chairman or the Assistant Chairman of the Tender Committee, funding will not be authorized for release.

#### 4.0 Process

##### 4.1 Tender Checklist

- 4.1.1 Refer to Attachment 2 – Tender Checklist is to assist you with the application of this procedure. Where any points in the checklist have been marked ‘**NO**’, then immediate steps must be taken to resolve the issues in order to proceed any further into the Tender process.

##### 4.2 Technical Design and Specifications

- 4.2.1 These documents must be prepared prior to the tender process and even before the appropriation is approved in the budget process. Information in this document must include, where relevant:
  - 4.2.1.1 A detailed design/plan (for civil works construction projects), drawings or photographs (for motor vehicles, machinery and equipment).
  - 4.2.1.2 Specifications.

- 4.2.1.3 Bill of Quantity listing materials, e.g. cubic metres of cement, number of nails or timber etc.
- 4.2.1.4 Quality standards e.g. grade or mix of cement required, hurricane or standard nails, type of timber etc.
- 4.2.1.5 Schedule of cost estimates or remuneration package.

#### 4.3 Appropriation details

- 4.3.1 Prior to tendering process taking place, the Head of Ministry (HOM) must ensure funding is available to carry out the completion of the Contract.
- 4.3.2 Full appropriation details must be provided to the Tender Committee to ensure sufficient funds are available to carry out the completion of the Contract. Appropriate documentation to evidence these must also be readily available to the Tender Committee e.g Cabinet Minutes, Letter of approval from Donor funding agency, etc.
- 4.3.3 All costs associated with the tender must be included in the Tender Specification Documents prior to the tender being advertised so as to avoid any requests from a Ministry/Crown agency for variances to the original tender price approved by the Tender Committee as these may not be considered.
- 4.3.4 If works are to be carried out in the Outer Islands for any tender project, it is the tenderer's responsibility to visit the location of the project in order to assess the true costs to complete the project.
- 4.3.5 If a Ministry/Crown Agency requests a variation to the original tender price which was approved by the Tender Committee, this will only be considered if there were unforeseen events such as a Natural Disaster or perceived unforeseen events. The lack of forward planning by Ministries is not an acceptable reason for the Tender Committee to consider approving a variation to original tender prices which were approved by the Tender Committee.
- 4.3.6 If the projects was for works to be carried out in the Outer Islands and a site visit was not conducted to assess the true costs to complete the project, any requests from a Ministry/Crown Agency for a variation to the original tender price will not be accepted unless under special circumstances.

#### 4.4 A Tender Team

- 4.4.1 A „Tender Team“ shall be established with a „Terms of Reference“ to develop, document and manage the tender process. This must occur as soon as practicable after the decision has been made by the Crown agency to engage in the tender process.



- 4.4.2 The team shall consist of 3-5 members with appropriate expertise, from within the agency or externally, e.g. engineer, technical assistants, financial advisers and/or any other relevant personnel.
- 4.4.3 The team members may change at different times during the process but it is recommended that a set membership be maintained throughout the whole process for continuity and consistency so that members are familiar with all stages of the process.
- 4.4.4 Each team member must declare any conflict of interest – any information that she/he feels may affect her/his involvement with the Tender team must be disclosed.
- 4.4.5 One member of the team will be appointed as Team Leader and delegated the responsibility for ensuring procedural integrity and compliance with all the required procedures throughout the process.
- 4.4.6 One member of the team will be delegated the responsibility of recording all information and activities relating to the process. All documents shall be labelled, filed and made available for inspection, review and Audit.

#### 4.5 Request for Tender documents

- 4.5.1 There are several documents required in preparation for putting out a Request for Tender. They should include the following:
  - 4.5.1.1 Cover sheet – this provides basic information about the proposal offer and should be typewritten on the Agency's letterhead.
  - 4.5.1.2 Standard Terms of Tender – this outlines the conditions that the agency has set out for the process for Requesting the Tender and it should highlight conditions on the following information:
    - 4.5.1.2.1 The name of the Crown agency responsible for the Request for Tender. This must be clearly stated.
    - 4.5.1.2.2 That information packs are to be made available – with tender specifications etc. and a contact person and details for enquiries.
    - 4.5.1.2.3 Venue for lodgement, date and time for closure of acceptance of Tenders.
    - 4.5.1.2.4 The format or forms required for completion in order for a proposal to be accepted. The following clause should be included to emphasise this requirement: *'Tenders must*

*be completed in the format contained in “Attachment #”. If offers do not comply with the format contained in Attachment #, they will not be accepted.”*

- 4.5.1.2.5 It **must** be clearly stated that all tender proposals and related documentation be presented in the English language.
- 4.5.1.2.6 If works are to be carried out in the Outer Islands for any tender project, it is the tenderer’s responsibility to visit the location of the project in order to assess the true costs to complete the project.
- 4.5.1.2.7 It must be clearly stated whether tender proposals will be accepted for all or part of the specifications listed for tender. The specifications may include statements such as: „The Tenderer must tender to provide services or supply materials for the whole the contract works...” or „Tenderers may tender to supply services or materials for sections of the entire specifications but must tender for the whole requirements of that section.”
- 4.5.1.2.8 If the tender specifications for the whole works can be disaggregated into sections ensuring accordance with procedure 2.3, if so tenderers can tender for a particular section but must tender for all and not part of that section.
- 4.5.1.2.9 A template for costing and other details should be prepared and tenderers are required to submit using the template to ensure that the tenderer submits the required information and that all tenderer proposals are consistent for the purposes of evaluating the tenders.
- 4.5.1.2.10 Instructions for handing in tender proposals. A tender box, clearly marked “Tenders” with a slot and locked casing should be prepared for the purpose of the placement of tender proposals.
- 4.5.1.2.11 That Tender proposals must be presented in hard copy format only, delivered in a sealed envelope to the designated venue or sent by courier or post via air/sea mail. The

envelope must be clearly labelled, attention care of the respective contact person, and with details including the name of the tender being submitted e.g. Penrhyn Harbour Stage 2 C05/06, and the full name and contact details of the tenderer. The receiver at the agency shall record the date, time and place of receipt of the tender and place the tender documents into the tender box.

- 4.5.1.2.12 That telefax and electronic proposals will not be acceptable as the original submission due to confidentiality issues and to avoid allegations of document tampering. Telefax or electronic proposals may be requested by the crown agency in addition to an original hard copy for ease of analysis. NO tender proposal should be revealed to anyone, until the agreed day that the Tender box is to be opened.
- 4.5.1.2.13 That it is the Tenderer's responsibility to ensure that their proposal reaches the designated venue by the specified date and time.
- 4.5.1.2.14 That negotiations will not take place between the Tender Team and the prospective suppliers during the advertising stage.
- 4.5.1.2.15 Information on how the tenders will be assessed (evaluation criteria section 3.8 & evaluation method section 3.8.3 below) and how the successful tenderer will be chosen. It is extremely important that the information requested from suppliers is sufficient to enable a thorough evaluation of the tenders. The success of the evaluation depends on whether the proper specifications and requirements and useful information have been included in these documents for tenderers to provide.
- 4.5.1.2.16 Request for details of financial or contractual requirements that the tenderer will apply if awarded the tender.
- 4.5.1.2.17 If there is likely to be a shortlisting of tenderers, then terms and conditions for this process must be clearly stated, section 3.8.2.

- 4.5.1.2.18 The process for informing the successful tenderer must be clearly stated (timeframe from opening of tender box, timeframe after evaluation process, and the form in how the tenderer will be advised).
  - 4.5.1.2.19 This should also include the process for informing unsuccessful tenderers and whether they have the option of appealing the decision or requesting further information leading to the cause of the decision.
  - 4.5.1.2.20 There must be information of whether post-offer negotiations may take place before the letter of acceptance is issued.
  - 4.5.1.2.21 There must be information of the agency's intentions of contacting referees, competitors or customers to enquire on the performance of the tenderer.
  - 4.5.1.2.22 There must be information noting whether the tenderers may request to see evaluation documents. Note: This decision is at the discretion of the HOM.
  - 4.5.1.2.23 That no gifts or entertainment of any nature will be permitted between any parties involved throughout the tender process, including: tenderers or potential tenderers, tender team members, evaluation team members, the Head of Ministry, or any other member or organisation that may have an involvement with any aspect of the tender process.
- 4.5.1.3 Standard Conditions of Contract – details of the conditions the agency is prepared to contract for the goods or services required. E.g. payment instalments, retention fees, penalties for delays, defects in materials or workmanship etc.
- 4.5.1.4 Specification – a statement of needs that identifies what the agency wishes to buy, sell or contract and consequently outlines what is required from the supplier/service provider e.g. freight to Outer Islands or to Avatiu wharf, literage from „ship to shore“, transportation from wharf to location, installation or construction requirements, time frame for expected completion, quotes for items to include all related costs

and not identified separately at the end of the invoice (this gives a true cost for each item quoted).

4.5.1.5 Schedule of prices – a standard form should be drawn up to include columns for:

4.5.1.5.1 Item description, Item cost (VAT Excl.), quantity, VAT component, Total (VAT Incl.), discount and any other relevant columns. All quotes must clearly show the VAT exclusive quotes in a separate column to that of VAT, since the Crown appropriation is VAT exclusive. All values must be shown in New Zealand Dollar (NZD) currency.

4.5.1.5.2 Quotes must be inclusive of freight landed in Rarotonga for ease of comparing local supplier quotes to overseas supplier quotes. Note that VAT is calculated on the cost including freight.

4.5.1.5.3 Sections of this form should cater for categories for supplies, if relevant as per section 4.8.2.2.

4.5.1.5.4 Other columns may be added to allow for a range of prices for a particular item but for a different brand. Schedule of prices – a standard form should be drawn up to include the relevant columns for this situation.

4.5.1.6 Schedule of Particulars – this is a proforma of questions prepared by the agency on all aspects both technical and commercial. This must be completed by the tenderer as part of the offer and allows for easier comparison with other offers received. Examples: history/background of tenderer, similar projects or successful contracts completed, quality of services or materials etc. The schedule should be as long as necessary to gather all the relevant information on functionality/performance, commercial considerations, and technical aspects of the tenderer's proposal, in order to assist the agency in ensuring that the right decision is made when choosing the successful applicant.

4.5.2 The above documents will be referred to as the „Tender Specifications document“ and must be prepared by an engineer, specialised consultant or suitably qualified professional. Most of the information used for the preparation of these documents will be sourced from the technical design and specifications documents as referred to in section 4.2.

- 4.5.2.1 The technical aspects of the draft documents should be „peer reviewed“ by another engineer or suitably qualified professional.
- 4.5.2.2 The financial aspects of the document should be reviewed by a professional with financial expertise, and an understanding government financial policies and procedures.
- 4.5.2.3 The overall draft documents should be reviewed by a legal professional, preferably Crown Law, or a suitably qualified professional. This part of the process is very important to ensure that the agency has taken precautions to avoid any future litigation that may result from anomalies in the specifications and/or evaluation process.
- 4.5.2.4 The overall draft documents should be reviewed by the Tender Secretariat to ensure compliance with the tender policy prior to the advertising stage.
  - 4.5.2.4.1 After the completion of the review of the overall draft documents by the Tender Secretariat, the documents shall be returned to the Head of that Ministry/Crown Agency no less than 2 working days of receiving the overall draft documents.
  - 4.5.2.4.2 The Tender Secretariat must prepare, complete and endorse „an internal checklist“ (Attachment 3) to be returned to the Head of that Ministry/Crown Agency upon the completion of the overall draft documents no less than 2 working days of receiving overall draft documents.
  - 4.5.2.4.3 The Secretariat’s „internal checklist“ (Attachment 3) should be used by that Ministry/Crown Agency to ensure all sections of Part D Section 3 are complete when finalising „Tender Specifications Document“ (refer 3.5) prior to the advertising stage.
  - 4.5.2.4.4 The Secretariat’s „internal checklist“ must be submitted by that Ministry/Crown Agency together with all other documentation as per 3.9.2.
- 4.5.2.5 The templates used for the tender process should be reviewed to ensure that when tenders are received, they can be fairly and fully compared. E.g. VAT, freight and insurance shown separately.

4.5.3 „Expressions of interest“ may be sought first, for the purpose of exploring the market availability. The Tender specifications documents may have to be revisited to include any changes resulting from this process e.g. may have to advertise overseas if current market cannot meet all requirements etc.

4.5.3.1 Examples of useful information gained from an EOI include the Government entity responsible for tender identifying:

4.5.3.1.1 Available technologies: products or service available in the market place to meet the Government Entity“s needs

4.5.3.1.2 The willing and interested parties or vendors offering the potential products or services

4.5.3.1.3 The maturity and experience of the companies offering those products or services, and their abilities to deliver similar products or services

4.5.3.1.4 The likely indication of costs associated with delivering the product or service

4.5.3.1.5 How much interest there is in the project

4.5.3.1.6 Whether prospective suppliers/contractors can provide the necessary bonds and insurances required for the project especially for larger infrastructure type projects

4.5.3.1.7 Whether contractors have suitable plant equipment and or machinery readily available (or can obtain it)

4.5.3.1.8 Whether the contractors have the necessary experience and resources relevant to the project

4.5.3.1.9 A shortlisted number of providers, which can be used to progress to an open tender

4.5.3.2 If there is an EOI document that includes all the information requested in 4.5.3.1 above, prospective tenderers should be clearly informed of this fact in the EOI advertisement.

4.5.3.3 Any proposed tenderers who submit an EOI should be provided the opportunity to tender.

## 4.6 Advertising the Request for Tender

4.6.1 When the Tender specifications documents are prepared and the Request for Tender is ready for advertising to the public, the following criteria must be applied:

4.6.1.1 The advertisement must include: the name of the agency requesting the tender, the contact person & details (telephone,/facsimile/email) for enquiries, a brief description of the goods or service required, details of where tender specification documents can be obtained and closing date and time of the lodgement of tender proposals.

4.6.1.2 A minimum of 10 working days is required prior to the closure of the invitation, for advertising to the public. This will provide a reasonable period of time for potential tenderers both here, outer islands and overseas to submit proposals.

4.6.1.3 The request for tender should be advertised in the local newspaper(s), appearing a minimum of 5 times in total by way of at least 3 different sources of public media services e.g. local newspapers, local television, Ministry notice boards, website or distribution of flyers etc. Consideration for outer islands and overseas recipients should be taken into account and the appropriate media service should be chosen to cater for their needs.

4.6.1.4 Sample Tender advertisement:

**TENDER NOTICE**



**Ministry of Training  
Computer Tender**

Tenders are requested for the supply of computer equipment for Rarotonga training facilities and Ministry of Training head office. Computer quality and specifications can be uplifted from the MOT office or contact Mr Nga Avarua on ph 99999, fax 88888 or to email:  
[ngaavarua@example.gov.ck](mailto:ngaavarua@example.gov.ck)

Send tender to MOT Computer Tender, PO Box #, Rarotonga, Cook Islands. Tenders close on the 9 Dec 2005 at 4pm.

4.6.1.5 If at any time during the advertising of the tender, the tender team varies any aspect of the tender specifications or the timeframe for submissions, this must be communicated to ALL tenderers and those who have obtained tender documents but not yet lodged their



proposal. This can be done using their contact details obtained at the time the tender documents were uplifted. If a tenderer has already submitted a tender, they must be allowed to resubmit the tender for the variation to the specifications.

4.6.1.6 A Tender log form for „Interested parties“ must be prepared to register all parties that collect or request copies of the Tender Specifications documents. This form must note the date taken, name of interested party, and contact details should there be a need to contact the party in the event of any amendments to the tender process.

4.6.1.7 A Tender log form for „Receiving Tender Proposals“ should be prepared to register all parties that deliver or have sent in their tender proposal documents. This form should note the date and time received, whether by post or in person, name of interested party, and contact details should there be a need to contact the party in the event of any amendments to the tender process.

4.6.1.8 Negotiations must not take place between the Tender Team and the prospective suppliers during the advertising stage.

4.6.1.9 Any queries of clarification must be responded to in writing. The agency must make the same information available to any tenderer or potential tenderer by circulating the written response to those that have registered for information packages and attached to the information packages for those that have not yet collected the information packages.

3.6.1.10 All activities and decisions relating to the process for the advertising of Tenders, shall be labelled, filed and made available for inspection, review and Audit.

#### 4.7 Opening of Tender Proposals

4.7.1 If, when the closing date and time is reached and the tender box cannot be opened immediately for registering tender proposals, then the Tender Team shall have no longer than two (2) working days to ensure that all tenders have been opened and registered in the tender log form.

4.7.2 The Tender box should be opened in the presence of relevant members of the Tender Team and any two “witness” members of the public that have no conflict of interest. This must include an Auditor and any of the following members of the public: Police Officer, member of the clergy, Ministry of Finance & Economic Management finance officer, Tender Secretariat or a Justice of the Peace.

- 4.7.3 If an auditor cannot be physically present to open tenders, they will need to appoint someone on their behalf to witness the opening of tenders. This is on exceptional circumstances only.
- 4.7.4 The Tender log form for „Receiving Tenders“ (see 4.6.1.7) should be used to verify what is declared from the opening of the Tender box. The two “witness” members should read out the names of the Tenderer, after opening the proposal envelope and the Tender Team member present should signify on the log form that the Tender proposal for that particular tenderer was indeed received and registered as a potential Tenderer.
- 4.7.5 The Tender Team will be required to immediately “screen” the proposals briefly to ensure that tenderers have conformed to the mandatory criteria contained in the Tender Specifications documents „Standard Terms of Tender“ (see 4.5.1.2). Any offer that does not meet the terms specified in the Standard terms of tender are ‘**non-conforming**’ regardless how attractive its proposal is, and should be removed from the remaining evaluation process. *(Note: At times, you may find it difficult to turn down tenderers for non-conformity due to your past relationship or dealings with the supplier. However, it is the Tenderers’ responsibility to ensure they submit their proposals in the correct format, and not for your agency to make allowances for their failure to do so).*
- 4.7.6 A letter must be sent out immediately to the tenderer, informing them of the failure of their tender proposal to conform to the mandatory criteria. The letter will advise the tenderer that their proposal will not be considered in the tender process. The letter must be sent out before the evaluation process begins, to allow the tenderer the option to argue your decision should they feel that they did conform to the applicable criteria.
- 4.7.7 If all tenders received are non-conforming, the Tender Team must decide whether all suppliers should be contacted to resubmit their proposals to meet the mandatory criteria. Perhaps, there may be an indication that the scope or functional requirements and specifications cannot be realistically met by the current market and needs to be reviewed and a new „Request for Tender“ be issued out for advertisement. Whatever the decision may be, it must reflect that the team acted in fairness to all parties involved. *(Note: Legal action can be taken against Government Ministries or Crown funded agencies if it is revealed that a supplier that did not conform to all the mandatory requirements, but was awarded a tender over others who did conform).*

4.7.8 All activities and decisions relating to the process for the opening of Tenders, shall be labelled, filed and made available for inspection, review and Audit.

4.8 Evaluation Process – a good evaluation results in achievement of the objectives of the purchase or sale. The selection of the successful supplier or customer decided upon by Government agencies will be able to withstand scrutiny if the evaluation process is conducted effectively.

4.8.1 The following groups of people should be involved in this process:

4.8.1.1 Departmental managers who usually oversee and exercise financial delegations involved with purchasing and sale of assets.

4.8.1.2 Procurement officers, who will need to work with management and legal or technical experts, as well as understanding the current markets relating to the type of product or service required and ensuring that Government policies and procedures are being adhered to during the process.

4.8.1.3 Technical experts who understand and can offer guidance on technical requirements.

4.8.2 3.8.2 Short-listing may be required for more complex purchases or where a large number of tender proposals are received. This is usually common in the Cook Islands when dealing with tenders for employment contracts or consultancy roles. The following factors that may influence the need to short-list include:

4.8.2.1 The complexity of the purchase.

4.8.2.2 The number of potential suppliers.

4.8.2.3 The number of tenders received.

4.8.2.4 The resources allocated to the evaluation.

4.8.2.5 The time available for the evaluation.

4.8.2.6 Probity and accountability.

If the need to short-list eventuates, the process as outlined in the „Standard Terms of Tender“ (section 4.5.1.2) must be followed to ensure a fair and just selection of short-listed tenderers has been conducted.

4.8.3 Evaluation criteria are set before evaluation begins. Value for money should be integrated into the evaluation criteria in order to be able to select the most appropriate tender. The evaluation criteria must be aligned to the „Tender Specifications

documents outlined in section 4.2 and may include the following examples:

- 4.8.3.1.1 Locally established Company
  - 4.8.3.1.2 Locally supplied resources (labour and/or materials)
  - 4.8.3.1.3 Ability to meet specifications
  - 4.8.3.1.4 Expertise
  - 4.8.3.1.5 Competence
  - 4.8.3.1.6 Fitness for purpose
  - 4.8.3.1.7 Quality
  - 4.8.3.1.8 Service and support
  - 4.8.3.1.9 Whole of life costs (Costs associated with acquisition) e.g. storage, maintenance, disposal.
  - 4.8.3.1.10 Dollar (\$) value
  - 4.8.3.1.11 Ability to achieve timeframes or deadlines for completion
  - 4.8.3.1.12 Previous performance
  - 4.8.3.1.13 International and domestic shipping
  - 4.8.3.1.14 Availability of goods or inputs i.e. ability of, or percentage that, the tenderer is able to supply from stock.
  - 4.8.3.1.15 Warranties or guarantees
  - 4.8.3.1.16 Maintenance capability
- 4.8.3.2 If a request for tender is able to be carried out by a locally established Company or if the request for tender has the ability to use local labour/resources, part of the evaluation criteria should include a weighted scoring for „Locally established Company.“ For example: Locally Established Company 10% or Local labour/resource 10%.
- 4.8.3.3 Where the request for tender is for the supply of materials for construction projects, the materials should be categorised to allow for easy and fair evaluation between suppliers e.g. group products like cement, timber, fixtures, glass, roofing, plumbing, water-tanks etc.

- 4.8.3.4 The evaluation criteria must be aligned to all sections in the „Tender Specifications documents“ outlined in section 4.2.
- 4.8.3.5 The evaluation criteria adopted must be made available to the tenderers in the „Standard Terms of Tender“ document (section 4.5.1.2).
- 4.8.3.6 The format of the evaluation criteria should be set out in a way that will allow each evaluation team member to allocate points to a tenderer for each category they are assessed upon.
- 4.8.3.7 The evaluation of tenders should be conducted by applying **only** the evaluation criteria notified to the tenderers in the „Standard Terms of Tender“ document (section 4.5.1.2). Under no circumstances should the evaluation criteria be amended from those provided to the tenderers outlined in the „Standard Terms of Tender“.
- 4.8.3.8 Conflicts of interest details, clarification of tenders, or any variations etc should be taken into account when preparing the evaluation criteria.
- 4.8.3.9 All activities and decisions relating to the selection of the evaluation criteria shall be labelled, filed and made available for inspection, review and audit.
- 3.8.3.10 Tender Evaluation Method – The method for evaluating tenders should be conducted using only the „Weighted Scoring“ method.

3.8.3.10 Weighted Scoring Method – This method is a more comprehensive method of evaluation that is generally applied for larger tender specifications, where the evaluation is based on a number of variables including categories with different levels of importance to the tender proposal. Extreme care must be taken when choosing the appropriate information for use in this method. The followings steps should be followed when adopting this method:

3.8.3.10.1 Identify the criteria (section 4.8.3). Example below for purchase of vehicle:

Mandatory	Desirable
<ul style="list-style-type: none"> <li>• Model to be no older than year 1998</li> <li>• Diesel engine</li> <li>• Carry capacity 7 Tonne</li> <li>• Maintenance capability (have own mechanic and parts availability)</li> </ul>	<ul style="list-style-type: none"> <li>• New Vehicle</li> <li>• If second-hand, then low mileage</li> <li>• Suits the purpose intended – see cost benefit analysis (justification)</li> <li>• Product offered from Domestic Suppliers</li> </ul>

	(on the island) <ul style="list-style-type: none"> <li>• Repair Requirements</li> </ul>
--	---

3.8.3.10.2 Mandatory criteria are not „weighted“ because if areas of the tender proposal do not comply, then there is no further evaluation e.g. as above, if there was no mechanical assistance from the supplier then the proposal would automatically be rejected.

3.8.3.10.3 Prioritise the criteria in order of importance. Assign the relative weighting to each.

Criterion	Wgt	Offer 1		Offer 2		Offer 3	
		Score	W.S	Score	W.S	Score	W.S
Suitability to Purpose of Purchase	30%	3	90	1	30	5	150
Age of Vehicle	25%						
Mileage	20%						
Repair Requirements	15%						
Local Supplier	10%						
<b>Total Weighted Scores (WS)</b>	<b>100%</b>						

3.8.3.10.4 Allocate a numerical score for each criterion, refer below for example:

Age of Vehicle

1	Used, 1998 model
2	Used, 1999-2001
3	Used, 2002-05 model
4	Brand new, 1998-2002 model
5	Brand new, 2002-05 model

4.8.3.9.1 3.8.3.10.5 Rate each offer accordingly and calculate the weighted score, refer example:

Criterion	Wgt	Tender 1		Tender 2		Tender 3	
		Score	W.S	Score	W.S	Score	W.S
Suitability to Purpose of Purchase	30%	3	90	1	30	5	150
Age of Vehicle	25%	2	50	2	50	4	100
Mileage	20%	3	60	4	80	2	40
Repair Requirements	15%	4	60	3	45	1	15
Local Supplier	10%	5	50	4	40	2	20
<b>Total Weighted Scores</b>	<b>100%</b>		<b>310</b>		<b>245</b>		<b>325</b>

*Tender 3 scored the highest margin in comparison to the others. Although Tender 3 did not score well in the last 3 categories, it gained higher scores from the criterion most important to the agency for this tender.*

4.8.4 Evaluation Team – The Evaluation Team should consist of members with the appropriate expertise that are able to make

fair but detailed scrutiny of the tender proposals to ensure well informed and professional decisions are made.

- 4.8.4.1 There must be a minimum of 3 members for any Evaluation team. Examples of appropriate members may be:
  - 4.8.4.1.1 For constructing a building – a carpenter/builder and/or Building Inspector.
  - 4.8.4.1.2 For building a harbour - an engineer, concrete specialist or explosives expert.
  - 4.8.4.1.3 For water projects/upgrades – Water and plumbing experts.
  - 4.8.4.1.4 For purchasing heavy machinery or large equipment – a diesel engineer or specialised mechanic (relevant field).
  - 4.8.4.1.5 A person with a financial background or relevant qualifications and experience, to advise on the financial aspects of the evaluation.
  - 4.8.4.1.6 For any project of complexity or length, it is very important that a person with experience in project management be included to advise on project logistics.
- 4.8.4.2 Additional members may be asked to participate on the team purely for advisory purposes, but without the authority to evaluate proposals.
- 4.8.4.3 One of the members must be delegated the responsibility to ensure procedural integrity i.e. a Chairperson who will control and document the evaluations and report the recommendations to the Tender Team/Head of Agency.
- 4.8.4.4 Terms of reference and conditions should be drawn up to identify the function of the evaluation team and the conditions required of each member. Some conditions may include:
  - 4.8.4.4.1 Confidentiality requirements
  - 4.8.4.4.2 Conflict of interest
  - 4.8.4.4.3 Each member should read, and acknowledge comprehension and acceptance of the conditions by signing the document relating to the confidentiality matters and declaring in writing, any conflicts of interest.(Sections 5.0 and 6.0)

- 4.8.4.4.4 If any Member of Parliament, including Minister's, are involved in the tender bid or quote, this must be noted by the Tender Evaluation Team and brought to the attention of the Tender Committee in their report. Extra care should be taken to ensure the process is transparent, not bias and will withstand public scrutiny. (Refer Section 6.0)
  - 4.8.4.4.5 Members of Parliament, Ministers and public servants must declare interests in any business entity that is seeking public funds by way of tender bid or otherwise
- 4.8.4.5 All activities and decisions relating to the selection of the „Evaluation Team“ must be labelled, filed and made available for inspection, review and Audit.
- 4.8.5 Evaluation of tenders – The main aim for this step of the process is to select the tender proposal that meets all the requirements of the specifications and offers the best value for money. The basis of this process may include but not be restricted to the following suggestions:
- 4.8.5.1 The evaluation of tenders must be conducted no less than 5 working days after the opening of the tenders (section 4.7).
  - 4.8.5.2 A date, time and venue should be decided upon, for the evaluation team to meet and evaluate the tender proposals.
  - 4.8.5.3 The Tender Specifications documents for the tender must be made available to the evaluation team members not less than 24 hours prior to the evaluation process. This allows the members the opportunity to familiarise themselves with the expected process. A set of these documents must also be made available during the evaluation.
  - 4.8.5.4 The evaluation process is a very sensitive procedure and must be conducted in strict confidence with minimal interruptions in preferably a secluded location.
  - 4.8.5.5 Limited access to any tender proposals must be applied at all times and therefore a member of the tender team must witness any copies being made for the team members. The original tender proposal **must** be made available during evaluation for cross-reference or verification purposes.



- 4.8.5.6 Tender proposals (or copies) should only be handed out to the members of the evaluation team at the time that the team sits for evaluating **each** tender and no earlier.
- 4.8.5.7 A member of the tender team should officially introduce the members to the process and hand out the necessary documentation required for the purpose of evaluating the tenders. The members must be reminded of their obligations and informed on how the evaluation will commence.
- 4.8.5.8 The members of the evaluation team have the right to request further information or clarification on any areas, whether relating to the tender proposals or relating to the evaluation. The Tender team should be available to provide clarifications sought.
- 4.8.5.9 The members of the evaluation team may discuss openly any aspects throughout the process.
- 4.8.5.10 At the completion of the evaluation for each tender, the Chairperson (Team Leader) of the evaluation team shall collect all documents from each member and make note of any recommendations. For any areas relating to any of the tender proposals or the Tender specifications documents that require further clarification, the tender team **must** ensure that the information is reported back to the Chairperson (Team Leader) of the evaluation team, no later than two (2) working days from the date of the evaluation sitting. If the issues are more complex, then the tender team may wish to recall the members of the evaluation team to discuss these matters further.
- 4.8.5.11 An assessment report, endorsed by each member of the evaluation team must be completed and submitted with recommendations, for the attention of the respective Head of the agency no later than five (5) working days from the date of the evaluation sitting. The report will identify the recommended successful tenderer.
- 4.8.5.12 The tender that is the lowest (for purchases) or highest (for sales) may not always be the preferred tender but a comprehensive justification for why they are not preferred must be documented in the assessment report.
- 4.8.6 The Head of the agency is responsible for completing the Tender report for submission to the Tender Committee (section 4.99). This report must also attach the endorsed assessment report submitted by the evaluation team. See Attachment 1 for a tender report template.

## 4.9 Tender Committee

- 4.9.1 The Tender Committee is responsible for ensuring that a contestable, transparent, accountable, arms length and without favouritism (probity) process has been followed, not to duplicate the work of the evaluation team. This ensures that the Cook Islands Government and the taxpayer receive the best possible value for money.
- 4.9.2 A tender is **ONLY** to be awarded after the tender report and supporting documentation has been reviewed and agreed to by the Tender Committee. The following documentation must be submitted to the Tender Committee:
  - 4.9.2.1 Cover letter to Tender Committee outlining Tender with reference to Cabinet minute endorsing purchase of good/service, if required
  - 4.9.2.2 Tender Report
  - 4.9.2.3 Tender Checklist
  - 4.9.2.4 Secretariat Internal Checklist
  - 4.9.2.5 Tender Team Members (Team Leader, Recorder, Other Members)
  - 4.9.2.6 Tender Specification Document
  - 4.9.2.7 Copy of all Advertisements of Tender in all media used
  - 4.9.2.8 Tender Log (Registered Interest Log and Received Tenders Log)
  - 4.9.2.9 Original copy of Tender proposals received
  - 4.9.2.10 Evaluation Criteria and chosen Evaluation Method
  - 4.9.2.11 Evaluation Team Assessment Report
  - 4.9.2.12 Site visit report (Only applicable if a tender is for works to be carried out in the Outer Islands).
  - 4.9.2.13 Any additional information as deemed relevant by the Crown Agency
- 4.9.3 To ensure a timely and effective review of tenders, the following documentation should be submitted to the Tender Committee:
  - 4.9.3.1 The completed tender report (See Attachment 1) with justifications attached including the assessment report from the evaluation team as prepared in section 4.8.6.
  - 4.9.3.2 The comprehensive justification if the lowest evaluated and responsive tender is not the preferred tender.

- 4.9.3.3 The Tender Committee may request for any information or other supporting documentation pertaining to the purchase or sale that would assist the Tender Committee in delivering a favourable review.
  - 4.9.4 The Committee will consist of The Financial Secretary (or nominee), Solicitor General (or nominee) and other technical advisors as required.
  - 4.9.5 The information for the Tender Committee should be placed in an envelope marked “Confidential”, “Tender Documents” and “Urgent” and delivered to the Financial Secretary’s office.
  - 4.9.6 The Committee will report on its findings as soon as practicable but no later than five (5) working days after receipt of all the required documentation.
- 4.10 Awarding of the Contract
- 4.10.1 Only when the Tender Committee has approved the request to award the tender to the proposed successful tenderer, can the contract be awarded to the successful tenderer. All tenderers who submitted a tender proposal shall be notified in writing, by the agency of their success or failure in being awarded the tender, immediately. (*Refer sections 4.5.1.2.18 and 4.5.1.2.18*).
  - 4.10.2 If the tender project is for works to be carried out in the Outer Islands, the tenderer must provide relevant documentation to evidence that a site visit was conducted prior to the awarding of the contract, to ensure a true costing of the project has been provided to the Tender Committee. Only then will the Tender Committee provide their final recommendations of that tender project.
  - 4.10.3 The onus is on the Head of that Ministry/Crown Agency to ensure that sufficient funding is available to complete the Contract.
  - 4.10.4 Contract and/or post-offer negotiations may take place from this point **only** if this condition has been allowed in the Standard Terms of Tender.
- 4.11 Recording
- 4.11.1 Details and all related documentation for the process of the tender must be labelled and filed clearly, and made available for inspection, review and Audit.
- 4.12 Audit verification
- 4.12.1 All tender processes are subject to verification by the Audit Office under the provisions of the Public Expenditure Review Committee Act.

## 5.0 Confidentiality

- 5.1 Employees of the Crown should not, except so far as may be necessary for the proper performance of the employee's duties, as authorised by the Head of Ministry or as may be required by law:
- 5.1.1 Disclose to any person any official information that has come to the knowledge of the employee in the course of the tender process;
  - 5.1.2 Use or attempt to use any such official information for personal benefit, or the benefit of any other person or organisation, or in any manner whatsoever other than in accordance with the duties, and consistent with the obligation, of honesty expected of a person holding a position with the Crown.
- 5.2 Any member of the Tender Team or Evaluation Team that is not a public servant, shall be made to agree to the above conditions by signing an agreement with the agency.
- 5.3 The evaluation process and relative documents are confidential. It is not recommended but it is at the discretion of the Head of Agency whether to disclose the evaluation process to the tenderers. It should be clearly stated in the Standard Terms of Tender document (section 4.5.1.2) if this decision is made.
- 5.4 The Agency responsible for the Tender should not disclosure any information pertaining to the tender process to any person(s) or parties external to the tender process unless legally required to.

## 6.0 Conflict of Interest

- 6.1 Where a conflict of interest arises, or could be seen to arise, the individual affected should remove themselves from the tender situation and declare, in writing, to the Head of Ministry any actual or possible conflicts of interest. In the case of the Head of Ministry, declaration should be made to the Public Service Commissioner.
- 6.2 In situations where a particular tender is for MFEM, the Solicitor General (or a nominee of the Committee) will hold chairmanship of the Committee for all MFEM tenders whereby the Solicitor General will provide his/her final recommendation to the Tender Secretariat. At no time during the analysis process by the Tender Committee will the Financial Secretary make any recommendations on MFEM tenders.
- 6.2.1 Members of Parliament, Ministers and public servants must declare interests in any business entity that is seeking public funds by way of tender bid or otherwise
- 6.3 In situations where a particular tender is for MFEM, the Solicitor General (or a nominee of the Committee) will hold chairmanship of the Committee for all MFEM tenders whereby the Solicitor General will provide his/her final recommendation to the Tender Secretariat. At no time during the

analysis process by the Tender Committee will the Financial Secretary  
make any recommendations on MFEM tenders.

Attachment 1 – Tender Report

Attachment 2 – Tender Checklist

See the following pages

Attachment 1

TENDER REPORT

Ministry/Agency: .....

Head of Ministry/Agency: .....

Officer Responsible for tender .....

Tick Applicable Tender:

(a) Sale of Asset  (b) Tender for Goods/Services

Brief Description of Tender: .....

.....  
.....  
.....

**A. Tender for Goods/Services**

(a) Date tender advertised.....Date tender closed.....

(b) Tender advertised in what media?

1. ....
2. ....
3. ....

(c) List of tenders received and amounts - Use separate sheet

(d) Name of successful tender and amount.

Name : .....

Amount : .....

(e) Describe preference in selection e.g. cost, quality, timeliness etc:

.....  
.....  
.....

**B. Appropriation/Funding Details for Tender**

.....  
.....  
.....

**C. Other Relevant Details:** .....

.....  
.....

**Certified true and correct**

**Name:**.....**Position**.....

**Date:** .....

Attachment 2

TENDER CHECKLIST

Utilise this Checklist to assist you to apply this procedure. If at any point you answer NO, stop the tender process, take steps to remedy the situation and when the answer becomes YES, continue..

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 1. Has the Tender Documents been reviewed by appropriate personnel at MFEM i.e Tender Secretariat prior to advertising stage?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the Tender Secretariat endorsed an „Internal Checklist“ (Attachment 3) and submitted this back to that Ministry/Crown Agency upon 2 working days of receiving all „draft“ documentation, prior to the advertising stage of this tender?             | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Has Appropriation to carry out this tender been confirmed to ensure sufficient funds are available to complete the Contract?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Has Appropriation details been provided in Tender Documents to the Tender Committee along with supporting documents to evidence this?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Has a tender team been established, and do they consist of persons with the appropriate expertise?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Have all members of the tender team or persons opening tenders provided statements advising as to whether or not they have any conflicts of interest? If any conflicts of interest have been identified, have steps been taken to resolve those issues? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Has all the preparatory work detailed in 3.5 of the procedure been completed?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. If it is a purchase tender has sufficient time been allowed for Tender Committee review?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Have <b>all</b> the necessary tender specifications documents been prepared?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Have the tender specifications documents been examined by professional expertise?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Has the evaluation criteria and evaluation been established and is it clear?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Have all applicable sections of the tender specifications documents been completed?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Has the tender been advertised in the local media, allowing at least 10 working days for submissions?  | <input type="checkbox"/> | <input type="checkbox"/> |



14. Does the tender advertisement have all the information specified in 3.6.1.1?
15. Has a secure “Tender Box” been prepared for the proposals?
16. Have the tenders been opened immediately after the close of tenders, in the presence of any two witnesses who have dated and numbered the tenders, listed the tenderer details and signed these details?
17. Has an evaluation team been set up consisting of members with appropriate expertise?
18. Have the members of the evaluation team been given the appropriate documents to familiarise themselves with the tender?
19. Have the evaluation team members declared any conflicts of interest?
20. If so, have steps been taken to resolve these issues?
21. Has an appropriate method been adopted for the evaluation process?
22. Have the tenders been evaluated using the evaluation criteria already documented?
23. Has the tender and all appropriate documentation been passed onto the Tender Committee, attached to the completed Tender Report?
24. Are there any deviations during the tender process from the Policy
25. Letter of approval obtained from the Financial Secretary



ATTACHMENT 3:

SECRETARIAT INTERNAL CHECKLIST

Utilise this Checklist to assist with checking whether Tender Specification Documents are in line with Part D – Section 3 Public Tendering. It must be submitted back to the Head of that Ministry/Crown Agency after being endorsed by the Secretariat prior to the advertising stage of that tender no less than 2 working days upon receiving overall draft documentation. This should be provided to the Tender Committee along with Tender Secretariat Covering Analysis Report. If at any point you answer NO, stop the tender process, take steps to remedy the situation and when the answer becomes YES, continue.

REFERENCE TO FPPM	DETAILS	INCLUDED IN TENDER SPECS?		NOTES
		YES	NO	
3.5.1.1	Cover sheet – this provides basic information about the proposal offer and should be typewritten on the Agency’s letterhead.	<input type="radio"/>	<input type="radio"/>	
3.5.1.2	Standard terms of tender – this outlines the conditions that the agency has set out for the process for Requesting the Tender and it should highlight conditions on the following information (see below 3.5.1.2.1 – 3.5.3)			
3.5.1.2.1	The name of the Crown Agency responsible for the Request for Tender. This must be clearly stated.	<input type="radio"/>	<input type="radio"/>	
3.5.1.2.2	That information packs are to be made available	<input type="radio"/>	<input type="radio"/>	

	– with tender specifications etc and a contact person and details for enquiries		
3.5.1.2.3	Venue for lodgment, date and time for closure of acceptance of Tenders.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.4	The format or forms required for completion in order for a proposal to be accepted. The following clause should be included to emphasize this requirement: „ <i>Tenders must be completed in the format contained in “Attachment #.” If offers do not comply with the format contained in Attachment #, they will not be accepted.</i> ”	<input type="radio"/>	<input type="radio"/>
3.5.1.2.5	It must be clearly stated that all tender proposal and related documentation be presented in the English language	<input type="radio"/>	<input type="radio"/>
3.5.1.2.6	It must be clearly stated whether tender proposals will be accepted for all or part of the specifications listed for tender. The specifications may include statements such as: „The Tenderer must tender to provide services or supply materials for the whole of the contract works...” or „Tenderers may tender to supply services or materials for sections of the entire specifications but must tender for the whole requirements of that section.”	<input type="radio"/>	<input type="radio"/>
3.5.1.2.7	If the tender specifications for the whole works can be disaggregated into sections ensuring accordance with procedure 2.3, if so tenderers	<input type="radio"/>	<input type="radio"/>

	can tender for a particular section but must tender for all and not part of that section.		
3.5.1.2.8	A template for costing and other details should be prepared and tenderers required to submit using the template to ensure that the tenderer submits the required information and that all tenderer proposals are consistent for the purposes of evaluating the tenders.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.9	Instructions for handing in tender proposals. A tender box, clearly marked “Tenders” with a slot and locked casing should be prepared for the purpose of the placement of tender proposals.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.10	That Tender proposals must be presented in <u>hard copy format only</u> , delivered in a sealed envelope to the designated venue or sent by courier or post via air/sea mail. The envelope must be clearly labeled, attention care of the respective contract person, and with details including the name of the tender being submitted e.g Penrhyn Harbour Stage 2 C05/06, and the full name and contact details of the tenderer. The receiver at the agency shall record the date, time and place of receipt of the tender and place the tender documents into the tender box.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.11	That telefax and electronic proposal will not be acceptable as the original submission due to confidentiality issues and to avoid allegations of	<input type="radio"/>	<input type="radio"/>

	document tampering. Telefax or electronic proposals may be requested by the crown agency <u>in addition</u> to an original hard copy for ease of analysis. NO tender proposal should be revealed to anyone, until the agreed day that the Tender box is to be opened.		
3.5.1.2.12	That it is the Tenderer's responsibility to ensure that their proposal reaches the designated venue by the specified date and time.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.13	That negotiations will not take place between the Tender Team and the prospective suppliers during the advertising stage.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.14	Information on how the tender will be assessed (evaluation criteria section 3.8 & evaluation method section 3.8.3 below) and how the successful tenderer will be chosen. It is extremely important that the information requested from suppliers is sufficient to enable a thorough evaluation of the tenders. The success of the evaluation depends on whether the proper specifications and requirements and useful information have been included in these documents for tenderers to provide.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.15	Request for details of financial or contractual requirements that the tenderer will apply if awarded the tender.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.16	If there is likely to be a short-listing of tenderers, then terms and conditions for this	<input type="radio"/>	<input type="radio"/>

	process must be clearly stated, section 3.7.2.		
3.5.1.2.17	The process for informing the successful tenderer must be clearly stated (timeframe from opening of tender box, timeframe after evaluation process, and the form in how the tenderer will be advised).	<input type="radio"/>	<input type="radio"/>
3.5.1.2.18	This should also include the process for informing unsuccessful tenderers and whether they have the option of appealing the decision or requesting further information leading to the cause of the decision.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.19	There must be information of whether post-offer negotiations may take place before the letter of acceptance is issued.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.20	There must be information of the agency's intentions of contacting referees, competitors or customers to enquire on the performance of the tenderer.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.21	There must be information noting whether the tenderers may request to see evaluation documents. Note: This decision is at the discretion of the HOM.	<input type="radio"/>	<input type="radio"/>
3.5.1.2.22	That no gifts or entertainment of any nature will be permitted between any parties involved throughout the tender process, including: tenderers or potential tenderers, tender team members, evaluation team members, the Head	<input type="radio"/>	<input type="radio"/>

	of Ministry, or any other member or organization that may have an involvement with any aspect of the tender process.		
3.5.1.3	Standard Conditions of Contract – details of the conditions of the agency is prepared to contract for the goods or services required. E.g payment installments, retention fees, penalties for delays, defects in materials or workmanship, etc.	<input type="radio"/>	<input type="radio"/>
3.5.1.4	Specification – a statement of needs that identifies what the agency wishes to buy, sell or contract and consequently outlines what is required from the supplier/service provider e.g freight to Outer Islands or to Avatiu wharf, literage from „ship to shore,“ transportation from wharf to location, installation or construction requirements, time frame for expected completion, quotes for items to include all related costs and not identified separately at the end of the invoice (this gives a true cost for each item quoted).	<input type="radio"/>	<input type="radio"/>
3.5.1.5.1	Schedule of prices – a standard form should be drawn up to include columns for Item description, Item cost (VAT Excl), quantity, VAT component, Total (VAT Incl), discount and any other relevant columns. All quotes must clearly show the VAT exclusive quotes in a separate column of that of VAT, since the Crown appropriation is VAT exclusive. All values must be shown in New Zealand Dollar.	<input type="radio"/>	<input type="radio"/>



3.5.1.5.2	Quotes must be inclusive of freight landed in Rarotonga for ease of comparing local supplier quotes to overseas supplier quotes. Note that VAT is calculated on the cost including freight.	<input type="radio"/>	<input type="radio"/>
3.5.1.5.3	Sections of this form should cater for categories for supplies, if relevant as per section 3.8.2.2	<input type="radio"/>	<input type="radio"/>
3.5.1.5.4	Other columns may be added to allow for a range of prices for a particular item but for a different brand. Schedule of prices – a standard form should be drawn up to include the relevant columns for this situation.	<input type="radio"/>	<input type="radio"/>
3.5.1.6	Schedule of Particulars – this is a proforma of questions prepared by the agency on all aspects both technical and commercial. This must be completed by the tenderer as part of the offer and allows for easier comparison with other offers received. Examples: history/background of tenderer, similar projects or successful contracts completed, quality of services or materials etc. The schedule should be as long as necessary to gather all the relevant information on functionality/performance, commercial considerations, and technical aspects of the tenderer’s proposal, in order to assist the agency in ensuring that the right decision is made when choosing the successful applicant.	<input type="radio"/>	<input type="radio"/>
3.5.2.	The Tender Specification document must be prepared by an engineer, specialized consultant	<input type="radio"/>	<input type="radio"/>

	or suitably qualified professional. Most of the information used for the preparation of these documents will be sourced from the technical design and specifications documents as referred to in section 3.2.		
3.5.2.1	The technical aspects of the draft documents should be „peer reviewed“ by another engineer or suitably qualified professional.	<input type="radio"/>	<input type="radio"/>
3.5.2.2	The financial aspects of the document should be reviewed by a professional with financial expertise, and an understanding of government financial policies and procedures.		
3.5.2.3	The overall draft documents should be reviewed by a legal professional, preferably Crown Law, or a suitably qualified professional. This part of the process is very important to ensure that the agency has taken precautions to avoid any future litigation that may result from anomalies in the specifications and/or evaluation process.	<input type="radio"/>	<input type="radio"/>
3.5.2.4	The overall draft documents should be reviewed by the Tender Secretariat to ensure compliance with the tender policy prior to the advertising stage.	<input type="radio"/>	<input type="radio"/>
3.5.2.5	The templates used for the tender process should be reviewed to ensure that when tenders are received, they can be fairly and fully compared e.g VAT, freight and insurance shown separately.	<input type="radio"/>	<input type="radio"/>

3.5.3	Expressions of interest may be sought first, for the purpose of exploring the market availability. The Tender specifications documents may have to be revisited to include any changes resulting from this process e.g may have to advertise overseas if current market cannot meet all requirements etc.	<input type="radio"/> <input type="radio"/>	
-------	---	---	--

## 3A – Public Tendering - Sale of Assets

### 1.0 Purpose

- 1.1 To establish consistent sales procedures of Crown Assets across Ministries, Island Administrations and Crown Funded Agencies.
- 1.2 To ensure probity and accountability are integrated into the systems adopted by each Ministry, Island Administration and Crown Funded Agency for the Public Tendering process.
- 1.3 To eliminate or minimise the threat of :
  - 1.3.1 The misuse and misappropriation of Government resources or misapplication of public property,
  - 1.3.2 Conflict of interest,
  - 1.3.3 Theft, fraud or corruption,
  - 1.3.4 Other actions which may breach the public's trust.
- 1.4 For sales covered in Attachment 1 of *Part D Section 2 - Purchase & Sale of Goods & Services*.
- 1.5 To ensure that the appropriate expertise and financial controls are in place throughout the Tender process.
- 1.6 To ensure that the correct tendering procedures are followed.

### 2.0 Mandatory Requirements

- 2.1 A documented tender process as described in this procedure must be complied with. The process must be conducted in a manner that is honest, ethical and fair to all the participants involved.
- 2.2 All documentation of the tender process must be kept on file for inspection or review and audit verification purposes.
- 2.3 Commitment to a tenderer without the completion of the public tendering processes shall not be considered or permitted.
- 2.4 This procedure must be applied in conjunction with *Part D Section 2 - Purchase & Sale of Goods & Services*.

### 3.0 Process (Refer Checklist –Attachment 2)

#### 3.1 Preparation, Valuation and Conditions for sale

- 3.1.1 After the decision is made that the surplus or replaced asset be sold by tender, the physical details of the asset and any residual book values should be confirmed. The asset should generally be prepared to its best possible condition (i.e. a motor vehicle should be groomed and have a current WOF)

- 3.1.2 The asset should be valued by a competent authority to ascertain the current market value of the asset. This valuation should be checked by obtaining more than one valuation
- 3.1.3 After obtaining the valuation a decision on any reserve price (or any other condition) should be confirmed and recorded in writing

### 3.2 Advertising the Tender

- 3.2.1 The following criteria must be applied:
- 3.2.1.1 The advertisement must include: the name of the agency offering the tender, the contact person & details (telephone,/facsimile/email) for enquiries, a brief description of the goods for sale, and the closing date and time of the lodgement of tender.
- 3.2.1.2 A minimum of 14 days is required prior to the closure of tenders, for advertising to the public.
- 3.2.1.3 The tender notice should be advertised in the local newspaper(s), appearing a minimum of 5 times in total.
- 3.2.1.4 The reason that the “highest or any tender not necessarily accepted” clause is included is so that all tenders can be refused if none of them meet a pre-selected minimum amount
- 3.2.1.5 Sample Tender advertisement:



- 3.2.1.6 All Tenders should be filed in a locked box.

### 3.3 Opening of Tender Proposals

- 3.3.1 The Tender box should be opened in the presence of at least three people that have no conflict of interest. This should

include at least one Divisional Manager This means that if a staff member has submitted a tender they should not be present at this time.

3.3.2 All tenders should be listed as opened with the tenders name and the amount offered

3.4 The selection of the successful customer decided upon by Government agencies will be able to withstand scrutiny if the evaluation process is conducted effectively.

### 3.5 Awarding of the Sale

3.5.1 When all tenders have been listed, the awarding of the tender is made to the **highest tender**, provided that the tendered amount meets any pre-determined reserve (based on current market value) and any other condition imposed (for example no time payment allowed)

3.5.2 All tenders should be notified in writing, by the agency of their success or failure in being awarded the tender, immediately.

3.5.3 After successfully completing the sale please refer to Procedure Part B Section 10 for the treatment of sale proceeds

3.5.4 Should the highest tender be less than 70% of the market value of the asset being disposed of, and provided that the Sale Tender policy was closely adhered to, the HOM should re-advertise the asset „For Sale“ (Refer Procedures Part D, Section 2, Attachment 4 for Checklist for sale of goods and services).

3.5.5 In the instance in 3.5.4, where the asset is placed „For Sale“ efforts must be made to sell/negotiate the sale price of the asset to not be less than 70% of the market value. Section 5.0 must be adhered to during the whole process of tender or sale of an asset.

3.5.6 If the market value of the asset is less than \$1,000, at the very least, the sale of the asset must be advertised on the staff notice board (s) for one week before closing the quotes. (4.3)

3.5.7 In the case of vehicles in 3.5.4 above, consideration could also be given to approaching vehicle suppliers directly giving them an opportunity to bid.

### 3.6 Recording

3.6.1 Details and all related documentation for the process of the tender must be labelled and filed clearly, and made available for inspection, review and Audit.

### 3.7 Audit verification

- 3.7.1 All tender processes are subject to verification by the Audit Office under the provisions of the Public Expenditure Review Committee Act.

#### 4.0 Confidentiality

- 4.1 Employees of the Crown should not, except so far as may be necessary for the proper performance of the employee's duties, as authorised by the Head of Ministry or as may be required by law:

- 4.1.1 Disclose to any person any official information that has come to the knowledge of the employee in the course of the tender process;
- 4.1.2 Use or attempt to use any such official information for personal benefit, or the benefit of any other person or organisation, or in any manner whatsoever other than in accordance with the duties, and consistent with the obligation, of honesty expected of a person holding a position with the Crown.

#### 5.0 Conflict of Interest

- 5.1 Where a conflict of interest arises, or could be seen to arise, the individual affected should remove themselves from the tender situation and declare, in writing, to the Head of Ministry any actual or possible conflicts of interest. In the case of the Head of Ministry, declaration should be made to the Public Service Commissioner.

Attachment 1 – Tender Report

Attachment 2 – Tender Checklist

See the following pages

Attachment 1

TENDER REPORT (Sale of Asset)

Ministry/Agency: .....

Head of Ministry/Agency: .....

Officer Responsible for tender .....

Brief Description of Tender: .....

.....

.....

.....

**A. Sale of Asset, provide:**

(a) Book Value at time of sale, NBV \$..... Date.....

(b) Current Market Value \$ ..... (valued by.....)

(c) Date tender advertised.....Date tender closed.....

(d) Tender advertised in what media?

1. ....

2. ....

3. ....

(e) List of tenders received and amounts- Use separate sheet

(f) Name of successful tender and amount:

Name : .....

Amount : .....

**C. Other Relevant Details:** .....

.....

.....

**Certified true and correct**

**Name:**.....**Position**.....

**Date:** .....



Attachment 2

TENDER CHECKLIST

Utilise this Checklist to assist you to apply this procedure. If at any point you answer NO, stop the tender process, take steps to remedy the situation and when the answer becomes YES, continue.

	Yes	No
1. Are complete physical details of the asset available?	<input type="checkbox"/>	<input type="checkbox"/>
2. Has the book value been confirmed?	<input type="checkbox"/>	<input type="checkbox"/>
3. Has a current market value been obtained?	<input type="checkbox"/>	<input type="checkbox"/>
4. Has any decision on a reserve price (or any other condition) been documented?	<input type="checkbox"/>	<input type="checkbox"/>
5. Has the tender been advertised in the local media, allowing at least 10 working days from the first notice until tenders close?	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the tender advertisement have all the information specified in 3.2.1.4	<input type="checkbox"/>	<input type="checkbox"/>
7. Has a secure “Tender Box” been prepared for the receipt of tenders?	<input type="checkbox"/>	<input type="checkbox"/>
8. Have the tenders been opened immediately after the close of tenders, in the presence of three persons who have listed the tenderer details and signed these details?	<input type="checkbox"/>	<input type="checkbox"/>
9. Has the sale been awarded to the highest tender?	<input type="checkbox"/>	<input type="checkbox"/>
10. Has the tender and all appropriate documentation been passed onto the Tender Committee, attached to the completed Tender Report?	<input type="checkbox"/>	<input type="checkbox"/>
11. Have all tenderers been notified of their success or failure?	<input type="checkbox"/>	<input type="checkbox"/>

## 3B – Public Tendering – Closed Tender

### 1.0 Purpose

- 1.1 To establish consistent purchasing and sales procedures of goods and services across Ministries, Island Administrations and Crown Funded Agencies.
- 1.2 To ensure probity and accountability are integrated into the systems adopted by each Ministry, Island Administration and Crown Funded Agency for the Public Tendering process.
- 1.3 To eliminate or minimise the threat of :
  - 1.3.1 The misuse and misappropriation of Government resources or misapplication of public property,
  - 1.3.2 Conflict of interest,
  - 1.3.3 Theft, fraud or corruption,
  - 1.3.4 Other actions which may breach the public's trust.
- 1.4 For sales covered in Attachment 1 of *Part D Section 2 - Purchase & Sale of Goods & Services*.
- 1.5 To ensure that the appropriate expertise and financial controls are in place throughout the Tender process.
- 1.6 As most suppliers validate quotes or tenders for service for a period of 30 days, the process has been designed to ensure all steps are completed carefully within this period.
- 1.7 To ensure that the correct tendering procedures are followed.

### 2.0 Mandatory Requirements

- 2.1 The Ministry/Crown Agency must first seek permission from the Financial Secretary or Tender Committee to undertake a closed tender.
- 2.2 A documented tender process as described in this procedure must be complied with. The process must be conducted in a manner that is honest, ethical and fair to all the participants involved.
- 2.3 All documentation of the tender process must be kept on file for inspection or review and audit verification purposes.
- 2.4 Commitment to a tenderer without the completion of the public tendering processes shall not be considered or permitted.
- 2.5 This procedure must be applied in conjunction with *Part D Section 2 - Purchase & Sale of Goods & Services*.

### 3.0 Process (Refer Checklist –Attachment 2)

- 3.1 A Closed Tender Process can not be undertaken without the prior approval of the Tender Committee.

- 3.2 The overall draft documents should be reviewed by the Tender Secretariat to ensure compliance with the tender policy prior to the distribution of the document.
  - 3.2.1 After the completion of the review of the overall draft documents by the Tender Secretariat, the documents shall be returned to the Head of that Ministry/Crown Agency no less than 2 working days of receiving the overall draft documents.
  - 3.2.2 The Tender Secretariat must prepare, complete and endorse „an internal checklist“ (Attachment 1) to be returned to the Head of that Ministry/Crown Agency upon the completion of the overall draft documents no less than 2 working days of receiving overall draft documents.
  - 3.2.3 The Secretariat“s „internal checklist“ (Attachment 1) should be used by that Ministry/Crown Agency to ensure all sections of Part D Section 3 are complete when finalising „Tender Specifications Document“ (refer 3.5) prior to the distribution of the document.
  - 3.2.4 The Secretariat“s „internal checklist“ must be submitted by that Ministry/Crown Agency together with all other documentation as per Part D Section 3 subsection 3.9.2.
- 3.3 In making the request to conduct a closed tender, information on the following shall be provided to the Tender Committee:
  - 3.3.1 Tender Specification Documents for item/project being tendered
  - 3.3.2 The situation preventing an open tender from taking place i.e:
    - 3.3.2.1 The technical nature of the product/project
    - 3.3.2.2 The size of the supply market
    - 3.3.2.3 Other
  - 3.3.3 Budget/Funding allocation
  - 3.3.4 List of suppliers
- 3.4 Acceptable circumstances for undertaking a closed tender must include either one or all of the following:
  - 3.4.1 Emergency purchase for example: Emergency situations that may adversely and unduly affect life and health of the citizens of the Cook Islands.
  - 3.4.2 Restricted supplier market locally or Specialist or single service provider on island e.g. Telecom Cook Islands – only one supplier for telephone systems when supplying telecommunication services.
  - 3.4.3 Restricted number of organisations/suppliers/companies providing support/engineering/maintenance services.
  - 3.4.4 High advertising costs exceeding the benefits of open tender e.g a situation may arise whereby a Ministry/Crown Agency/ Outer Island

Administration is tendering for a project that was carried out previously and advertising costed a considerable amount of \$5,000. Taking into account the cost of advertising and depending on the number of interested potential suppliers to consider the same project, a closed tender process may be carried out

- 3.4.5 A list of reputable suppliers with established working relationship with government exists (annually updated) and have been lodged with the Tender Committee by the start of the current financial year.
- 3.5 Maximum number of suppliers to be approached during a closed tender depends on the technical nature of the product/project.
- 3.5.1 Ensure that closed tenders are undertaken on a “one off” situation. A closed tender will not be approved continuously by the Tender Committee unless it falls under the categories described in „3.2” above.
- 3.6 Purpose of a closed tender is to „fast track” the tender process. Provided that all documentation is received, turnaround time of the Tender Committee’s decision should take a maximum of 3 days depending on the technical nature of the product/project. To fast track the process, a cut is recommended for the turnaround time for the following clauses as per Part D Section 3 – Public Tendering.
- 3.6.1 The Tender Committee will report on their findings as soon as practicable but no later than 3 working days after the receipt of all the required documentation depending on the technical nature of the product or project.
- 3.7 Taking into consideration the technical nature of the item/project, the „Turnaround time” for approval/decision by Tender Committee would also depend on the total cost of the project/product provided that all documentation is received by the implementing Ministry/Crown Agency/Outer Island Administration as per the following table:

<b>Cost of Project/Product</b>	<b>Turnaround time for Tender Committee decision</b>
\$30,000 - \$60,000	2 working days
>\$60,000 - \$100,000	3 working days
> \$100,000 - \$500,000	3 working days
> \$500,000	5 working days (Normal turnaround time)

- 3.8 Once approved and the tender process is underway, all other sections of Part D Section 3 – Public Tendering must be adhered to and submitted to the Tender Committee as per usual practice before a tender is to be awarded and funded.
- 3.9 Ministry/Crown Agency/Outer Island Administration must submit a Tender Report and Tender Checklist as per the “Closed Tender” process templates at Attachment 1 & 2.

Attachment 1 – Tender Report

Attachment 2 – Tender Checklist

See the following pages

Attachment 1

TENDER REPORT

Ministry/Agency: .....

Head of Ministry/Agency: .....

Officer Responsible for tender .....

Tender for Goods/Services

Brief Description of Tender: .....

.....

.....

.....

**A. Tender for Goods/Services**

(a) Date tender commenced:.....Date tender closed.....

(b) List of tenders received and amounts - Use separate sheet

(c) Name of successful tender and amount.

Name : .....

Amount : .....

(d) Describe preference in selection e.g. cost, quality, timeliness etc:

.....

.....

.....

**B. Appropriation/Funding Details for Tender**

.....

.....

.....

**C. Other Relevant Details:** .....

.....

.....

**Certified true and correct**

**Name:**.....**Position**.....

**Date:** .....

Attachment 2

TENDER CHECKLIST

Utilise this Checklist to assist you to apply this procedure. If at any point you answer NO, stop the tender process, take steps to remedy the situation and when the answer becomes YES, continue.

- |   | <b>Yes</b>               | <b>No</b>                |
|---|--------------------------|--------------------------|
| 1. Has approval been sought by Financial Secretary or Tender Committee to carry out a closed tender process? If so, has necessary documentation been provided to Tender Committee to evidence this? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is this the first time you are applying to carry out a „closed tender“ process? If no, have you ensured you have met all criteria described under section 3.2?                                   | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are complete physical details of the item/project available?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Have you identified the technical nature of the item/project?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Have you identified the supply market?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Have you identified „other“ situations preventing an open tender from taking place, if any?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Are complete funding details provided?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Has a list of suppliers to be approached been identified?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. In order to undertake a closed tender, have you considered „acceptable circumstances“ as described under section 3.2?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Has a tender team been established, and do they consist of persons with the appropriate expertise?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Have all members of the tender team or persons opening tenders provided statements advising as to whether or not they have any conflicts of interest?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. If any conflicts of interest have been identified, have steps been taken to resolve these issues?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Has all preparatory work detailed in 3.5 of Part D Section 3 – Public Tendering procedure been completed  | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Depending on the technical nature of the product/project, has sufficient time been allowed for Tender Committee Review?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. Have <b>all</b> necessary tender specifications documents been prepared?  | <input type="checkbox"/> | <input type="checkbox"/> |

16. Have the tender specifications documents been examined by professional expertise?
17. Has the evaluation criteria and evaluation been established and is it clear?
18. Have all applicable sections of the tender specifications documents been completed?
19. Has an evaluation team been set up consisting of members with appropriate expertise?
20. Have the members of the evaluation team been given the appropriate documents to familiarize themselves with the tender?
21. Have the evaluation team members declared any conflicts of interest?
22. If so, have steps been taken to resolve these issues?
23. Has an appropriate method been adopted for the evaluation process?
24. Have the tenders been evaluated using the evaluation criteria already documented?
25. Has the tender and all appropriate documentation been passed onto the Tender Committee, attached to the completed Tender Report?



## 4 – Financial Reporting

### 1.0 Purpose

- 1.1 Ensure that MFEM provide financial information to Ministries, Outer Islands and Ministerial Offices on a timely basis.
- 1.2 Ensure that Ministries, Outer Islands and Ministerial Offices provide financial reports to MFEM accurately and on a timely basis.
- 1.3 Ensure that the Crown financial reports provided to Cabinet is accurate, complete, reliable and relevant.
- 1.4 Ensure the consistency in the monthly reporting of all Ministries, Outer Islands and Ministerial Offices through the use of a standard chart of accounts.
- 1.5 Ensure that all Ministries, Outer Islands and Ministerial Offices report against the outputs as defined in the annual Appropriation Budget document.

### 2.0 Mandatory Requirements

- 2.1 All monthly financial reports are to be provided to MFEM by the tenth (10) working day of each month, unless advised separately.
- 2.2 The standard chart of accounts in Attachment 2 is to be used by all Ministries, Outer Islands and Ministerial Offices.
- 2.3 Financial Reports are to include those outlined in Attachment 1 and supplied to MFEM when required (monthly, six monthly, annually).

### 3.0 Process

#### 3.1 Monthly Reporting

- 3.1.1 Each month no later than the fifth (5) working day of the month, MFEM will produce payroll and appropriation details for each Ministry.
- 3.1.2 The information will be emailed to each Agency.
- 3.1.3 This information will be in the form of a Solomon's report
- 3.1.4 All costs/revenue incurred by the Ministry or Crown Agency must be accrued to the period it was incurred and shown in the reports.
- 3.1.5 Reports are due to MFEM tenth (10) working days after month end.

- 3.1.6 Late and incomplete reports will result in the suspension of the bulk funding for the month in which the reports are due, unless prior arrangement has been made with MFEM.
- 3.1.7 When late reports are submitted, bulk funding will be released on the first working day of the month following the reporting period. If the required report has still not been furnished by this date, the funding will be held off until such time as MFEM is satisfied with the required information.
- 3.1.8 Bulk funding may also be suspended when a Crown Agency fails to provide necessary information requested by MFEM or commits any offences under Section 64 of the MFEM Act. Payment will be suspended until the action giving rise to the offence ceases.
- 3.1.9 Heads of Ministries or Crown Agencies will be informed of by email and letter of the pending suspension of their bulk funding prior to it occurring. A copy of which will also be made available to the Public Service Commissioner.
- 3.1.10 Reports required are outlined in Attachment I. Reports must be signed by the Head of Ministry.
- 3.1.11 As of April 2006 onwards ROBOC and POBOC reporting must be included in the reports. A breakdown of ROBOC and POBOC should be submitted together with its supporting documents (Balance Sheet, P & L Statement etc if recorded in a separate data file) relating to the figures disclosed in the variance report.
- 3.1.12 From time to time other reports may be requested.
- 3.1.13 Attachment 3 provides a template for the monthly variance reporting requirements

### 3.2 Standard Chart of Accounts

- 3.2.1 Ministries, Outer Islands and Ministerial Offices are required to adjust the chart of accounts in their respective accounting packages to the details in Attachment 2.
- 3.2.2 The standard account names must be used.
- 3.2.3 Any detail associated with a particular account may be added through a sub-account if Ministries, Outer Islands and Ministerial Support Offices require more detail for decision making and reconciliation purposes.
- 3.2.4 If extra sub-accounts are created, we require your reports to filter up to the headings that we have outlined in Attachment 2.

- 3.2.5 All budgets need to be inputted for each account in the standard chart of accounts format. You are not required to report against any account types that are not applicable to your ministry.
- 3.2.6 No adjustments to the standard listing in Attachment 2 should be made unless it has been approved by MFEM. These changes will only be made if the nature of your business is significantly different to warrant the use of the standard chart of accounts.
- 3.2.7 If your chart of accounts is not aligned to the listing in Attachment 2, your bulk funding will be suspended until you comply with the requirements of this policy.

### 3.3 Annual reporting

- 3.3.1 Refer to *Part D Section 5 - Year End Accounts Preparation* for guidance.

## Attachment 1

### Reports Requirement Schedule

Report	Details	Required
Itemised budget	<p>A print out of your chart of accounts (in the Government standard format) listing the budgets you have allocated against each account in the Profit and Loss.</p> <p>Electronic Copy (Excel Version) is also required.</p>	10th working day in September – submitted with the first monthly report for the financial year
Profit & Loss	A print out from your accounting system. Include report for month to date and year to date	Monthly
Appropriation Variance Report	<p>Compares <b>year to date</b> budget versus actual expenditure and summarised by</p> <ul style="list-style-type: none"> <li>• Personnel</li> <li>• Operating</li> <li>• Depreciation</li> <li>• Trading Revenue</li> <li>• ROBOC</li> <li>• POBOC</li> <li>• Capex</li> </ul> <p>Explanations for significant differences.</p> <p>Ranking</p> <p>See Attachment 2</p> <p>Electronic Copy (Excel Version) is also required</p> <p>Signed by the Head of Ministry or Crown Funded Agency.</p>	Monthly
Balance Sheet	A print out from your accounting system	Monthly
Bank Reconciliation	Details of bank reconciliation including a copy of the relevant bank statement	Monthly
Insurance Report	Details of international travel, and changes to asset (eg Cars) for insurance.	Annually

Debtors Reconciliation	Separated details of trade debtors as well as Inter ministry and Crown receivables reconciled to the respective general ledger balances	Monthly
Creditors Reconciliation	Separated details of trade creditors as well as Inter ministry and Crown payables reconciled to the respective general ledger balances	Monthly
Fixed Asset Register	Reconciliation of Fixed Assets Register to the General Ledger	End of December & June
Cashflow Report	Refer to Part D Section 7-Cashflow Management (CIGFPPM)	Annually
Other reports	See Refer to <i>Part D Section 5 - Year End Accounts Preparation</i> for guidance (CIGFPPM).	Annually

## Attachment 2

### Standard Chart of Accounts – an electronic copy may be supplied upon request

<u>Revenue</u>	Header
<i>Crown Appropriation</i>	Header
Personnel funding	
Operating bulk funding	
Depreciation funding	
	Sub total
Trading revenue - sale of goods & services	
Rent	
Dividends	
Gain on Disposal of PPE	
Interest received	
	Sub total
<b>TOTAL REVENUE</b>	<b>TOTAL</b>
Costs of Sales	
<u>Expenditure</u>	Header
<i>Personnel Costs</i>	Header
Net Wages/Salaries Paid by MFEM	
PAYE	
Superannuation	
	Sub total
Wages/Salaries Paid by Ministry	
Employee Insurance Liability	
Staff Relocation costs	
Change in Annual Leave Accruals	
Change in Payroll Accrual	
	Sub total
Depreciation / Amortisation	
Audit Fees	
Write down of inventory / impairment of PPE	
Loss on Disposal of PPE	
<i>Operating Costs</i>	Header
Advertising	
Bank Fees and Charges	
Bad & Doubtful Debts	
<i>Board Expenses</i>	Header
Board Sitting Fees/ Allowances	
Board Travel	
Board Catering	
	Sub total
Communication	
Conference Expenses	
Cleaning Materials	
Dividends	
Expensed Assets	

Electricity	
Entertainment/Catering & Hosting	
Fuel and Oil	
Freight / Postage	
Insurance	
Kitchen Supplies	
Legal Costs	
Marketing & Promotion	
Medical Consumables	
Office Stationery	
Professional Services	
<i>Repairs and Maintenance</i>	<i>Header</i>
Motor Vehicles	
Computer Equipment	
Plant & Equipment	
Furniture & Fittings	
Buildings	
	Sub total
Rent	
Subscriptions	
<i>Local Travel</i>	<i>Header</i>
Air fares	
Accommodation	
Per Diems	
Other	
	Sub total
<i>Overseas Travel</i>	<i>Header</i>
Air fares	
Accommodation	
Per Diems	
Other	
	Sub total
Training & development	
Other Expenses	
<b>TOTAL EXPENSES</b>	<b>TOTAL</b>
<b>OPERATING SURPLUS/ (DEFICIT)</b>	<b>TOTAL</b>
<u>Aid Revenue</u>	<i>Header</i>
<i>Aid Revenue from DCD</i>	<i>Header</i>
New Zealand Aid	
Current	
Capital	
United Nations Aid	
Current	
Capital	
European Union Aid	
Current	
Capital	
China Aid	
Current	
Capital	
Other Aid	

Current Capital	
	<i>Sub total</i>
<i>Aid Revenue from Donors</i>	<i>Header</i>
New Zealand Aid Current Capital	
United Nations Aid Current Capital	
European Union Aid Current Capital	
China Aid Current Capital	
Other Aid Current Capital	- - -
	<i>Sub total</i>
<b>TOTAL AID REVENUE</b>	<b>TOTAL</b>
<i>Aid Expenses</i>	<i>Header</i>
New Zealand Aid Current Capital	
United Nations Aid Current Capital	
European Union Aid Current Capital	
China Aid Current Capital	
Other Aid Current Capital	
<b>TOTAL AID EXPENSES</b>	<b>TOTAL</b>
<b>AID SURPLUS/ (DEFICIT)</b>	<b>TOTAL</b>
<b>NET SURPLUS/ (DEFICIT)</b>	<b>TOTAL</b>



<b>BALANCE SHEET</b>	
<i>Assets</i>	<i>Header</i>
Bank balances	
Petty Cash	
Undeposited Funds	
Term Deposits	
<i>Total Cash &amp; Equivalents</i>	<i>Sub-total</i>
Aid Trust Accounts	
Prepayments	
<i>Inventory</i>	<i>Header</i>
Inventory held for use	
Inventory held for sale	
Provision for Obsolete Stock	
<i>Total inventory</i>	<i>Sub-total</i>
Trade receivables	
<i>Inter-Ministry Receivables</i>	<i>Header</i>
Inter-ministry receivables (SOEs)	
Inter-ministry receivables (Other Crown Agencies)	
	<i>Sub-total</i>
Aid Receivables	
VAT Receivable	
Provision for doubtful debts	
Crown Receivables	
Sundry Debtors and Receivables	
<i>Property, Plant, and Equipment</i>	<i>Header</i>
Computer Equipment Cost	
Computer Equipment Accum Depn	
	<i>Sub total</i>
Furniture & Fittings Cost	
Furniture & Fittings Accum Depn	
	<i>Sub total</i>
Motor Vehicles Cost	
Motor Vehicles Accum Depn	
	<i>Sub total</i>
Plant & Equipment Costs	
Plant & Equipment Accum Depn	
	<i>Sub total</i>
Building Improvements	
Building Improvements Accum Depn	
	<i>Sub total</i>
Office Equipment	
Office Equipment Accum Depn	
	<i>Sub total</i>
Infrastructural Projects - wharf/road etc	
Infrastructural Assets Accum Depn	

	Sub total
Work in Progress	
	Sub total
<i>Intangible Assets</i>	<i>Header</i>
Purchased Software	
Developed Software	
Work in Progress	
	Sub total
<b>TOTAL ASSETS</b>	<b>TOTAL</b>
<i>Liabilities</i>	<i>Header</i>
Trade Payables	
<i>Inter-ministry Payables</i>	<i>Header</i>
Inter-ministry payables (SOEs)	
Inter-ministry payables (Other Crown Agencies)	
	Sub total
VAT Payable	
Sundry creditors and accruals	
Aid Liabilities	
<i>Crown Payables</i>	<i>Header</i>
Crown Payables - depreciation repayable	
Crown Payables - surplus repayable	
	Sub total
Accrued payroll	
Employee Liabilities	
Annual leave accrual	
<b>TOTAL ASSETS</b>	<b>TOTAL</b>
<b>NET ASSETS</b>	<b>TOTAL</b>
<i>Taxpayer Funds</i>	<i>Header</i>
Opening taxpayers funds	
Net surplus (deficit) for the year	
Capital funding from Crown	
Aid funding from Crown	
Assets Transferred In	
Assets Transferred Out	
Correction of prior year errors	
Unused capital repayable	
Surplus repayable to Crown	
Depreciation repayable to Crown	
<b>TOTAL TAXPAYERS FUNDS</b>	<b>TOTAL</b>

### Attachment 3

## Monthly Variance Report Template – an electronic copy may be supplied upon request

### Appropriation Variance Report

Agency:

Month:

Category	Budget	Actual	Variance	% Var	% Annual Budget	Rank	Comments
Personnel Expense	0	0	0	#DIV/0!	#DIV/0!		Comments for Personnel Expenses are to be made against the standard chart of accounts
Operating Expense	0	0	0	#DIV/0!	#DIV/0!		Comments for Operating Expenses are to be made against the standard chart of accounts
Depreciation Expense	0	0	0	#DIV/0!	#DIV/0!		Comments for Depreciation Expenses are to be made against the standard chart of accounts
<b>Total Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>		
Trading Revenue	0	0	0	#DIV/0!	#DIV/0!		Comments for Trading Revenue are to be made against the standard chart of accounts
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>		
Capital Appropriation	0	0	0	#DIV/0!	#DIV/0!		Comments for CAPEXs can be done on "POBOCs, ROBOCs & CAPEX" tab - page 3
Aid Expenses	0	0	0	#DIV/0!	#DIV/0!		
Aid Revenue	0	0	0	#DIV/0!	#DIV/0!		
POBOCs	0	0	0	#DIV/0!	#DIV/0!		Comments for POBOCs can be done on "POBOCs, ROBOCs & CAPEX" tab - page 3
ROBOCs	0	0	0	#DIV/0!	#DIV/0!		Comments for ROBOCs can be done on "POBOCs, ROBOCs & CAPEX" tab - page 3

The information contained in this report is accurate, complete and reflects the operations of the Ministry.

---

Finance Manager

Date

---

Head of Ministry

Date

**NOTE :**

This is to form the cover page for your monthly reporting.

Please attached a Profit and Loss (in the standard chart of accounts format) exported to excel and compare to your itemized budget.

Supply comments for all positive/ negative variances of \$2,000 and above.

## 4a – State Owned Enterprises (SOE) Financial Reporting

### 1.0 Purpose

- 1.1 Ensure that the Crown financial reports provided to Cabinet are accurate, complete, reliable and relevant.
- 1.2 Ensure the consistency in the quarterly reporting of all SOEs through the use of a standard chart of accounts.
- 1.3 Ensure that all financial information of the Crown is received on a quarterly basis to allow for the achievement of the work plans of other public sector agencies that rely on the information provided.
- 1.4 Ensure a consistent process of payment of the Crown's social responsibility costs.
- 1.5 Ensure a consistent process of receipt of dividend payments to the Crown.

### 2.0 Mandatory Requirements

- 2.1 All quarterly financial reports are to be provided to MFEM on the last working day of the quarter end, unless advised separately.
- 2.2 All quarterly financial reports are to be provided in the format specified in attachment 2.
- 2.3 These requirements are stipulated in the Ministry of Finance and Economic Management (MFEM) Act of 1995/96 and Amendment 1997.

### 3.0 Process

#### 3.1 Quarterly Reporting

- 3.1.1 A print-out of the Solomon's report may be obtained from MFEM for confirmation and reconciliation of the crown funding paid to SOEs.
- 3.1.2 All costs/revenue incurred by the SOE must be accrued to the period it was incurred and shown in the reports.
- 3.1.3 Reports are due to MFEM on the last working day after quarter end.
- 3.1.4 From time to time other reports may be requested.

#### 3.2 Crown's Social Contribution Payments

- 3.2.1 All budget submissions for social contribution expenditure shall be forwarded to MFEM for compilation as part of the budget process by SOEs responsible for the administration of the social contribution item. Details of each expenditure category relating to the social contribution item must be included with the budget request with appropriate justification for each.
- 3.2.2 Parliament approves the level of budget funding to the appropriate SOE.
- 3.2.3 All funding requests for social contribution payments shall have supporting documentation, such as invoices, receipts and a signed payment voucher (if any) provided to the Treasury Division. All requests must be signed off by

the CEO or a delegated authority before the release of funds. All payments are to be made directly to bank accounts which the requesting ministry is responsible for obtaining them.

- 3.2.4 Social contribution payments cannot be off set against the SOE dividend at year end.

### 3.3 Dividend to the Crown

- 3.3.1 All dividend payments are to be paid through the Cook Island Investment Corporation (CIIC) as the parent company of all SOEs and paid to the Crown by the end of the financial year that it related to
- 3.3.2 CIIC is to remit all dividend payments to the Treasury net of with-holding tax.
- 3.3.3 Dividend payments to CIIC must should not be the net of the social responsibility contribution.

## **Attachment 1**

### **Reports Requirement Schedule**

<b>Report</b>	<b>Details</b>	<b>Required</b>
Quarterly Financial Report	Explanations for significant differences +/- \$10,000  See Attachment 2  Electronic Copy (Excel Version) is also required  Signed by the CEO.	Quarterly
Balance Sheet	A print out from your accounting system for quarter ended.	Quarterly
Profit & Loss	A print out from your accounting system for quarter ended.	Quarterly
Bank Reconciliation	Details of the quarter end bank reconciliation including a copy of the relevant bank statement	Quarterly

All templates will be provided by MFEM.

## Attachment 2

### Quarterly Financial Report to the Crown

## Quarterly Financial Report

*Agency:*

*Quarter End:*

Category	Budget	Actual	Variance	% Var	% Annual Budget	Rank	Comments
Personnel Expense	0	0	0	#DIV/0!	#DIV/0!		Comments for Personnel Expenses are to be made against the standard chart of accounts
Operating Expense	0	0	0	#DIV/0!	#DIV/0!		Comments for Operating Expenses are to be made against the standard chart of accounts
Depreciation Expense	0	0	0	#DIV/0!	#DIV/0!		Comments for Depreciation Expenses are to be made against the standard chart of accounts
<b>Total Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>		
Trading Revenue	0	0	0	#DIV/0!	#DIV/0!		Comments for Trading Revenue are to be made against the standard chart of accounts
Crown Revenue	0	0	0	#DIV/0!	#DIV/0!		
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>		
Capital Expenditure	0	0	0	#DIV/0!	#DIV/0!		Comments for CAPEXs can be done on "CAPEX" tab - page 3
Aid Expenses	0	0	0	#DIV/0!	#DIV/0!		
Aid Revenue	0	0	0	#DIV/0!	#DIV/0!		

The information contained in this report is accurate, complete and reflects the operations of the Ministry.

\_\_\_\_\_  
 Finance Manager

\_\_\_\_\_  
 Date

\_\_\_\_\_  
 CEO

\_\_\_\_\_  
 Date



## Quarterly Financial Report cont....

**Agency:**

**Quarter End:**

	Budget	Actual	Variance (\$)	Variance (%)	Explanations/ Comments
<b>Revenue</b> <span style="float: right;"><i>Header</i></span>					
<i>Crown Appropriation</i> <span style="float: right;"><i>Header</i></span>					
Personnel funding			0	#DIV/0!	
Operating bulk funding			0	#DIV/0!	
Depreciation funding			0	#DIV/0!	
<i>Sub total</i>	0	0	0	#DIV/0!	
Trading revenue - sale of goods & services			0	#DIV/0!	
Rent			0	#DIV/0!	
Dividends			0	#DIV/0!	
Gain on Disposal of PPE			0	#DIV/0!	
Interest received			0	#DIV/0!	
<i>Sub total</i>	0	0	0	#DIV/0!	
<b>TOTAL REVENUE</b> <span style="float: right;"><b>TOTAL</b></span>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>	
Costs of Sales			0	#DIV/0!	
<b>Expenditure</b> <span style="float: right;"><i>Header</i></span>					
<i>Personnel Costs</i> <span style="float: right;"><i>Header</i></span>					
Net Wages/Salaries Paid by MFEM			0	#DIV/0!	
PAYE			0	#DIV/0!	
Superannuation			0	#DIV/0!	
<i>Sub total</i>	0	0	0	#DIV/0!	
Wages/Salaries Paid by Ministry			0	#DIV/0!	
Employee Insurance Liability			0	#DIV/0!	
Staff Relocation costs			0	#DIV/0!	
Change in Annual Leave Accruals			0	#DIV/0!	
Change in Payroll Accrual			0	#DIV/0!	
<i>Sub total</i>	0	0	0	#DIV/0!	
Depreciation / Amortisation			0	#DIV/0!	
Audit Fees			0	#DIV/0!	
Write down of inventory / impairment of PPE			0	#DIV/0!	
Loss on Disposal of PPE			0	#DIV/0!	
<i>Operating Costs</i> <span style="float: right;"><i>Header</i></span>					
Advertising			0	#DIV/0!	
Bank Fees and Charges			0	#DIV/0!	
Bad & Doubtful Debts			0	#DIV/0!	
<i>Board Expenses</i> <span style="float: right;"><i>Header</i></span>					
Board Sitting Fees/ Allowances			0	#DIV/0!	
Board Travel			0	#DIV/0!	
Board Catering			0	#DIV/0!	
<i>Sub total</i>	0	0	0	#DIV/0!	
Communication			0	#DIV/0!	
Conference Expenses			0	#DIV/0!	
Cleaning Materials			0	#DIV/0!	
Dividends			0	#DIV/0!	
Expensed Assets			0	#DIV/0!	
Electricity			0	#DIV/0!	
Entertainment/Catering & Hosting			0	#DIV/0!	

Fuel and Oil			0	#DIV/0!	
Freight / Postage			0	#DIV/0!	
Insurance			0	#DIV/0!	
Kitchen Supplies			0	#DIV/0!	
Legal Costs			0	#DIV/0!	
Marketing & Promotion			0	#DIV/0!	
Medical Consumables			0	#DIV/0!	
Office Stationery			0	#DIV/0!	
Professional Services			0	#DIV/0!	
<i>Repairs and Maintenance</i>	<i>Header</i>				
Motor Vehicles			0	#DIV/0!	
Computer Equipment			0	#DIV/0!	
Plant & Equipment			0	#DIV/0!	
Furniture & Fittings			0	#DIV/0!	
Buildings			0	#DIV/0!	
	<i>Sub total</i>	0	0	0	#DIV/0!
Rent			0	#DIV/0!	
Subscriptions			0	#DIV/0!	
<i>Local Travel</i>	<i>Header</i>				
Air fares			0	#DIV/0!	
Accommodation			0	#DIV/0!	
Per Diems			0	#DIV/0!	
Other			0	#DIV/0!	
	<i>Sub total</i>	0	0	0	#DIV/0!
<i>Overseas Travel</i>	<i>Header</i>				
Air fares			0	#DIV/0!	
Accommodation			0	#DIV/0!	
Per Diems			0	#DIV/0!	
Other			0	#DIV/0!	
	<i>Sub total</i>	0	0	0	#DIV/0!
Training & development			0	#DIV/0!	
Other Expenses			0	#DIV/0!	
<b>TOTAL EXPENSES</b>	<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>
<b>OPERATING SURPLUS/ (DEFICIT)</b>					
	<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>
<i>Aid Revenue</i>	<i>Header</i>				
<i>Aid Revenue from DCD</i>	<i>Header</i>				
New Zealand Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
United Nations Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
European Union Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
China Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
Other Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
	<i>Sub total</i>	0	0	0	#DIV/0!
<i>Aid Revenue from Donors</i>	<i>Header</i>				
New Zealand Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	

United Nations Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
European Union Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
China Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
Other Aid					
Current	-		0	#DIV/0!	
Capital	-		0	#DIV/0!	
	<b>Sub total</b>		<b>0</b>	<b>0</b>	<b>0</b>
			<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL AID REVENUE</b>	<b>TOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>
			<b>0</b>	<b>0</b>	<b>0</b>
<b>Aid Expenses</b>	<b>Header</b>				
New Zealand Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
United Nations Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
European Union Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
China Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
Other Aid					
Current			0	#DIV/0!	
Capital			0	#DIV/0!	
<b>TOTAL AID EXPENSES</b>	<b>TOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>
			<b>0</b>	<b>0</b>	<b>0</b>
<b>AID SURPLUS/ (DEFICIT)</b>	<b>TOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>
			<b>0</b>	<b>0</b>	<b>0</b>
<b>NET SURPLUS/ (DEFICIT)</b>	<b>TOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>

Variations +/- \$10,000 should be explained

<b>Quarterly Financial Report cont....</b>
--

**Agency:**  
**Quarter End:**

CAPEX	Budget	Actual	Variance	% Var	Comments
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
			0	#DIV/0!	
<b>Total CAPEX</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>#DIV/0!</b>	

Variiances +/- \$10,000 should be explained

<b>Quarterly Financial Report cont....</b>
--

**Agency:****Quarter End:**

Loan	Source (Currency)	Original Loan Amount in Currency ('000)	Loan Start Date	Loan Finalisation Date	Jun 13 Balance ('000)	Principal Payments ('000)	FOREX Adjustment ('000)	Loan Drawn Down	Sept 13 Balance ('000)	Change Jun 13 Qtr ('000)
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
								0	0	0
<b>Total Borrowings</b>					<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 5 – Year End Accounts Preparation

### 1.0 Purpose

- 1.1 All revenue and expenditure is accurately recorded and in the correct financial year.
- 1.2 Prepare the Ministry's Financial Accounts for year end correctly and in a timely manner.
- 1.3 The necessary reviews and work papers need to be completed to meet audit requirements.
- 1.4 Annual accounts are presented in an MFEM-developed template which is consistent with IPSAS accounting standards.

### 2.0 Mandatory Requirements

- 2.1 All annual accounts to be completed by the end of the month following year-end. That is, 31<sup>st</sup> July
- 2.2 The MFEM Annual Accounts template must be used.
- 2.3 Accounts are prepared following prescribed accounting principles and the instructions given from time to time by MFEM.
- 2.4 Failure to meet these requirements will result in the suspension of monthly bulk funding until such time as the requirements are met.

### 3.0 Process

- 3.1 MFEM has developed an annual accounts template which prepares the accounts for the Agency. All that is required is some data entry on the part of the Agency. However this data entry requires the appropriate year-end checks and processes (disclosed below) are done within the general ledger and accounting software.

- 3.1.1 MFEM constantly updates and tweaks the template so prior to preparing the annual accounts, always ask MFEM for a copy of the latest template and use that.

### 3.2 Opening Balances

- 3.2.1 Ensure that the opening balances for the year are the audited closing balances from the previous year and that all audit adjustments have been processed. Annual accounts will not be accepted unless this is the case.
  - 3.2.2 If the audited annual accounts are not up-to-date, then as soon as the most recent accounts are audited, that Crown Agency has 4 weeks to update the opening balances etc of the next available financial year and submit a final copy to MFEM for review.

### 3.3 Bank Reconciliation

- 3.3.1 Ensure all bank accounts are reconciled.
- 3.3.2 Review the unpresented cheques list and replace or reverse stale cheques (those older than 6 months).
- 3.3.3 Reconcile bank reconciliation to bank statements and bank balance in the Balance Sheet or the General Ledger (Refer to *Part B Section 6 - Bank Reconciliation*).

#### 3.4 Fixed Assets

- 3.4.1 Update and complete the Fixed Assets Register (FAR) to account for all purchases, disposals, impairments and depreciation which occurred during the financial year (Refer to *Part B Section 3 - Fixed Asset Accounting Transactions*).
- 3.4.2 Ensure sale and purchase documentation agrees with the FAR (Refer to *Part B Section 2 - Asset Management*).
- 3.4.3 Ensure all expensed assets are detailed in the FAR (Refer to *Part B Section 1 – Capital Expenditure*).
- 3.4.4 Ensure that Intangible assets and Infrastructure assets are also included in the FAR (Refer to *Part B Section 1 – Capital Expenditure*)
- 3.4.5 The FAR should include for each asset (Refer to *Part B Section 3 - Fixed Asset Accounting Transactions: Attachment 1*).
  - 3.4.5.1 Opening Balance for current reporting period: This should equal to the closing balance or net carrying amount of the previous year reporting period
  - 3.4.5.2 Additions: New additions to fixed assets for the current period should be disclosed here!
  - 3.4.5.3 Disposals: Disclose disposals (refer to Part B Section 10- Disposals of Fixed Assets)
  - 3.4.5.4 Depreciation: Enter the annual depreciation expense for the current year!
  - 3.4.5.5 Closing balance: This figure is the end balance of the computation of Opening balance add additions less disposals and depreciation expense. This also needs to reconcile to the figure of net carrying amount for the current reporting period
  - 3.4.5.6 Gross Carrying Amount:
  - 3.4.5.7 Accumulated Depreciation at year end
  - 3.4.5.8 Net Carrying Amount
  - 3.4.5.9 All these details will be needed to complete the annual reporting requirements to MFEM.

- 3.4.6 Ensure the correct depreciation rates have been used (*Refer to Part B Section 4 - Depreciation*).
  - 3.4.7 Ensure Aid funded assets are included in FAR and recorded in the accounts. (*Refer to Part B Section 5 - Aid Funded Assets*):
    - 3.4.7.1 Ensure Aid Management have been notified of the aid funding
    - 3.4.7.2 Obtain an appropriate valuation of the asset
    - 3.4.7.3 Record the acquisition of the assets in the accounts
  - 3.4.8 Reconcile Cost, Accumulated Depreciation values in the FAR to the Balance Sheet and Depreciation to the Profit & Loss
- 3.5 Receivables (Debtors) and Payables (Creditors)
- 3.5.1 Reconcile debtors and creditors lists to the balance sheet accounts
  - 3.5.2 Ensure that debtor & creditor subsidiary ledgers are properly maintained and balance to the general ledger.
  - 3.5.3 Analyse the age of each item and review whether they are supported by invoices and are correct
  - 3.5.4 For Inter-Ministry and Crown funding Debtors and Creditors see section 3.6 and 3.7 below.
- 3.6 VAT Receivables and Payables
- 3.6.1 All amounts relating to VAT receivables and payables should be disclosed separately in the Balance Sheet as VAT debtors and/or creditors.
  - 3.6.2 Where the VAT paid and collected have been cleared on the completion of the monthly VAT return, the amounts owing to or from Revenue Management still need to be shown as VAT debtors/creditors. They should not be shown as either Inter Ministry or Crown Receivables and Payables.
- 3.7 Inter Ministry Receivables and Payables
- 3.7.1 In the MFEM template, these are classified to SOEs and Other Agencies. Data is entered in as appropriate from the information in the Agency datafile.
  - 3.7.2 Telecom should not be included as the Crown does not have a controlling interest.
- 3.8 Crown Receivables and Payables
- 3.8.1 Crown Receivables and Payables need to be recorded separately in the Balance Sheet.



<b>Transaction</b>	<b>Balance Sheet Account</b>
PSC owes Crown for surplus repayable	Crown Payable
Crown owes PSC for unfunded appropriation	Crown Receivable

3.8.2 It is essential to reconcile every entry to these accounts. A schedule should be prepared detailing each entry and this is to be kept with year end work papers.

3.8.3 Crown Receivables includes Crown funding to be paid (Section 3.9) and Crown Payables (Section 3.10) includes surpluses and depreciation payable back to the crown.

### 3.9 Crown Appropriation (Receivable)

3.9.1 Reconcile Crown funding to the Solomons report provided by MFEM

3.9.2 Accrue the difference between crown revenue received to-date and the net appropriation figure in the Appropriation Amendment, to the Crown Receivable account with the following entry:

*Dr Crown Receivable*  
*Cr Crown Appropriation Revenue*

3.9.3 The amount should be VAT exclusive and the VAT receivable should not be recorded.

3.9.4 The Appropriation Revenue should match to the Net Appropriation that was given to the Agency through the budget process.

### 3.10 Capital Appropriation (Equity)

3.10.1 Reconcile Capital funding to the Solomons report provided by MFEM

### 3.11 Crown Payable

3.11.1 This entry is done when all other work-papers and calculations are completed. See paragraph 3.16.

3.11.2 Refer to *Part D Section 14 – Surplus/Depreciation Payable Calculations* for the calculation of the amounts to be repaid to the Crown for depreciation and any surplus.

### 3.12 Personnel

3.12.1 Accrue outstanding annual leave owing

- 3.12.1.1 The annual leave component in the "Employee Entitlements Owing" account (Current Liability) should equal the annual leave outstanding as at 30 June
- 3.12.1.2 Ensure the existing annual leave accrual has been reversed back to the correct accounts
- 3.12.1.3 Calculate the amount by multiplying the number of days owing by the appropriate pay rate.
- 3.12.1.4 Enter the amounts into the accounts

*Dr Personnel Expenses (may be split by output)*  
*Cr Annual Leave Accrual*

3.12.2 Accrue payroll costs for the current year paid in the next financial year

- 3.12.2.1 Ensure the existing payroll accrual has been reversed back to the correct accounts
- 3.12.2.2 Calculate the amount by taking the gross payroll total for the first payroll of the next financial year, divide by 10 (for 10 working days in a fortnight) then multiply by the number of working days in that payroll that fall into the current financial year.  
Eg. The first personnel payment in July 20xx is \$10,000.

Dividing this by 10 days = \$1,000 per day.

As The first pay in July 20xx includes 6 days which relate to June 20xx.  $6 \times \$1,000 = \$6,000$ .

This is the accrual amount for this year.

- 3.12.2.3 Do the journal as per below:

*Dr Personnel Expenses (this may be split by output)*  
*Cr Payroll Accrual*

3.13 Accrue Long Service Bonus

- 3.13.1 MFEM has changed the way this is calculated in the general ledger (not how it is paid and what qualifies).
- 3.13.2 MFEM has a template which will calculate a proportionate amount from all staff and classify it as current and non-current.
- 3.13.3 Contact MFEM to request the template you do not already have it. MFEM can assist to ensure the date for this template is appropriate.
- 3.13.4 The template instructs the journals but in summary the below are done (after ensuring the prior year accrual has reversed):

*Dr Personnel Expenses (may be split by output)*  
*Cr Current LSB*  
*Cr Non-Current LSB*

3.14 Accruing Revenue & Expenditure

3.14.1 Ensure that revenue and expenditure is matched in the appropriate accounting period rather than simply when it is paid or received. Therefore if something is owed or owing at balance date it needs to be included in the accounting system as a revenue or expenditure

3.14.2 Examples of this include all revenue and expenditure that has been incurred up to 30 June (eg Billing power bills to customers for June usage, and electricity or phone bills relating to June, fuel expenses etc).

3.14.3 To record accrual of expenditure transactions either:

3.14.3.1 Enter the amounts as a general journal. Note: this journal will need to be reversed at the beginning of the new financial year.

*Dr Expenses*  
*Cr Sundry Creditors and Accruals*

3.14.3.2 Or process the invoices (if they have been received) as a purchase in the current accounting year.

3.14.4 To record accrual of revenue transactions:

*Dr Accounts Receivable (or other appropriate receivable)*  
*Cr Trading Revenue (or other appropriate revenue)*

3.14.5 It is very important that the date of these transactions is the last day of the financial period (30 June).

3.14.6 Only real incurred costs can be recorded. Supporting invoices will be required for auditing.

3.15 Bulk Funded POBOC's & Capital

3.15.1 Refer to *Part B Section 8 - Bulk Funded POBOC's and Capital*.

3.16 ROBOCs

3.16.1 At the end of the financial year (30 June) any undeposited ROBOCs (i.e funds collected on 30 June but is deposited in the bank on 1 July) must be recorded as follows:

*Dr ROBOC Receivable (Assets)*  
*Cr ROBOCs Collected (Liabilities)*

3.17 General Ledger

3.17.1 Review transactions to ensure they are allocated correctly:

- 3.17.1.1 Expense type (personnel, telephone etc)
- 3.17.1.2 Capital or operating
- 3.17.1.3 Output
- 3.17.1.4 VAT treatment

### 3.18 VAT

3.18.1 Refer to *Part B Section 7 - VAT Returns*

3.18.2 Reconcile the Balance Sheet to June VAT return

3.18.3 Identify any reconciling items and explain differences

3.19 When the Balance Sheet and Profit and Loss are complete in that all transactions have been posted, balances reviewed and work-papers prepared, the surplus and depreciation repayable need to be calculated. Refer to *Part D Section 14 – Surplus/Depreciation Payable Calculations*.

3.20 Prepare the annual accounts in the Annual Accounts Template format as provided by MFEM. Remember to ask MFEM for the latest version.

3.21 Submit all accounts and schedules to MFEM by the date prescribed in 4.0 below

### 4.0 Schedule for completion of year end accounts

4.1 The due date is 20 working days (4 weeks) from the end of the financial year.

4.2 If the prior year accounts have not yet been audited, a set of draft accounts needs to be submitted which will not include the audit adjustments from the prior year.

4.3 Once the prior year accounts have been audited, the ministry has 20 working days to submit final accounts for review and checking to MFEM.

4.3.1 Use the draft accounts already submitted, enter any audit adjustments from prior year to make the opening balances match the closing balances from the prior audited accounts.

### 5.0 Work papers

5.1 Work papers summarise the items that make up an account balance.

5.2 These schedules are to be prepared for all Balance Sheet accounts and some Profit & Loss accounts (eg Crown Appropriation).

5.3 Where possible the schedules should be supported by external documents. For example:

<b>Account</b>	<b>Supporting Documents</b>
Bank	Bank Statement/Bank confirmation
Trade Creditor	Creditor invoices/Statements
Crown Revenue Reconciliations	Solomons Report
Fixed Assets	New assets invoices Fixed asset register
VAT	VAT return

5.4 The schedules should show:

Opening balance at the beginning of the year

Add/Subtract normal transactions

Add/Subtract adjusting/year end entries

Closing balance as per General Ledger

5.5 A work paper template can be provided by MFEM if required.

## 6 – Cash Payments

### 1.0 Purpose

- 1.1 Making payments for goods and services using cash increases the chances of the payments not being used for the purpose intended. Therefore payments should not be made in cash.
- 1.2 To ensure full accountability for each payment from a crown bank account.
- 1.3 To ensure that the physical operation of the cheque book is legal and follows best business practice.

### 2.0 Mandatory Requirements

- 2.1 All payments are to be made by cheque or bank transfer .
- 2.2 All cheques are to be pre-printed crossed and marked “Not Negotiable”. Should cheques be received from the printer/bank without being crossed and marked “Not Negotiable” then they must immediately be so stamped.
- 2.3 In the event that a cash cheque is required under paragraph 3.0 of this procedure then the “Not Negotiable” should be crossed out and the words “Pay Cash” written and signed by both officers signing the cheque, and the voucher noted accordingly.
- 2.4 It is an offence to have in the possession of a Ministry a blank cheque that is not crossed.
- 2.5 Under no circumstances can cheques be pre signed.
- 2.6 Payments should only be made on receipt of an invoice, or appropriately signed documentation in the case of specific exemptions.

### 3.0 Specific exemptions

- 3.1 For specific occasions where cash may be a more appropriate method of payment, the cheque MUST NOT be written out to „Cash“but instead to an employee of the organisation, where the payee is held accountable for ensuring that the payment proceeds are expended on the intended purpose. These occasions are:
  - 3.1.1 Per Diem rate paid to a person travelling prior to departure. The cheque is written payable to the person concerned, the “Not Negotiable” is crossed out and the words “Pay Cash” are written and signed by both officers signing the cheque. The person concerned can „cash“ the cheque in person from the bank where the account is held. The voucher is noted accordingly.

- 3.1.2 Although petty cash payments are not recommended systems for Ministries, Island Administrations and Crown agencies, circumstances may require this function. Reimbursing cheques for petty cash should still be written out to an employee of the organisation, the “Not Negotiable” is crossed out and the words “Pay Cash” are written and signed by both officers signing the cheque. The person concerned „cashes“ the cheque in person from the bank. The voucher is noted accordingly. This usually applies to amounts under \$20 per item. Note: Ministries must have a proper control system in place for petty cash.
- 3.1.3 For requested cash amounts greater than \$5,000 this MUST be signed for approval by the Financial Secretary and an authorised signatory from MFEM. The “Not Negotiable” is crossed out and the words “Pay Cash ” are written and signed by both the Financial Secretary and authorised signatory from MFEM signing the cheque.

#### 4.0 Cheque books

- 4.1 Only authorised signatories can sign cheques. See *Part D Section 9 – Opening Bank Accounts* for details of who authorised signatories can be.
- 4.2 Cheque books should be kept in a secure location.
- 4.3 All cheques are to be pre-printed crossed and marked “Not Negotiable”. Should cheques be received from the printer/bank without being crossed and marked “Not Negotiable” then they must immediately be so stamped.
- 4.4 In the event that a cash cheque is required under paragraph 3.0 of this procedure then the “Not Negotiable” should be crossed out and the words “Pay Cash” written and signed by both officers signing the cheque, and the voucher noted accordingly.
- 4.5 It is an offence to have in the possession of a Ministry a blank cheque that is not crossed.
- 4.6 Under no circumstances can cheques be pre signed.

## 7 - Cashflow Management

### 1.0 Purpose

- 1.1 To ensure that cash flow within the Ministries, Island Administrations and Offices is carefully planned.
- 1.2 To enable bulk funding to be optimised so excess cash is held by Crown

### 2.0 Mandatory Requirement

- 2.1 All Ministries, Pa Enea and Support Offices are to provide a cashflow forecast to MFEM within 10 working days of the approval of the Appropriation Bill by Parliament. A cashflow must be provided for Operating budgets, POBOCs, ROBOCs and Capital Funding.
- 2.2 Upon a change of Minister, the respective Support Office is required to provide a cashflow as a matter of priority by the incoming Minister's office, so that when the bank account is opened funding can commence.
- 2.3 All such cashflow forecasts are to be carefully reviewed by the responsible HOM, Island Secretary and Chief Executive Officer, and signed and dated accordingly before being forwarded to MFEM. MFEM will also require an excel electronic version to be provided.

### 3.0 Process

#### 3.1 Preparing the Phased Cashflow

- 3.1.1 Attachment 1 - Pro Forma – Both Cash Flow Forecast and Operating Expense Budget Breakdown are to be completed and forwarded to MFEM within 10 working days of the approval of the Appropriation Bill through Parliament. This Forecast is to be **signed and dated** by the responsible HOM, Island Secretary or Chief Executive Officer.
- 3.1.2 The budget allocation for the Ministry, Island Administration or Ministerial Office is split into Personnel, Operating Costs, Depreciation, Trading Revenue and Capital and is spread over the year - this is termed 'phasing of expenditure/revenue'.
- 3.1.3 Ministries are requested not to 'front load' their cash flows. This is particularly relevant for capital expenditure funding.
- 3.1.4

#### 3.2 Personnel

- 3.2.1 The personnel line should include ALL personnel costs expected to be incurred in that year.
- 3.2.2 The phasing should be based on the number of fortnights in each month, rather than divided evenly by 12 months.
- 3.2.3 Personnel costs are physically funded to employees by MFEM, on behalf of the Ministry, Pa Enea or Support Office, as administrators of the Cook Islands Government's payroll system.
- 3.2.4 MFEM will provide a payroll summary, after each pay, and a Solomons report, at month end, to each Ministry, Pa Enea or Support Office showing the total payroll costs. This must be posted into the Ministry's accounting system as:



Dr Personnel Costs  
Cr Crown Appropriation Revenue

The level of detail that the entries have varies by Ministry, so contact Treasury Division of MFEM if you require assistance.

### 3.3 Depreciation/Amortisation

- 3.3.1 Depreciation/amortisation cost for the year should equal the Ministry's Fixed Asset Register, including purchases and disposals for the year.
- 3.3.2 Depreciation/amortisation on new capital purchases should be included from the month in which the purchase is budgeted for.
- 3.3.3 Other Depreciation/amortisation should be spread evenly over the year.
- 3.3.4 Refer to *Part B Section 4 – Depreciation & Amortisation* and *Part C Section 6 – Depreciation Funding* for further details.

### 3.4 Operating Expenditure

- 3.4.1 Operating costs should be phased into the month in which they are expected to occur. Not all costs will be split evenly over the year. E.g. the costs of running a training workshop in October should be phased in October, not included in the costs to be spread evenly over the year.
- 3.4.2 Operating expenditure, less Trading Revenue, is the amount the Ministry is entitled to for Bulk Funding for that month. If the Trading Revenue exceeds the Operating expenditure then no Bulk Funding will be received.
- 3.4.3 Bulk Funding of all Ministries will be deposited to the relevant bank account on or near to the 20th of the month the funding is due. All Ministries will be advised details of their monthly funding.

### 3.5 Bulk Funded POBOC

- 3.5.1 POBOC costs should be phased into the month in which they are expected to occur as per 3.4.1 above. Arrangements to bulk fund POBOC must be agreed between the administering agency and MFEM before POBOCs will be bulk funded.
- 3.5.2 Bulk Funding of POBOCs of Ministries will be deposited to the relevant bank account as per 3.4.3 above.
- 3.5.3 New POBOCs will only be funded when MFEM receives a copy of the POBOC policy

### 3.6 Trading Revenue

- 3.6.1 Trading Revenue should be phased into the month in which it is expected to be received. E.g. if you receive trading revenue for providing energy, then the revenue should be phased into the month in which you expect to get paid for it.

### 3.7 ROBOC

- 3.7.1 ROBOC should be phased into the month in which it expected to be received as per 3.6.1 above.

### 3.8 Capital

- 3.8.1 Ministries are requested to include capital expenditure funding in the month they expect to purchase the capital expenditure item.
- 3.8.2 Capital expenditure will be paid to Ministries for their appropriated capital expenditure on receipt of a request with accompanying invoices. Care must be taken to ensure that the capital expenditure included within the phased cash flow is net of any trade in or sale of asset.

### 3.9 Suspension of Bulk Funding

- 3.9.1 Bulk Funding will be suspended if the Ministry fails to meet reporting requirements as set out in the MFEM Act and the procedure manual including:
  - 3.9.1.1 Non provision of the appropriately signed phased cashflow within 10 working days of the approval of the Appropriation Bill by Parliament – as this is the document that tells MFEM how much to fund the Ministry, nothing can be paid until the phased cashflow is received.
  - 3.9.1.2 Non provision of the appropriately signed revised phased cashflow within 14 days of the approval of the Appropriation Amendment Bill by Parliament where your Ministry budget has been amended.
  - 3.9.1.3 Non submission of Monthly Variance Report. Refer *Part D Section 4 – Financial Reporting*.
  - 3.9.1.4 Non submission of Draft Annual Accounts. Refer *Part D Section 5 – Year End Accounts Preparation*.
  - 3.9.1.5 Bulk Funding will recommence upon receipt of the documents on the 1<sup>st</sup> or 20<sup>th</sup> day of the month following when the documents are received, or a date agreed with MFEM.

### 3.10 Amendment of Phased Cashflow

- 3.10.1 Where it is necessary to amend cashflows, these must be submitted by the 10th of the month to take effect that month. Previous months funding must be Actuals as per Solomons Report.
- 3.10.2 Amendments may be requested by MFEM as a result of an Appropriation Amendment or to ensure the Ministry is not overfunded close to the end of the year.
- 3.10.3 The Ministry may submit an amended cashflow due to an expenditure category transfer. Refer to *Part C Section 1 – Expenditure Category Transfer* for this procedure.
- 3.10.4 Amended cashflows must still equal the Appropriation Bill.
- 3.10.5 An electronic copy(excel version) of the signed cashflow should be sent to MFEM and an original signed hard copy be sent to MFEM.

**Annual Phased Cash Flow**

Organisation name:


<b>Appropriations</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Total</b>	<b>Appro</b>	<b>Variance</b>
Trading Revenue													0		0
Personnel (paid by MFEM)													0		0
Operating Costs (next page)	0	0	0	0	0	0	0	0	0	0	0	0	0		0
Depreciation													0		0
<b>Total Gross Expenses</b>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Carry-forward Amounts													0		
<b>Total Net Expenses</b>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Bulk Funding</b>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Capital Funding</b>													0		0
<b>POBOCs</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Total</b>	<b>Appro</b>	<b>Variance</b>
													0		0
													0		0
<b>Total POBOCs</b>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>ROBOCs</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Total</b>	<b>Appro</b>	<b>Variance</b>
													0		0
													0		0
													0		0
<b>Total ROBOCs</b>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>


Year-to-date Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Trading Revenue	0	0	0	0	0	0	0	0	0	0	0	0
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Operating	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0
Net Appropriation	0	0	0	0	0	0	0	0	0	0	0	0

Operating Expense	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	TOTAL
Audit Fees													0
Write down of inventory / impairment of PPE													0
Loss on Disposal of PPE													0
Advertising													0
Bank Fees and Charges													0
Bad & Doubtful Debts													0
Board Sitting Fees/ Allowances													0
Board Travel													0
Board Catering													0
Communication													0
Conference Expenses													0
Cleaning Materials													0
Expensed Assets													0
Electricity													0
Entertainment/Catering & Hosting													0
Fuel and Oil													0
Freight / Postage													0
Insurance													0
Kitchen Supplies													0
Legal Costs													0
Marketing & Promotion													0
Medical Consumables													0
Office Stationery													0
Professional Services													0
Motor Vehicles													0
Computer Equipment													0
Plant & Equipment													0

Furniture & Fittings														0
Buildings														0
Rent														0
Subscriptions														0
Local Air fares														0
Local Accomodation														0
Local Per Diums														0
Other Local Travel Expenses														0
Overseas Air fares														0
Overseas Accomodation														0
Overseas Per Diums														0
Other Overseas Travel Expenses														0
Training & development														0
Other Expenses														0
														0
														0
<b>Total Operating Expenses Budget</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Total Opex Budget less Trading Rev      0   0   0   0   0   0   0   0   0   0   0   0   0   0

Solomons Bulk Funding      

Variance (should be nil)       0   0   0   0   0   0   0   0   0   0   0   0   0

Enter Bulk Funding (per Solomons) here

**Note:**  
The numbers reflected in this template are budget only and do not include actuals. If you transfer budget amounts between personnel and operating, you will need to increase or decrease you operating budget in here accordingly.

## 8 – Cash Receipts

### 1.0 Purpose

- 1.1 To ensure that cash received is physically handled in a responsible and secure manner.
- 1.2 To ensure that any receipt of cash is correctly accounted for.
- 1.3 Cash is defined as money (notes and coins) and cheques for the purposes of this procedure.

### 2.0 Mandatory Requirements

- 2.1 Cash must be held securely at all times.
- 2.2 A Government receipt must be issued at the time of receipt of cash.
- 2.3 Cash receipts must be banked daily.
- 2.4 Cash receipts must be correctly recorded in the accounts, in a timely manner.
- 2.5 Reconciliations of receipts to bank deposits must be regularly performed, at least once a month.

### 3.0 Process

#### 3.1 Receipt of cash

- 3.1.1 Upon receiving cash, a receipt must be immediately issued. There are NO exceptions.
- 3.1.2 Receipts must be issued from a Government of Cook Islands receipt book.
- 3.1.3 Receipt books can be purchased from the MFEM Finance Officer.
- 3.1.4 All cash received must be immediately stored in a secure location.

#### 3.2 Banking

- 3.2.1 Where at all possible, preparation of the deposit slip for regular banking should be done by a different member of staff from the person who receipted the cash.
- 3.2.2 If cash is received from trading revenue this should be banked daily into the ministry's bank account. If however it is a one off revenue on behalf of government or revenue earned on behalf of government it should be banked in the Westpac Public Account. Please refer to Part C Section 4 for the relevant details on banking into the Westpac Public Account.
- 3.2.3 If large receipts are received after regular banking, extra banking may be necessary.

3.2.4 The bank deposit slip, stamped by the bank, must be kept.

### 3.3 Processing of Accounting Transactions

3.3.1 Processing of accounting transactions should occur at least once a month in preparation for month end reporting.

3.3.2 Where a Ministry receives a high volume or large \$ value of transactions, it is recommended that processing be done more regularly, such as weekly, or even daily where warranted.

3.3.3 When processing a receipt, first check whether an invoice was raised, if so match the receipt to the invoice. *Refer Part C Section 4*

3.3.3.1 Sales journal entries in Ministry accounts where invoices are raised and receipt is posted against the invoice (eg. posting into MYOB is to be done through the “Customer payments” window in the sales module):

3.3.3.2 DR Bank

3.3.3.3 CR Debtor (Name of debtor to whom invoice was raised)

3.3.4 If no invoice was raised, then the receipt must be recorded as revenue and recorded as follows:

3.3.4.1 DR Bank

3.3.4.2 CR Trading Revenue/Other Revenue etc

### 3.4 Reconciliations

3.4.1 The following reconciliations should be performed at least monthly, preferably by a staff member different from the person receiving the cash and banking the cash.

3.4.1.1 Reconcile the receipt book to the deposit slips.

3.4.1.2 Reconcile the deposit slips to the bank statement deposits.

3.4.1.3 Reconcile the bank statement deposits to the bank account in the accounting ledger.

### 3.5 Segregation of duties

3.5.1 Segregation of duties means that no one person should handle the receiving of cash, the banking, the processing of accounting transactions and the reconciliation of accounts.

3.5.2 This protects both the staff and the Ministry by providing some comfort that cash does not disappear and that mistakes do not occur.

- 3.5.3 Where it is possible, given staff numbers, a different staff member should do each of: the receiving of cash, the preparation of the deposit slip, the processing of accounting transactions and the reconciliation of accounts.
- 3.5.4 If there are two staff members, one should do the receipting, the processing of accounting transactions and the reconciliation of accounts and the other the preparation of the deposit slip.
- 3.5.5 If there are three staff members, one should do the receipting, one the processing of accounting transactions and the reconciliation of accounts and one the preparation of the deposit slip.



## 9 - Opening and Closing Bank Accounts

### 1.0 Purpose

- 1.1 Ensure that there is control of opening and closing of bank accounts.
- 1.2 Ensure compliance with the MFEM Act.

### 2.0 Mandatory Requirements

- 2.1 Section 43(4) of the MFEM legislation (1996) states "... no bank account shall be opened or operated for the purpose of the deposit and/or withdrawal of public monies without the express authority of and on such conditions as the Financial Secretary determines."
- 2.2 All requests by Ministries, Pa Enea or Offices to open, close or make amendments to government bank accounts shall be forwarded to the Financial Secretary in writing, for consideration. No action is to be taken on this matter by the Ministry, Island Administration or Office until the Financial Secretary has provided a written approval.

### 3.0 Process

- 3.1 Ministry, Pa Enea or Support Office in consultation with the Financial Secretary or a delegated officer to establish if there is a need for a new or additional bank account.
- 3.2 The HOM, Island Secretary or Chief Executive Officer is to provide a written request to the Financial Secretary on the form as per attachment I, outlining the requirements for this account, and those staff who are to access the account and why. The relevant Banks Mandate form must also be completed and submitted with the application form.
- 3.3 All signatories of Bank Accounts must be employees of the Ministry or the entity concerned. Members of Parliament shall not be signatories to bank accounts. There may be some trust accounts or small offices where exceptions are necessary. These will be considered on a case by case basis and if approved by the Financial Secretary may be subject to additional controls.
- 3.4 When submitting the Application forms to the Financial Secretary, they must be accompanied by a copy of the new signatory's Passport and Drivers License..
- 3.5 The Financial Secretary shall review the written request and provide approval or not. The approval of the Financial Secretary shall be in writing.

3.6 All documentation and correspondence on the opening of a bank account is to be maintained in the Ministry, Island Administration or Office. This documentation is subject to audit review.

3.7 All new bank accounts opened by any Government Department, Island Administration, or Crown Agency must have the prefix “CIG” and then the name of the bank account. This will allow easy identification of Government Accounts for audit purposes. The three banks on Rarotonga have been informed of this procedure.

3.8 The Financial Secretary will not approve the opening of Government bank accounts unless it has the Prefix “CIG”.

3.9 Any amendments to all government bank accounts must have written approval from the Financial Secretary before any changes can be actioned by the bank or any Government Department

#### 4.0 Closing of Bank Accounts

4.1 The HOM, Island Secretary or Chief Executive Officer is to provide a written request to the Financial Secretary outlining the reasons of why the account is to be closed.

4.2 All funds in the Bank Account to be closed and be transferred to the Cook Islands Government Public Account unless otherwise stated.

4.3 The Financial Secretary shall review the written request and provide approval or not. The approval of the Financial Secretary shall be in writing.

#### 5.0 Attachment 1 - see following 2 pages.



**MINISTRY OF FINANCE & ECONOMIC MANAGEMENT  
GOVERNMENT OF THE COOK ISLANDS**

**TREASURY DIVISION**

P.O. Box 99, Rarotonga, Cook Islands

Phone: (682) 29511 • Fax: (682) 29652

Email: [teu.teulilo@cookislands.gov.ck](mailto:teu.teulilo@cookislands.gov.ck)

**APPLICATION FOR OPENING AND OPERATION OF A  
DEPARTMENTAL BANK ACCOUNT**

**(1) PURPOSE OF ACCOUNT: (Brief explanation required)**

---

---

In accordance with Part IX, Section 43 (4) of the Ministry of Finance and Economic Management Act 1996, I hereby apply for authorisation from the Financial Secretary to open and operate a bank account on behalf of:

**(2) NAME OF REQUESTING PARTY:** \_\_\_\_\_

**(3) NAME OF DEPARTMENT:** \_\_\_\_\_

**(4) POSITION WITHIN MINISTRY:** \_\_\_\_\_

**(5) RESPONSIBLE MINISTRY:** \_\_\_\_\_

I, \_\_\_\_\_ (name of applicant) have read the Ministry of Finance and Economic Management Act 1996, and fully understand my responsibilities under Part V, Section 29 of that Act.

**APPLICANTS SIGNATURE:** \_\_\_\_\_

In supporting this application, I \_\_\_\_\_ (name of HOM) hereby acknowledge my responsibilities as a Head of Ministry under Part V of the Ministry of Finance and Economic Management Act 1996 with specific reference to Section 29.

**SIGNATURE OF HEAD OF MINISTRY:** \_\_\_\_\_

Please fill in the following information for account keeping purposes.

**DETAILS OF ACCOUNTS:**

**NAME OF ACCOUNT:** CIG - \_\_\_\_\_

**BANK WHERE ACCOUNT IS HELD:** \_\_\_\_\_

**BANK ACCOUNT NUMBER:** \_\_\_\_\_

**TYPE OF ACCOUNT:**

- Savings Account**
- Cheque Account**
- Trust Account** (Part X MFEM Act, Sec. 46-54)

**AUTHORISED SIGNATORIES:**

<b>FULL NAME OF SIGNING PERSONS</b>	<b>POSITION HELD</b>	<b>SPECIMEN SIGNATURE</b>

**Account transaction requiring signatures will be accomplished on the following basis:**

- Jointly**
- Severally**

**If jointly, indicate how many and which signatures will be required to enact transactions.**

---

---

**OFFICE USE:**

**APPROVED:**

**FINANCIAL SECRETARY / /**

## 10 – Ministerial Support Offices - Hand-over Process.

### 1.0 Purpose

- 1.1 On the announcement of a change of Cabinet Minister, there are a range of activities that must be conducted to ensure accountability and transparency has been maintained in the hand-over process of the Ministerial Office.
- 1.2 To ensure that there is a clear delineation between the respective Minister's financial records when they have a change of office.
- 1.3 To ensure that all accounting transactions are correctly accounted for.
- 1.4 To secure all assets of the crown for transfer to the new Minister.
- 1.5 This procedure covers any change of Minister and also includes a change in the Prime Minister, Deputy Prime Minister or Leader of the Opposition

### 2.0 Mandatory Requirements

- 2.1 Full financial reports are to be completed within 10 working days of the cessation of a Minister's position. This is the responsibility of the outgoing CEO and Finance Officer.
  - 2.1.1 At the completion of the financial reports, ALL documents (hard and soft copies) and the accounting software is to be handed to MFEM.
- 2.2 A full audit must be completed for the ministerial office for the period 1 July to 10 days after the date of cessation. If not completed already, previous years accounts must be audited before the current year audit.
- 2.3 All assets of the crown are to be secured and not be removed from the ministerial office premises. No assets (including vehicles) may be transferred to other offices. Assets may only be transferred with the approval of cabinet, following the completion of the transfer to the new Minister and the issuance of an Audit clearance.
- 2.4 Section 43 (4) of the MFEM legislation states that "...No bank account shall be opened or operated for the purpose of the deposit and/or withdrawal of public monies without the express authority of and on such conditions as the Financial Secretary determines". Refer to *Part D Section 9 – Opening Bank Accounts*.
- 2.5 The definition of 'public money' as included in the MFEM legislation is "... all the resources and entitlements owned by, owed to, or held by the Crown, or held by any Government Department or Crown Agency or any other person for or on behalf of the Government, a Government Department or Crown Agency".

2.6 In terms of this definition, Ministers offices are deemed a Department and are subject to all of the legal restrictions and requirements that apply to a Department.

### 3.0 Process

#### 3.1 Staff

- 3.1.1 On the announcement of a change of Cabinet Minister, staff will be given a month's (20 working days) notice of termination. Should the new incoming minister chose to keep a staff member, a formal appointment letter must then be submitted to MFEM.
- 3.1.2 There is a need for some staff during a transition period to wind-up the affairs of the former office, this would normally be 10 working days.
- 3.1.3 The outgoing CEO, in consultation with the incoming Minister and CEO, is responsible for providing the notice of termination.
- 3.1.4 Employees cannot enjoy the benefit of termination payments if their employment is continued with the incoming minister or another government agency. If the employees are retained or transferred to another government Agency any Annual Leave entitlement should be transferred to the new entity.
- 3.1.5 The notice period should end 10 working days, or the time allowed for in the individuals' employment contract, from the date of the closure of the Office. This results in a total of 20 working days from the change in Minister and is in line with PSC policy of one month's notice.

#### 3.2 Final Accounts

- 3.2.1 Accounts must be prepared up to the date of cessation of the Minister's position. These accounts must be completed within 10 working days of the date of change and be prepared using full accrual accounting, e.g. all costs incurred by that office must be included.
- 3.2.2 The responsibility for preparing the accounts rests with the staff who have been given notice or the staff of the new Minister if they have been transferred across immediately.
- 3.2.3 No further expenditure may be incurred by the 'old office' except that which is essential for the preparation of the accounts and any other work required for the closure of the office.
- 3.2.4 All payments or further commitment to expenditure from the date of cessation of the Minister's position, must be certified by the Financial Secretary (or their nominee) before the transaction

occurs. After this expenditure has been paid the cheque books are to be returned immediately to the Treasury Division of MFEM.

- 3.2.5 All expenses relating to the operations of the Office up to the point of change in Minister, including severance pay and audit fees must be included in the accounts. This will involve requesting accounts from creditors up to the day of changeover from eg Telecom, Te Aponga, etc.

### 3.3 Cheque Book and Bank Accounts

- 3.3.1 The cheque book of the outgoing Minister must be returned to the Treasury Division of MFEM within two weeks of the date of cessation of the Minister's position.
- 3.3.2 A new bank account is to be opened for the new Minister's Office under all circumstances. These include if the staff transfer across to the new Minister, a Minister becomes the Prime Minister, Deputy Prime Minister or Leader of the Opposition or the Prime Minister, Deputy Prime Minister or the Leader of the Opposition becomes a Minister. It is essential that there is a clear separation between the finances of each Minister or Ministerial position. Refer to *Part D Section 9 - Opening Bank Accounts*.

### 3.4 Assets

- 3.4.1 There must be a physical reconciliation of the assets of the office by the outgoing Minister's staff. The new Minister or Chief Executive Officer should sign the schedule of assets acknowledging responsibility for them and furnish the signed copy to the Financial Secretary and the outgoing Minister.
- 3.4.2 All assets of the crown are to be secured and not be removed from the ministerial office premises. Assets (including vehicles) may only be transferred to other offices with the approval of cabinet, following the completion of the transfer to the new Minister and the issuance of an Audit clearance on the outgoing Minister.

### 3.5 Budget allocations

- 3.5.1 For the purposes of determining whether the outgoing Minister has operated within their budget, the budget appropriated to the Ministerial Office will be based on the phased budget to date and a pro rata of the following month based on days in office.
- 3.5.2 The incoming Minister's budget will be determined by the amount remaining from the original appropriation after deducting all expenses of the former Minister.

- 3.5.3 The Budget Allocation is for a Ministerial position and NOT a specific portfolio. Even though the Portfolios may change, each Minister may not receive more than one Budget Allocation.



### 3.6 Funding for Incoming Minister

3.6.1 Bulk Funding will commence upon the opening of the bank account and the provision of a phased cashflow to Treasury Division, MFEM. Refer *Part D Section 7 – Cashflow Management* for the process of completing a phased cashflow and the format required.

3.6.2 The phased cashflow is to equal the incoming Minister’s budget as explained in 3.5.2.

3.7 All the policies and procedures in the Cook Islands Government Financial Policies and Procedures apply to Ministerial Support Offices at all times.

## 11 – Carry Forward of Expenditure

### 1.0 Purpose

- 1.1 Section 37 of the MFEM Act allows for the carry forward of funds to the following year in addition to the appropriation made for that year.
- 1.2 This procedure applies to all items of expenditure including Ministry operating expenditure, POBOC's and Capital Expenditure.

### 2.0 Definition

- 2.1 Accrual - A method of accounting that recognizes expenses when incurred and revenue when earned rather than when payment is made or received
- 2.2 Carry forward – A method of transferring allocated budget from one accounting period to another.

### 3.0 Mandatory Requirements

- 3.1 Section 37 of the MFEM Act states  
"37. Where provision has been made in any Appropriation Act for expenditure by any Government Department or Crown Agency in accordance with its outputs, and the total amount of that expenditure has not been incurred during the financial year to which that Act relates, the Financial Secretary, with the concurrence of the Minister, may direct that the unexpended amount be available for expenditure by the Government Department or Crown Agency, in accordance with its outputs, in following financial years, in addition to the total amount to be allocated to that Government Department or Crown Agency in the next Appropriation Act."
- 3.2 Carry forward requests are not encouraged and shall be treated as a one off. Only for reasons beyond the Ministry's control would give a good case for the need to carry forward funds. Unnecessary delays caused by lack of planning on the Ministry's part shall not be considered favorably.
- 3.3 All requests for carry forward must be applied for to the Financial Secretary before the later of 31<sup>st</sup> July or the date the appropriation bill for the next financial year is first tabled in parliament.
- 3.4 The request will have justifiable reasons for why the funds appropriated for the previous year remain unexpended.
- 3.5 Carry forwards should not be used as a means for funding projects that were previously not approved by the budget committee and for projects that have not been adequately planned.
- 3.6 All approved carry forwards will be used to complete the projects or procure the assets for which they were either originally appropriated for or that were identified in the carry forward request and approved by the Financial Secretary with the concurrence of the Minister.

## 4.0 Process

### 4.1 Apply to carry forward or accrue in the accounts?

#### Accrual

4.1.1 Accrual happens when the activity (goods or services) have been incurred or purchased but invoices are not available at year end. Example, in June we hire professional services from an overseas consultant. Because they are mailing the invoice through, you won't get the invoice by year end and therefore you need to accrue this in the current year.

Dr Expenses (Profit & Loss)

Cr Accrued Expenses (Liability)

4.1.2 The accrual will be reversed in the new financial year when the actual payment/invoice is paid/received.

Dr Accrued Expenses (Liability)

Cr Expenses (Profit & Loss)

Then

Dr correct expense amount

Cr Accounts Payable/Bank

#### Carry forward

4.1.3 Carry forward is when a budget has been committed to or approved in the current financial period but the Government Agency did not use the appropriation or incur expenses.

4.1.4 Because this activity is not allocated in the subsequent financial year's budget, a request for an approval to carry forward to the Financial Secretary is required in order for this activity or project to begin process. As per para 2.1 of this section.

4.2 In the year which funds are to be carried forward from, the reconciliation of the appropriation includes a deduction, being the value of the approved carry forward. This is because in effect the appropriation available for that year is reduced by the amount that will be carried forward. For example

4.2.1	Appropriation as per Budget Yr 1	100
	Less approved carry forward	<u>-10</u>
	Total Crown revenue for the year	90

4.2.2 This may create a "negative" Crown Receivable, to be shown as a Crown Payable.

The cash flow, and therefore the phased budget, and the reconciliation of the appropriation for the following year would include the amount to be carried forward in addition to the appropriation for the year. For Example

4.2.3	Appropriation as per Budget Yr 2	100
	Plus approved carry forward	<u>+10</u>
	Total Crown revenue for the year	110

4.3 For capital items approved to be carried forward, the capital code from the initial year will be used. The funds will be used to complete the intended capital projects or procurement for which the original budget was appropriated for.

4.4 Carry forwards of unused funds from financial years that have been closed off by audit will not be recommended as these funds will transferred to the general funding pool of the Crown to fund other projects. Ministries should seek new appropriation for these initiatives.

4.5 Funds Management, MFEM will keep a schedule of all budget items approved to be carried forward to the following year.

## 12 – Bad Debts/Provision for Doubtful Debts

### 1.0 Purpose

- 1.1 To ensure that accounts receivable are reviewed regularly for recoverability and that all measures of recovering the debts have been applied.
- 1.2 To ensure that any accounts receivable that are not recoverable are written off as bad debts
- 1.3 To ensure bad debts are correctly accounted for.

### 2.0 Definitions

- 2.1 “Bad Debts” - A debt owing to a Ministry, Island Administration or Crown Agency that is not expected to be paid or collected.
- 2.2 “Doubtful Debt” - A debt, which the Ministry, Island Administration or Crown Agency considers may not be paid or considered to be doubtful of collection.

### 3.0 Mandatory Requirements

- 3.1 Every effort must be made by a Ministry, Island Administration or Crown agency to collect outstanding receivables.
- 3.2 All receivables must be reviewed six monthly to determine if they are “good” (still expected to be collected), “doubtful” (not sure of the debts collectability) or “bad” (no longer expected to be collected). It is recommended that a review be conducted in May of each year to allow sufficient time for any provisioning of doubtful debts to be processed prior the year end, 30 June of the current financial year, and that the receivables listing is updated for the Audit Office.
- 3.3 There should be a statement of account sent out to customers at the end of each month detailing the following:
  - 3.3.1 Date of invoice
  - 3.3.2 Invoice number
  - 3.3.3 Total amount of invoice
  - 3.3.4 Age of the debt i.e 30, 60, 90+ days etc
  - 3.3.5 Payment received from customer
  - 3.3.6 Total amount owed by the customer
- 3.4 Section 42 of the MFEM Act states: *“No losses of public resources shall be written off without the authority of the Financial Secretary acting with the concurrence of the Minister”.*

- 3.4.1 To Write-off bad debts with a total value of \$5,000 and in excess of requires the written authorisation of the Financial Secretary acting with the concurrence of the Minister.
  - 3.4.2 To Write-off bad debts with a total value from \$1,000 and up to \$5,000 requires the written authorisation of the Financial Secretary only.
  - 3.4.3 The Write-off of bad debts with a total value less than \$1,000 does not require written authorisation by the Financial Secretary. The Head of Ministry, Island Administration or Crown agency may authorise the Ministry's finance department, in writing, approving the debt to be written off. All write offs is to be done once a year preferably at the end of the financial period.
  - 3.4.4 All requests for the write-off of bad debts including the reasons as to why the debt should be written off, must be formally documented and filed, to be made available to the Audit Office.
  - 3.4.5 Evidence of at least 12 constant follow up made to the debtor during a full financial year (after provisioning) should be made available to the Financial Secretary when requesting for bad debts to be written off.
- 3.5 When a bad debt has been approved for write off (as per 3.4.1 above) it must be written off immediately, or if the bad debt is less than \$1,000 then the debt must be written off immediately after it has been decided to be bad.
- 3.6 A provision (meaning estimate) for doubtful debts should be provided after reviewing the collectability of the receivable debts (Refer 2.2 above). This represents amounts under dispute with customers and should be deducted from debtors.
- 3.7 A listing of doubtful debts should be prepared by the Finance Manager then reviewed and approved by the HOM. (Refer Attachment 3). A copy of the listing should be filed for audit purposes and should always equal the Provision for doubtful debts in the Balance Sheet.

#### 4.0 Process

- 4.1 A receivable (debt) becomes bad when it is no longer expected to be collected. This could be identified during the six monthly review or become known when the Ministry, Island Administration or Crown agency is attempting to collect the receivable during the year.
- 4.2 Requests for the approval to write off any bad debts must follow the requirements of paragraph 3.4. A pro forma application letter is provided at Attachment 1.

- 4.3 When the bad debt is approved for write off (as per 3.2 above) or the bad debt is less than \$1,000, then the debt must be written off in the financial year in which it was known to be bad.
- 4.4 The following accounting journal entry must be shown in the Ministry's accounts for the writing off of the bad debt:
- 3.4.1 Dr Bad Debts Expense (Other Operating Expenses on the P&L)
- 3.4.2 Cr Accounts Receivable (Asset in the Balance Sheet)
- 4.5 The receivable must also be written out of the accounts receivable register/listing. The accounts receivable register/listing should always equal the Accounts Receivable balance in the Balance Sheet.
- 4.6 The Bad Debts Expense must be supported by a work paper listing each debt written off and with a copy of the write off approval if the debt was greater than or equal to \$1,000. An example of the work paper is Attachment 2.
- 4.7 The Ministry should monitor the age of all receivables.
- 4.8 Provision of doubtful debts or sometimes known as “allowance of doubtful debt”, are amounts owed by customers (debtors) at balance date which, though not positively identified as bad, are considered to be doubtful of collection. To be consistent with accrual accounting, debts doubtful at balance date must be recognized as an expense in the current period.
- 4.9 A listing of aged trade debtors/receivables should be obtained from the accounting software eg. MYOB, Quickbooks etc which the ministry/administration/office/crown agency etc uses to record its credit and cash sales and doubtful debts to be identified by the Finance Officer/Manager.
- 4.10 The following are conditions when provisioning for doubtful debtors:
- 4.10.1 Debt is disputed by the customer;
- 4.10.2 Debt is outstanding for more than 6 months;
- 4.10.3 No response from customer to constant follow up or reminders made by the Administration/Crown Agency/Office/Administration with regards to making payments towards to the outstanding debt.
- 4.11 The following accounting journal entry must be shown in the Ministry's accounts for provision for doubtful debts:
- 3.11.1 Dr Doubtful Debts Expense (Other Operating Expense P & L)
- Cr Provision for Doubtful Debts (Asset in the Balance Sheet)
- (Note: the provision will be shown on the balance sheet as a deduction from trade debtors)

- 4.12 After 12 months of provisioning of the debt, there should be at least another 12 follow ups made to the debtor within a period of six (6) months. After the 18 months of provisioning and follow up, then a HOM of a ministry/administration/crown agency can apply for approval to write off to the Financial Secretary. Ensure that evidence of follow up is kept and available for audit purposes.
- 4.13 If a “provisioned” debtor (as per listing from Attachment 3) pays or settles its debt, than the following is the accounting entry:
- Dr Provision for Doubtful Debts (Asset in the Balance Sheet)
- Cr Doubtful Debts Expense (Other Operating Expense P & L)
- 4.14 After the approval to write off bad debts is received from the Financial Secretary, this is the general journal entry to record the write off:
- Dr: Provision for doubtful debts      XXX
- Cr: Debtors/Accounts Receivable                      XXX
- (Figures to use to post in the above general journal is the only amount that is approved by the Financial Secretary)
- 4.15 If a written off debtor (debtor from listing that the Financial Secretary or the HOM has approved. Refer Attachment 1 and 2) pays or settles its debt, than the following is the accounting entry:
- Dr: Bank                      XXX
- Cr: Other Revenue (Debt Recovery) XXX

Attachment 1 – Pro forma application letter

Attachment 2 – Bad Debts Expense workpaper example

Attachment 3 – Doubtful Debts Expenses workpaper example

See the following pages.



Attachment 1

**MINISTRY LETTER HEAD**

Date:

To: Financial Secretary, MFEM.

From: HOM, Ministry of ??????????.

**Subject: Application for Bad Debt Write Off.**

---

**Kia Orana,**

Under Section 42 of the MFEM Act, I am applying to write off the following bad debt(s):

1. Name of Debtor No. 2: \_\_\_\_\_ 2. Total Amount: \_\_\_\_\_

3. Detail summary: (Summary of what makes up "total amount" in no. 2 above)

Date	Invoice #	Amount	Particulars (What was the invoice for?)

**4. Reason for Non Payment:**

**5. Actions taken to recover debt: (Evidence attached)**

1. Name of Debtor No. 2: \_\_\_\_\_ 2. Total Amount: \_\_\_\_\_

3. Detail summary: (Summary of what makes up "total amount" in no. 2 above)

Date	Invoice #	Amount	Particulars (What was the invoice for?)

**4. Reason for Non Payment:**

**5. Actions taken to recover debt: (Evidence attached)**

HOM's Signature: \_\_\_\_\_

Attachment 2

**Ministry of Training  
Bad Debts Expense Reconciliation  
Year ending 30 June 2002**

***WPK***

<b>Debtor Name</b>	<b>Amount</b>	
John Smith	\$250.00	K1 (copy of approval for write off)
Jane Ayre	<u>\$ 60.00</u>	
	\$310.00	A1 (Bad Debts Expense on P&L)

Attachment 3

**Ministry of Training  
Provision for Doubtful Debts Reconciliation  
Year ending 30 June YYYY**

***WP K.1***

<b>Debtor Name</b>	<b>Amount</b>	<b>Provisioning</b>
John Smith	\$250.00	\$100.00
Jane Ayre	<u>\$ 60.00</u>	<u>\$60.00</u>
	\$310.00	\$160.00 (Provision for doubtful debts In the B/S)

Prepared by: \_\_\_\_\_

Date: \_\_\_\_\_

Authorised by the HOM: \_\_\_\_\_

Date: \_\_\_\_\_

## 13 – Software Backup

### 1.0 Purpose

- 1.1 To ensure all Ministries have a working backup of their accounting software databases and other financial files.
- 1.2 To ensure that all Ministries protect their accounting software databases and other financial files using passwords to access information in computers.

### 2.0 Mandatory Requirements

- 2.1 Ministries must have a backup of their accounting software databases.
- 2.2 Ministries should back up their accounting software databases weekly, but at a minimum must backup monthly.
- 2.3 A second copy of backups must be kept off site.
- 2.4 Ministries must restore and test their backup regularly at least once every six months.
- 2.5 Ministries must have passwords to access their accounting software or other financial files.

### 3.0 Process

- 3.1 Ministries are responsible for ensuring that there is a working backup of their accounting software databases and other financial files irrespective of whether the files are maintained and updated by staff within the Ministry or by an external contractor. If an external contractor is hired to prepare accounts then the Ministry must ensure that the contractor provides a working copy of the accounting software databases and other financial files.

#### 3.2 Planning the backup

- 3.2.1 Ministries must plan and make a list of what needs to be backed up. Anything that cannot be replaced easily should be a priority. Planning will help determine what to back up and gives the Ministry a reference list in the event that a backed-up file needs to be retrieved.
- 3.2.2 The types of information that should be backed-up include accounting data files, fixed asset register, planning/budgeting files, etc.
- 3.2.3 Ministries must decide on the media they will use to do the back up. This will depend on the size of the files, .e.g. a CD ROM may not be appropriate if the size of the data is more than 750MB (Megabytes) etc.

- 3.2.4 The frequency of backup also needs to be considered. Data may be backed up weekly, monthly, quarterly or annually depending on how often the data is changed. Ministries should back up their accounting software databases weekly, but at a minimum must backup monthly.

### 3.3 Storing the Backup Media

- 3.3.1 Ministries must have two copies of their backup, one to store internally in the office safe etc and one must be kept off site in case of damage to the building. E.g. Fire, flooding, cyclone etc.
- 3.3.2 MFEM can store the second copy on behalf of the Ministries. This will be in an air-conditioned environment. Please label the copy to show which Ministry it relates to and at what date the backup was taken.

### 3.4 Testing the Backup

- 3.4.1 Ministries need to make sure that their efforts are producing the desired result. This means that Ministry should go through the process of recovering data and find any problems before they are in an emergency situation.
- 3.4.2 Ministries must restore their backup at least once every six months. When the database is restored, the Ministry should open the database and check that it is working. This could be done by running an account inquiry or report.

- 3.5 Other key financial files (e.g. Fixed Asset Register (FAR), Budget information, planning, work-papers, electricity billings etc) should be backed up and password protected in the same way as the accounting software databases.

## 14 – Surplus/Depreciation and Amortisation Recall

### 1.0 Purpose

- 1.1 To ensure that all surpluses that have not been given approval by in terms of Section 37 of the MFEM Act to be carried forward be returned to Crown.
- 1.2 To ensure actual depreciation/amortisation is returned to Crown at the end of the financial year.
- 1.3 To ensure proper Accounting treatment in the financial statements.
- 1.4 To ensure that the maximum return on bank investment is achieved by returning the excess cash in ministry bank accounts to the Crown.

### 2.0 Mandatory Requirements

- 2.1 All Ministries and Island Administrations must return surpluses back to Crown if they have not been given approval to be carried forward. (Refer to *Part D Section 11 – Carry Forward of Expenditure*)
- 2.2 All Ministries and Island Administrations must return the higher of the actual depreciation/amortisation or budgeted depreciation to Crown at year end to enable the funding of future capital expenditures.

### 3.0 Process

- 3.1 At year end, determine if your Ministry or Island Administration owes any surplus to the Crown by completing the surplus calculation below using your year end Balance Sheet;

#### 3.1.1 Calculation of Surplus Repayable to the Crown

	<b>\$</b>
Cash	XXX
Investments	XXX
Trade Debtors (non-Crown)	XXX
VAT Receivable	XXX
Other Assets	XXX
<i>(enter liabilities as negatives)</i>	
Trade Creditors (non Crown)	(XXX)
Sundry Creditors	(XXX)
VAT Payable	(XXX)
Employee Entitlements	(XXX)
Other Liabilities	(XXX)
Balance - strictly cash and excluding crown	<b>XXX</b>
Crown Receivable	XXX
Crown Payable	(XXX)
This is the value to bring in as the "Surplus Payable to the Crown"	<b>XXX</b>

- 3.2 If the value to bring in as the “Surplus Payable to the Crown” is negative then nothing is repayable to the Crown.
- 3.3 If the value to bring in as the “Surplus Payable to the Crown” is positive then there is a surplus repayable to the Crown. You need to process the journal below in your accounting system;
  - 3.3.1 General Journal entry to record the surplus repayable;
    - 3.3.1.1 Debit Surplus Repayable (Equity account in taxpayers funds)
    - 3.3.1.2 Credit Surplus Repayable (Crown account in the liability section) see *Part D Section 5 – Year End Reporting*
- 3.4 The higher of the actual depreciation/amortisation or the budgeted depreciation for the year will need to be repaid to the Crown.
  - 3.4.1 General Journal entry to record the depreciation repayable:
    - 3.4.1.1 Debit Depreciation/amortisation Repayable (Equity account in taxpayers funds)
    - 3.4.1.2 Credit Depreciation/amortisation Repayable (Crown account in the liability section) see *Part D Section 5 – Year End Reporting*
- 3.5 On the other hand, the Crown (through MFEM) owes all Crown entities the balance of their respective appropriation which is the Crown Receivable in the balance sheet, see *Part D Section 5 – Year End Reporting*.
- 3.6 MFEM, on behalf of the Crown, will then invoice all Ministries and Island Administrations the amount of the surplus and the depreciation repayable to the Crown based on the Ministry or Island Administrations’ draft accounts. These draft accounts are due by the 20<sup>th</sup> working day after year end. See *Part D Section 5 – Year End Reporting*.
- 3.7 MFEM, on behalf of the Crown, will prepare a Statement of Crown Payable and Receivable for each Ministry or Island Administration, showing life to date balances, within 20 working days of receipt of the draft accounts.
- 3.8 This Statement is the Crown’s calculation of the balances. Should a Ministry or Island Administration believe that the calculation is incorrect, MFEM should be contacted immediately so that the difference can be resolved, and if necessary, a revised Statement be issued.
- 3.9 An exchange of cheques will then need to take place to settle the amounts owed by each party.
- 3.10 MFEM, on behalf of the Crown, will not pay out the amount owing to the Ministry, Island Administration or Office without the exchange of cheques.

- 3.11 Upon completion of the audit of the Ministry or Island Administrations' accounts, the Statement of Crown Payables and Receivables will be revised and any differences will result in either an invoice or a cheque being sent to the Ministry or Island Administration.
- 3.12 If an invoice is issued, the Ministry or Island Administration would be expected to settle promptly by issuing a cheque to the Crown.



## 15 – Ministerial Support Offices - Operations.

### 1.0 Purpose

- 1.1 This procedure deals with the ongoing management of a Ministerial Support Office. It should be used in conjunction with *Part D Section 10 – Ministerial Support Offices – Hand-over Process*.
- 1.2 To ensure that Ministerial Support Office expenditure meets the legal obligations of the Appropriation and the MFEM legislation.
- 1.3 To ensure that all accounting transactions are correctly accounted for.
- 1.4 To ensure that the recording and reporting of financial transactions meets the obligations of the MFEM legislation.
- 1.5 To ensure that all expenditure by Ministerial Support Offices complies with acceptable standards of accountability and transparency.

### 2.0 Mandatory Requirements

- 2.1 All the policies and procedures in the Cook Islands Government Financial Policies and Procedures apply to Ministerial Support Offices at all times.
- 2.2 Ministerial Support budgets are to be used for office support and not for discretionary purposes. Office support is intended to cover the normal cost of running an office which includes staffing, stationery, communications etc.

### 3.0 Process

#### 3.1 Bank Account and Cheque Book

- 3.1.1 As outlined in *Part D Section 10 – Ministerial Offices – Hand-over Process*, a new bank account is to be opened for the new Minister's Office. The procedure outlining the opening of bank accounts, *Part D Section 9 - Opening Bank Accounts*, applies to Ministerial Support Offices.
- 3.1.2 As noted in 3.2 of Part D Section 9 - Opening Bank Accounts, “all signatories of Bank Accounts must be employees of the Ministry or the entity concerned. Members of Parliament or Islands Councils shall not be signatories to bank accounts. There may be some trust accounts or small offices where exceptions are necessary. These will be considered on a case by case basis and if approved by the Financial Secretary may be subject to additional controls”.
- 3.1.3 *Part D Section 6 – Cash Payments* outlines the handling of cheque books. The procedure includes:
  - 3.1.3.1 Cheque books should be kept in a secure location.

3.1.3.2 All cheques are to be pre-printed crossed and marked “Not Negotiable”. Should cheques be received from the printer/bank without being crossed and marked “Not Negotiable” then they must immediately be so stamped.

3.1.3.3 Under no circumstances can cheques be pre signed.

3.1.4 *Part B Section 6 – Bank Reconciliation* requires that a Bank Reconciliation is performed monthly. An example of a bank reconciliation is provided in Attachment 1 of that procedure.

3.1.5 Payments from the bank account should relate only to expenses incurred by the current Ministerial Office. Please refer to Treasury Division of MFEM if an invoice is received for a previous Minister.

### 3.2 Operational Expenditure

3.2.1 Ministerial Support budgets are to be used for **office support** and not for discretionary purposes. Office support is intended to cover the normal cost of running an office which includes staffing, stationery, communications etc.

3.2.2 The appropriation is not intended to cover **donations**. The POBOC “Social Responsibility Fund” is intended to cover all donations and grants.

3.2.3 The appropriation is also not intended to cover **overseas travel**. Cabinet approves the expenditure that a Minister may incur when travelling overseas and this is paid from the Civil List. Ministers cannot override Cabinet’s approval and use additional funds from the Office Support budget.

3.2.4 The appropriation is intended to cover staff who are actually **employed in the office**. It is not intended to employ staff in the constituencies or as housemaids, gardeners, cleaners, etc.

3.2.5 The appropriation is intended to cover approved Office related travel for staff employed by the Office.

### 3.3 Bulk Funding

3.3.1 The calculation of the Budget Allocation for the office is detailed in *Part D Section 10 – Ministerial Support Offices – Hand-over Process*.

3.3.2 The amount of Bulk Funding paid is taken directly from the phased cashflow prepared at the commencement of the Minister’s term by the Minister’s staff. Refer *Part D Section 7 – Cashflow Management* for the process of completing a phased cashflow and the format required.

3.3.3 Funding for operational expenditure is provided through Bulk Funding on or near to the 20<sup>th</sup> day of each month.

- 3.3.4 Refer to *Part D Section 7 – Cashflow Management* if a cashflow amendment is required.

### 3.4 Bulk Funding Suspension

- 3.4.1 Bulk Funding will be suspended if the Ministerial Office fails to meet reporting requirements as set out in the MFEM legislation and the procedure manual including:
- 3.4.1.1 Non provision of the appropriately signed phased cashflow – as this is the document that tells MFEM how much to fund the Office, nothing can be paid until the phased cashflow is received.
  - 3.4.1.2 Non submission of Monthly Variance Report and associated financial reports. Refer *Part D Section 4 – Financial Reporting*.
  - 3.4.1.3 Non submission of Draft Annual Accounts. Refer *Part D Section 5 – Year End Accounts Preparation*.
  - 3.4.1.4 Bulk Funding will recommence upon receipt of the documents on the first of the 1<sup>st</sup> or 20<sup>th</sup> of the month after the documents are received, or a date agreed with MFEM.

### 3.5 Personnel

- 3.5.1 All staff must be paid through the payroll system, by submitting the relevant timesheets to MFEM.
- 3.5.2 Personnel costs must not be paid through operating expenditure.
- 3.5.3 If a personnel payment needs to be made and it cannot be done through the payroll system, a loose voucher must be prepared and submitted to MFEM for payment.
- 3.5.4 When preparing a loose salary voucher, the PAYE tax and superannuation must be taken into account. If you are unsure, contact the Treasury Division of MFEM for assistance in preparing loose salary vouchers.
- 3.5.5 To put staff on the payroll system, a letter from the CEO outlining the appointment, the commencement date and the salary is required.
- 3.5.6 To put the CEO on the payroll system, a letter from the Minister outlining the appointment, the commencement date and the salary is required.

### 3.6 Capital

- 3.6.1 Ministerial Support Offices are required to comply with *Part B Section 1 – Capital Expenditure*.

- 3.6.2 Capital purchases over \$3,000 can only be made if they are approved by Parliament in the Appropriation Bill.
- 3.6.3 Capital purchases can only be made for the total in the Appropriation Bill. It is not permissible to “top up” a capital purchase with operating funds.
- 3.6.4 Capital expenditure will be funded to Offices on an item by item basis on presentation of invoices with the Capex Code. A copy of Capex Codes can be obtained from Treasury Division of MFEM.

### 3.7 Assets and Depreciation

- 3.7.1 Ministerial Support Offices are required to comply with *Part B Section 2 – Asset Management*.
- 3.7.2 Ministerial Support Offices are required to comply with *Part B Section 4 – Depreciation*.

### 3.8 Monthly Reporting

- 3.8.1 Ministerial Support Offices are required to comply with *Part D Section 4 – Financial Reporting*.
- 3.8.2 Monthly financial reports are to be provided to MFEM by the **tenth working day** of each month, unless advised separately.
- 3.8.3 Financial reports to include those listed in Attachment 1 of *Part D Section 4 – Financial Reporting* including the **Monthly Variance Report** shown in Attachment 2 of *Part D Section 4 – Financial Reporting*.

- 3.9 All the policies and procedures in the Cook Islands Government Financial Policies and Procedures apply to Ministerial Support Offices at all times.

## 16 – Credit Cards

### 1.0 Purpose

- 1.1 To establish uniform procedures for the use of Credit Cards in the payment of goods and services across all Ministries, Island Administrations and Crown Funded Agencies.
- 1.2 To ensure that any use of Crown operated Credit Cards are for government purposes only.
- 1.3 To ensure that payment and purchase transactions comply with suitable standards of accountability, transparency and the requirements of the Cook Islands Government Financial Policies and Procedures.

### 2.0 Mandatory Requirements

- 2.1 All Operating and Capital Expenditure must have Parliamentary approval.
- 2.2 Under no circumstances should any Crown entity operate a Credit Card unless section 2.3 is satisfied.
- 2.3 In exceptional circumstances where a Crown Agency has justified the need to own a Credit Card, this must have the approval of the Financial Secretary in concurrence with Cabinet.
- 2.4 Any Crown Agency currently in possession of a Crown Credit Card shall have those cancelled immediately unless approval has been granted under section 2.3.
- 2.5 If personal Credit Cards are used, then receipts MUST be provided before any reimbursements are made. These must be filed for Audit purposes.
- 2.6 Under NO circumstances shall a Crown Credit Card be used to withdraw cash.
- 2.7 The Financial Secretary with the concurrence of Cabinet shall establish a Credit Card limit for any requested Crown Credit card, however this shall not exceed \$3,000.
- 2.8 Any persons other than the HOM or equivalent required to use a Crown Credit Card must have a written permission from their HOM prior to them using the Credit Card. Any written permission must state the authorised credit limit that can be used.
- 2.9 Copies of the Crown Credit Card statements must accompany the monthly financial reports submitted to MFEM.

### 3.0 Process

- 3.1 All payments are to be made by cheque or bank transfer unless special permission has been granted to pay using any other means by the HOM (or equivalent).

- 3.2 In the event the Financial Secretary in concurrence with Cabinet has given approval to a requesting Crown Agency to operate a Credit Card, all payments using Crown Credit Cards must only be used for government purposes and under NO circumstances shall these be used for personal or private reasons.
- 3.3 All payments using Credit Cards, regardless of the amount, MUST be supported by relevant receipts.
- 3.4 Interests and fees incurred due to late payments on government credit cards must be avoided. In the event these are incurred it shall be paid for by the Ministry responsible.
- 3.5 When filing monthly financial reports to MFEM, the HOM shall ensure that Credit Card statements for the period concerned are attached. If the statements are received after the report has been filed, then these statements must be submitted in the following month.
- 3.6 All Credit Card statements must be held by the Agency concerned and cross checked with the relevant receipts for Audit purposes.

## 17 – Debit Cards

### 1.0 Purpose

- 1.1 To establish uniform procedures for the use of debit cards in the payment of goods and services across all Ministries, Island Administrations and Crown Funded Agencies.
- 1.2 To ensure that any use of Crown operated debit cards are for government purposes only.
- 1.3 To ensure that payment and purchase transactions comply with suitable standards of accountability, transparency and the requirements of the Cook Islands Government Financial Policies and Procedures.

### 2.0 Mandatory Requirements

- 2.1 All Operating and Capital Expenditure must have Parliamentary approval.
- 2.2 Under no circumstances should any Crown entity operate a debit card unless section 2.3 is satisfied.
- 2.3 In circumstances where a Crown Agency has justified the need to own a debit card, this must have the written approval of the Financial Secretary.
- 2.4 A separate bank account will be opened for the purpose of operating a debit card
- 2.5 If any Crown Agency currently possesses a debit or credit card, they shall have those cancelled immediately unless approval has been granted under section 2.3.
- 2.6 If personal debit cards or credit cards are used, then receipts MUST be provided before any reimbursements are made. These must be filed for Audit purposes.
- 2.7 Under very limited circumstances shall a Crown debit card be used to withdraw cash.
- 2.8 Under NO circumstances shall a Crown debit card be used for personal purchases for any staff. This is the case even if it will be refunded. Personal purchases are not permitted.
- 2.9 Any persons other than the HOM or equivalent required to use a Crown debit card must have written permission from their HOM prior to them using the debit card. Any written permission must state the authorised limit that can be used.

### 3.0 Process

- 3.1 Crown Agencies will request in writing to the Financial Secretary to open and operate a debit card account. The request will have justification on why there is a need for the agency to use and operate a Crown debit card.

- 3.2 On approval, a separate bank account will be opened and will be linked to the debit card. VISA requirements will not allow an account for a ministry but only for an individual. Therefore the account will be opened in the name of the HOM.
- 3.3 All payments using Crown debit cards must only be used for government purposes and under NO circumstances shall these be used for personal or private reasons.
  - 3.3.1 If it is found that personal purchases have been made (even if they have been reimbursed) then the card will be immediately cancelled and the agency will not be permitted to operate such a card for a period of time determined by the Financial Secretary.
- 3.4 Only under very special circumstances shall it be permitted to withdraw cash from the card and these must be business-related reasons and not personal. Cash withdrawal is highly discouraged.
  - 3.4.1 Receipts must support what cash is used for
  - 3.4.2 Any discrepancies between the cash withdrawn and the receipts to support will be deducted from the pay of the HOM.
- 3.5 The Crown agency will monitor this separate bank account and from time to time transfer funds to it when necessary. Enough funds should remain in the account for bank charges and to keep the account alive and operational.
- 3.6 All payments using debit cards, regardless of the amount, MUST be supported by relevant receipts.
- 3.7 The agency will supply MFEM each month, as part of the monthly report submission, a list of the transactions (if any) derived from the debit card and supported by copies of the receipts. These must match the debit card bank statement records for that month.
  - 3.7.1 As per 3.4.2 above, costs not supported by receipts will be incurred personally by the HOM of that ministry.
  - 3.7.2 The Internal Auditor may choose to look into various transactions as part of their normal internal audit operations.
- 3.8 Using the debit card while in-country must follow normal procedure of preparing vouchers and documentation as per Part D Section 2 of this Manual.
- 3.9 If the debit card is being used overseas, receipts must be provided upon receipt for filing and reconciliation for audit purpose as per 3.5 above.
- 3.10 Annual fees and any other applicable fees incurred on Crown debit cards must be paid by the agency responsible for the card.
- 3.11 All debit card statements must be held by the Agency concerned and cross checked with the relevant receipts for Audit purposes.



## 18 - Stocktakes

### 1.0 Purpose

- 1.1 Provide a policy which details the correct procedure and control surrounding the carrying-out of stocktakes.
- 1.2 Detail how to account for and report variations arising from stocktakes.

### 2.0 Mandatory Requirements

- 2.1 This Policy and Procedure covers inventory and asset stocktakes
- 2.2 At least 2 people must be a part of the stocktake
- 2.3 The Audit Office must be invited to participate in the stocktakes
- 2.4 Stocktakes should be done at least annually (preferably 6-monthly). The 30<sup>th</sup> of June is a date which needs to be planned for stocktaking.
- 2.5 Writeoffs must received approval in writing from the Financial Secretary.
- 2.6 Proper accounting procedures must be applied to account for variances.

### 3.0

#### 3.0 Process

##### 3.1 Carrying out a stocktake

- 3.1.1 At least 2 people need to be involved in the stocktake
  - 3.1.1.1 Each staff needs a copy of the list of assets and stock that the agency is supposed to have as at that date.
- 3.1.2 Invite the Audit Office to supervise the stocktakes.
- 3.1.3 If there is a large quantity of stock or assets in an area, then it is wise to mark the counted assets in some manner (eg a coloured sticker) to avoid double counting or not counting stock or assets
- 3.1.4 Count the relevant stock and mark on the list what has actually been counted
- 3.1.5 The final stocktake count sheets need to be signed by the staff counting and also the supervisor of those staff and the auditor who was present.
- 3.1.6 Signed count sheets need to be provided to the finance team of the agency.

##### 3.2 Recording the results

- 3.2.1 Enter the results of the stocktake into the system where stock records are kept (might be accounting system or a spreadsheet).

- 3.2.2 Compare the counted assets and stock to the assets and stock that were supposed to be there
- 3.2.3 Draw up a list of variances and their associated values
  - 3.2.3.1 Any significant variances and differences must be scrutinized and investigated by a senior finance/ministry official and reported in writing to the Financial Secretary. This would accompany any request to write off inventory as per 3.2.4 below.
- 3.2.4 Writeoffs must receive written approval from the Financial Secretary so a letter request must be written
- 3.2.5 Once approval has been received, the following accounting entry can be done to write off missing assets or stock:

Dr Writeoff of Assets/Stock (P&L)

Cr Asset / Inventory

## 19 – Accounting Software

### 1.0 Purpose

- 1.1 Provide a policy which details considerations to be taken in acquiring accounting software.
- 1.2 To ensure that organizations know that MFEM and Audit need to have access to the software too.

### 2.0 Mandatory Requirements

- 2.1 Software must be suitable to cater for the needs of the organization
- 2.2 When acquiring, sufficient licenses must be purchased to include a copy for MFEM and the Audit Office

### 3.0 Process

- 3.1 If the current accounting software is deemed not suitable anymore, then care needs to be taken in acquiring a new software
  - 3.1.1 Modules required (basic or complex)
  - 3.1.2 Size of the organization (smaller ministries or offices will not need advanced, complex accounting programs)
  - 3.1.3 Ability of staff to learn a new program
  - 3.1.4 Cost
- 3.2 MFEM has various MYOB versions which may be more than suitable so check with them first to see if what you have is adequate.
- 3.3 The modern accounting software often come with a set number of licenses (essentially limits the number of computers it can be installed on) so when purchasing, MFEM and the Audit Office need to be included in the licensed users
  - 3.3.1 MFEM needs to review annual accounts at year-end and as such need access to the software to perform the review adequately prior to going to the Audit Office
  - 3.3.2 The Audit Office needs to be able to access the program so that they can normal checks etc in the course of their Audit

## 1 – MFEM Contacts

Website: [www.mfem.gov.ck](http://www.mfem.gov.ck)

### **Office of the Financial Secretary**

Phone: (00682) 22-878 Fax: (00982) 23-877

Address: PO Box 120, Rarotonga, Cook Islands

Richard Neves, Financial Secretary  
Etuatina Drollett, Executive Secretary

[cifinsec@mfem.gov.ck](mailto:cifinsec@mfem.gov.ck)  
[etuatina@mfem.gov.ck](mailto:etuatina@mfem.gov.ck)

## **DIVISIONS**

### **Treasury**

Phone: (00682) 29-511 Fax: (00982) 29-652

Address: PO Box 99, Rarotonga, Cook Islands

Teu Teulilo, Treasury Operations Manager

[teu@mfem.gov.ck](mailto:teu@mfem.gov.ck)

### Young Achievers

Henrianna Savage, Young Achiever  
Gaston Tairi, Young Achiever

[henrianna@mfem.gov.ck](mailto:henrianna@mfem.gov.ck)  
[gaston@mfem.gov.ck](mailto:gaston@mfem.gov.ck)

### Funds Management

Ngametua College, Funds Manager  
Pari Teuru, Treasury Officer  
Solomon Charlie, Treasury Officer  
Terry Piri, Finance/Numismatic Officer  
Edward Parker, Financial Project Analyst

[ngametua@mfem.gov.ck](mailto:ngametua@mfem.gov.ck)  
[pari@mfem.gov.ck](mailto:pari@mfem.gov.ck)  
[solomon@mfem.gov.ck](mailto:solomon@mfem.gov.ck)  
[terry@mfem.gov.ck](mailto:terry@mfem.gov.ck)  
[edward@mfem.gov.ck](mailto:edward@mfem.gov.ck)

### Crown and Management Accounting

Nick Carter, Crown Accounting Manager  
Siva Gounder, Senior Crown Accountant  
Akisi Rokovunisei, Senior Crown Accountant  
Yamanika Cooray, Senior Financial Consultant  
Ngatokorua Elikana, Senior Internal Auditor  
Peerui Tepuretu, Crown Accountant  
Mere Charlie, Accounts Clerk/Receptionist  
Apii Jacob, Payroll Officer  
Vaka Teroi, Office Assistant

[nick@mfem.gov.ck](mailto:nick@mfem.gov.ck)  
[siva@mfem.gov.ck](mailto:siva@mfem.gov.ck)  
[akisi@mfem.gov.ck](mailto:akisi@mfem.gov.ck)  
[yamanika@mfem.gov.ck](mailto:yamanika@mfem.gov.ck)  
[ngatokorua@mfem.gov.ck](mailto:ngatokorua@mfem.gov.ck)  
[peerui@mfem.gov.ck](mailto:peerui@mfem.gov.ck)  
[mary@mfem.gov.ck](mailto:mary@mfem.gov.ck)  
[apii@mfem.gov.ck](mailto:apii@mfem.gov.ck)

### Economic Policy, Budget & Planning

Dallas Young, Budget/Economic Policy Manager  
Taimata Allsworth-Spooner, Budget Analyst  
Sarah Samuel, Economic Analyst

[dallas@mfem.gov.ck](mailto:dallas@mfem.gov.ck)  
[taimata@mfem.gov.ck](mailto:taimata@mfem.gov.ck)  
[sarah@mfem.gov.ck](mailto:sarah@mfem.gov.ck)

## Aid Management

Phone: (00682) 29-521 Fax: (00982) 29-520  
Address: PO Box 3195, Rarotonga, Cook Islands

Jim Armistead, Manager	<a href="mailto:jim.armistead@project-aid.gov.ck">jim.armistead@project-aid.gov.ck</a>
Peter Tierney, Policy & Research Officer	<a href="mailto:peter.tierney@project-aid.gov.ck">peter.tierney@project-aid.gov.ck</a>
Marianna Bryson, Finance Officer	<a href="mailto:marianna@project-aid.gov.ck">marianna@project-aid.gov.ck</a>
Steven Barrett, Senior Project Officer	<a href="mailto:stevenb@project-aid.gov.ck">stevenb@project-aid.gov.ck</a>
Peter Taivairanga, Project Officer	<a href="mailto:peter@project-aid.gov.ck">peter@project-aid.gov.ck</a>
Russell Thomas, ARC Funds Manager	<a href="mailto:russell@project-aid.gov.ck">russell@project-aid.gov.ck</a>
Daphne Ringi, EU Programme Assistant	<a href="mailto:daphne@project-aid.gov.ck">daphne@project-aid.gov.ck</a>
Elizabeth Tommy, Financial Consultant	<a href="mailto:elizabeth@project-aid.gov.ck">elizabeth@project-aid.gov.ck</a>
Maru Mariri, Administration & Support Officer	<a href="mailto:maru@project-aid.gov.ck">maru@project-aid.gov.ck</a>

## Revenue Management

Phone: (00682) 29-365 Fax: (00982) 29-465  
Email: [revman@oyster.net.ck](mailto:revman@oyster.net.ck) (all sections/users)  
Address: PO Box 120, Rarotonga, Cook Islands

Andrew Haigh, Treasurer/Comptroller	<a href="mailto:andrew@mfem.gov.ck">andrew@mfem.gov.ck</a>
Somashini Blake, Personal Assistant to the Treasurer	<a href="mailto:somashini@mfem.gov.ck">somashini@mfem.gov.ck</a>
Wendy Pogi, Legal Counsel	<a href="mailto:wendy@mfem.gov.ck">wendy@mfem.gov.ck</a>
Maybelline Unu, Debt & Returns Collection Officer	<a href="mailto:maybelline@mfem.gov.ck">maybelline@mfem.gov.ck</a>
Ngapoko Ngatamaine, Chief Customs Officer	<a href="mailto:ngapoko@mfem.gov.ck">ngapoko@mfem.gov.ck</a>
Pokoina Matara, Senior Customs Officer	<a href="mailto:pokoina@mfem.gov.ck">pokoina@mfem.gov.ck</a>
Walter Tangata, Senior Customs Officer	<a href="mailto:walter@mfem.gov.ck">walter@mfem.gov.ck</a>
Stephen Matapo, Customs Officer	<a href="mailto:stephen@mfem.gov.ck">stephen@mfem.gov.ck</a>
Michelle Vakatini, Customs Officer	<a href="mailto:michelle.v@mfem.gov.ck">michelle.v@mfem.gov.ck</a>
Helen Turua, Customs Officer	<a href="mailto:helen@mfem.gov.ck">helen@mfem.gov.ck</a>
Maria Matua, Customs Officer	<a href="mailto:maria@mfem.gov.ck">maria@mfem.gov.ck</a>
Wayne Robati, Customs Officer	<a href="mailto:wayne@mfem.gov.ck">wayne@mfem.gov.ck</a>
Phillip Eyre, Senior Tax Advisor	<a href="mailto:philip@mfem.gov.ck">philip@mfem.gov.ck</a>
Andrew Forbes, Senior Tax Auditor	<a href="mailto:andrew.forbes@mfem.gov.ck">andrew.forbes@mfem.gov.ck</a>
Sally Thomson, Senior Tax Auditor	<a href="mailto:sally@mfem.gov.ck">sally@mfem.gov.ck</a>
Kurai Foster, Tax Examiner	<a href="mailto:kurai@mfem.gov.ck">kurai@mfem.gov.ck</a>
Rima Matua, Tax Examiner	<a href="mailto:rima@mfem.gov.ck">rima@mfem.gov.ck</a>
Tai Tereapii, Counter Supervisor/Taxation Officer	<a href="mailto:tai@mfem.gov.ck">tai@mfem.gov.ck</a>
Amy Ngatamaine, Taxation Officer	<a href="mailto:amy@mfem.gov.ck">amy@mfem.gov.ck</a>
Stace Heather, Taxation Officer	<a href="mailto:stace@mfem.gov.ck">stace@mfem.gov.ck</a>
Marion Howard, Taxation Officer	<a href="mailto:marion@mfem.gov.ck">marion@mfem.gov.ck</a>
Amelia Nooapii, Taxation Officer	<a href="mailto:amelia.n@mfem.gov.ck">amelia.n@mfem.gov.ck</a>
Paula Dyer, Taxation Officer	<a href="mailto:paula@mfem.gov.ck">paula@mfem.gov.ck</a>
Irene Hafoka, Cashier/Counter Clerk	<a href="mailto:irene@mfem.gov.ck">irene@mfem.gov.ck</a>
Temata Ioane, Cashier/Counter Clerk	<a href="mailto:temata@mfem.gov.ck">temata@mfem.gov.ck</a>
Patrick Parakoti, Office Assistant	

**Statistics**

Phone: (00682) 29-511 Fax: (00982) 21-511

Email: [info@stats.gov.ck](mailto:info@stats.gov.ck)

Address: PO Box 41, Rarotonga, Cook Islands

Website: [www.stats.gov.ck](http://www.stats.gov.ck)

Taggy Tangimetua, Manager/Chief Statistician

[taggy@stats.gov.ck](mailto:taggy@stats.gov.ck)

Enua Pakitoa, Senior Statistics Officer

[enua@stats.gov.ck](mailto:enua@stats.gov.ck)

Amelia Ngatokorua, Senior Statistics Officer

[amelia@stats.gov.ck](mailto:amelia@stats.gov.ck)

Tanga Morris, Senior Statistics Officer

[tanga@stats.gov.ck](mailto:tanga@stats.gov.ck)

Kevin Hosking, Senior Statistics Officer

[kevin@stats.gov.ck](mailto:kevin@stats.gov.ck)

Cathy Teamoke, Statistics Officer

[cathy@stats.gov.ck](mailto:cathy@stats.gov.ck)

Mareta Katu, Statistics Officer

[mareta@stats.gov.ck](mailto:mareta@stats.gov.ck)

Annie Tangimetua, Statistics Officer

[annie@stats.gov.ck](mailto:annie@stats.gov.ck)

Junior Paretoa, Statistics Clerk

[junior@mfem.gov.ck](mailto:junior@mfem.gov.ck)

## 2 – Glossary of Terms

Account	Is a record in which changes to items on the balance sheet (assets, liabilities and equity) or profit and loss statement (revenue and expenses) are noted.
Accounting Policies	Instructions or guidelines on how to conduct certain accounting processes.
Accounts Payable	The amount owed to creditors or suppliers for credit purposes.
Accounts Receivable	The amount owed to the Ministry or Island Administration for credit sales.
Accounting Period	The amount of time covered by the financial statements of the Ministry or Crown, usually 12 months. This normally extends from the 1 <sup>st</sup> of July of one year to the 30 <sup>th</sup> of June in the following year for the Cook Islands Government.
Accounting Standards	Guidelines instigated by an official accounting organisation (such as CPA's or CA'a) and applied to accounting processes.
Accrual Accounting	Recording revenues when earned and expenses when incurred regardless of the timing of collection or payment.
Accrue	Record the accounting transaction that should be in a particular accounting period but has not yet been processed.
Accumulated Depreciation	The accounting loss in value of an asset which is represented by the total amount of depreciation charged to the asset.
Appropriation	Allocation of funds to the Ministry or Island as authorised by Parliament when the Appropriation Bill is passed.
Assets	Something of financial value such as a motor vehicle, building or cash.
Audit Trail	A comprehensive record of all steps involved in a transaction or business dealing.
Balance Date	The final day of an Accounting Period, eg 30 June for the Cook Islands Government.
Balance Sheet	A balance sheet is also called a statement of financial position, is a statement of the Ministries or Crown's financial position at a particular point in time. It is listed according to assets, liabilities and equity. It provides a snapshot of the Ministry or Crown's financial condition.
Bank Reconciliation	Balancing the bank statement to the general ledger balance.
Book Value	The accounting value of an asset or liability after subtracting the loss in value from initial cost. Eg The book value of an asset is the cost less the accumulated depreciation charged against that asset
Budget	Financial plan. It refers to a list of all planned expenses and revenues. A budget is an organizational plan stated in monetary terms
Capital Expenditure	Expenditure on items that will have an ongoing benefit.
Cash Accounting	Accounting that records revenues when cash is received and expenses when cash is paid.

Cash Flow	The physical money received and spent (as distinct from accrual accounting). It is the balance of the amounts of <a href="#">cash</a> being received and paid by a business during a defined period of time
Credit	An accounting entry in the general ledger. Revenue, equity and liabilities are shown as credit entries in the general ledger.
Conservatism principle	The need to exercise care when dealing with uncertainties
Contingency Fund	A fund of monies set aside in case a certain unforeseen event occurs.
Contract	Agreements between two or more competent persons to perform or not to perform a specific act or acts. A contract may be oral or written (preferably in writing). Acceptance may either be in writing or by an action taken such as a service provided.
Current Assets	Made up of cash and other assets expected to be converted to cash or to be used up in the near future, usually within one year.
Current Liabilities	Liabilities due within the coming year.
Debit	An accounting entry in the general ledger. Expenditure and assets are shown as debit entries in the general ledger.
Deficit	Where more money is spent than is made.
Delegation	An authority to approve levels of expenditure.
Depreciation	The process of allocating the cost of an asset over its service life.
Disposal Value	Price received from the sale of an asset.
Dividend	Monies paid to shareholders (owners) usually relating to profit.
Equity	Amount of ownership within the entity also referred to as shareholders equity or owner's equity.
Expense	Consumption or loss of service potential/value of an asset that is incurred during a financial period.
Expensed Assets	Assets under \$3,000 that, for practicality sake, are expensed in the year of purchase instead of being depreciated over their useful life.
Financial Year	From 1 July to 30 June.
Fixed Assets	Also called 'non current' or 'long term' assets. Fixed assets are land, buildings and equipment expected to be useful for more than one year.
Fiscal Responsibility	Responsible financial management of financial operations. Under the MFEM legislation, Fiscal Responsibility is achieved when operating revenue exceeds operating expenditure.
Foreign Aid	Monies contributed to the Cook Islands from overseas.
Foreign Currency Hedging	A method of insuring against changes in the value of your currency.
Historical Cost	The cost at the time of acquisition.
Infrastructure Assets	Items such as roads, bridges, and water works.
Journal entry	A journal entry is a method of recording information into the general ledger.
Leases	Where an asset is used, but not owned, with a contractual arrangement between the parties.
Ledger	A collection of accounting transactions classified by account or type.
Liabilities	What is owed.



Matching principle	Recognising costs in earning associated revenue, i.e. the costs of selling a particular item are recorded in same period as the revenue.
Outputs	What each Ministry or Island provides in return for funding by the government. Can be viewed as a contract between the Ministry or Island Administration and the government as to what is expected to be provided or produced.
Procurement	Purchasing.
Profit and Loss Statement	A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year.
Reserve Fund	Monies set aside for a particular purpose.
Residual Value	The estimated realisable value (less the costs of disposal) of a depreciable asset at the end of its useful life.
Retention of Records	Period of time under which records are required to be kept, generally determined by legislation.
Revenue	Inflows of monies or increase in the value of assets. Revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, as well as any sales that are made.
Statement of Responsibility	Legislative requirement under the MFEM Act. The signature of the Minister of Finance and the Financial Secretary is required.
State Owned Enterprise	A collective term used to describe government establishments that are not government departments for example Te Aponga or the Airport Authority
Surplus	Excess of Revenue over Expenditure
Tax	A tax is a financial charge or other <a href="#">levy</a> imposed on an individual or a <a href="#">legal entity</a> by a <a href="#">state</a> or a functional equivalent of a state
Taxpayers Funds	The amount of equity the crown has in a Ministry.
Trading Revenue	Monies made from the day to day operations of the Island or Ministry.
Trial Balance	After all of the necessary ledger adjustments have been made, a trial balance is a listing of all accounts and their balances. It is created to check equality of debits and credits and to assist in preparing the balance sheet and profit and loss statement.
Value for Money	An analysis which supports the purchase of goods and services having regard to cost effectiveness.
VAT	VAT, or Value Added Tax is a growth tax applied to the value added to a financial transaction, such as the purchase of a good or service. It is considered a growth tax as the amount returned to government increases as the cost of the good or service increase. VAT is applied as a percentage of the total cost of the service. It is a <a href="#">consumption tax</a> levied on <a href="#">value added</a> . In contrast to <a href="#">sales tax</a> , VAT is neutral with respect to the number of passages that there are between the producer and the final consumer; where sales tax is levied on total value at each stage, the result is a cascade (downstream taxes levied on upstream taxes).
Work papers	Schedule prepared to explain and reconcile the total amount shown in an account

### 3 - Abbreviations

ADB	Asian Development Bank
AMD	Aid Management Division
BS	Balance Sheet
CA	Chartered Accountant
CAPEX	Capital Expenditure
CIGFPP	Cook Islands Government Financial Policies & Procedures
CPA	Certified Practicing Accountant
CFA	Crown Funded Agencies
CFC	Capital Funding Committee
DPM	Deputy Prime Minister
FAR	Fixed Asset Register
FinSec	Financial Secretary
GDP	Gross Domestic Product
GST	Goods and Services Tax
HRD	Human Resources Division
HOM	Head of Ministry
IMF	International Monetary Fund
KRA	Key Result Area
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MFEM	Ministry of Finance and Economic Management
MOIP	Ministry of Infrastructure and Planning
MTBF	Medium Term Budgeting Framework
MYOB	Mind Your Own Business (Accounting software package)
NPV	Net Present Value
OIDGF	Outer Islands Development Grant Fund
OPM	Office of the Prime Minister
OPSC	Office of the Public Service Commissioner
P&L	Profit & Loss Statement
PAYE	Pay As You Earn
PCC	Project Coordinating Committee
PERC	Public Expenditure Review Committee
PERCA	Public Expenditure Review Committee and Audit
PM	Prime Minister
PMC	Project Management Committee
POBOC	Payments on Behalf of Crown
PSC	Public Service Commission
RMD	Revenue Management Division
ROBOC	Revenue on Behalf of Crown
ROI	Return on Investment
SRA	Sectoral Result Area
SOE	State Owned Enterprise
TA	Technical Assistance
TMD	Treasury Management Division
UNDP	United Nations Development Program
VAT	Value Added Tax

4 – Statement of Accounting Policies – For Ministries, Island Administrations, Ministry Support Offices and other Crown Funded Entities

**1. STATEMENT OF ACCOUNTING POLICIES**

The Ministry/Office of \_\_\_\_\_ carries out \_\_\_\_\_ services as mandated under the \_\_\_\_\_ Act 19\_\_\_\_\_.

These financial statements are 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). These financial statements are for the <Enter Ministry/Office Name>, which is considered to be an agency of the Crown.

**GENERAL ACCOUNTING POLICIES**

The general accounting policies recognised as appropriate for the measurement and reporting of results, cash flows and financial position under the historical cost method have been followed in the preparation of these financial statements. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest dollar.

**PARTICULAR ACCOUNTING POLICIES**

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

(i) Revenue

The <Enter Ministry/Office Name> derives revenue from the Crown for the provision of services to the Crown in the form of the production of certain outputs disclosed in the Statement of Appropriations. Revenue is also provided from the provision of services to third parties. All such revenue is recognized when it is earned.

(ii) Expenses

Expenses are recognised when incurred and are reported in the financial period to which they relate.

Realised gains or losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

## PARTICULAR ACCOUNTING POLICIES

### (iii) Depreciation/Amortisation

Depreciation/amortisation of fixed assets is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Computer equipment	3 – 4 years
Furniture and fittings	10 years
Motor vehicles (purchased before 1/7/06)	4 years
Motor vehicles (purchased after 30/6/06)	5 years
Plant and equipment	5 – 15 years
Intangible Asset amortisation	3 years
Buildings	40 years

### (iv) Foreign Aid

Foreign aid is received from \_\_\_\_\_ and disbursed according to the intended purpose. It is disclosed in the Statement of Financial Performance when the expense is incurred, and any revenue not spent at balance date is recorded as a liability in the Statement of Financial Position.

### (v) Taxation

The Ministry, as an agency of the Crown, is exempt from the payment of income tax in terms of the Income Tax Act 1997. Accordingly, no charge for income tax has been provided for.

### (vi) Inventories

Inventories are recorded at the lower of cost or net realisable value. Appropriate allowance has been made for obsolescence.

### (vii) Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation.

The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

### (viii) Provision for Employee Entitlements

Annual leave, long service leave, and time off in lieu of overtime worked are recognised as they accrue to employees.

## **PARTICULAR ACCOUNTING POLICIES**

(ix) Foreign Currencies

Foreign currency transactions are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising from trading transactions or overseas borrowings are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the Statement of Financial Performance.

(x) Financial Instruments

Financial instruments primarily consist of bank balances, receivables and payables. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

(xi) Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

(xii) Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

(xiii) Statement of Cash Flows

Cash is considered to be cash balances on hand and current accounts in banks, net of bank overdrafts.

Operating activities include cash received from all income sources of the Ministry 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 fixed assets and investments.

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

## **PARTICULAR ACCOUNTING POLICIES**

### **(xiv) Value Added Tax (VAT)**

All statements of account are exclusive of VAT. The Statement of Financial Position is exclusive of VAT except for payables and receivables which are stated VAT inclusive as these represent the total amount to be paid or collected by the Ministry to or from third parties.

The amount of VAT owing to or from the Revenue Management Division at balance date, being the difference between Output VAT and Input VAT, is included in payables or receivables as appropriate.

## **TAXPAYERS' FUNDS**

This represents the Crown's net investment in the Ministry.

## **CHANGES IN ACCOUNTING POLICIES**

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

## 5 – Statement of Accounting Policies – For Consolidated Crown Accounts

### **Reporting Entity**

These financial statements are for the Government of the Cook Islands .This consists of:

- Ministers of the Crown
- Ministries
- Island Administrations
- Offices of Parliament
- Public Enterprises and Other Authorities

A schedule of the entities included in these financial statements is detailed on page 23.

### **Statement of Compliance**

These financial statements are 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).

### **Basis of Consolidation**

The Government Ministries, Public Enterprises and Other Authorities (including State Owned Enterprises (SOEs)) comprising the reporting entity are consolidated involving addition of like items of assets, liabilities, revenues and expenses on a line by line basis.

The effect of all material inter-entity transactions and balances are eliminated on consolidation.

Commitments and contingent liabilities of Public Enterprises and Other Authorities are reported in the Statements of Commitments and of Contingent Liabilities.

### **Associate**

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor a interest in a joint venture. Investment in an associate is recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

### **Revenue**

Revenue is measured at fair value of the consideration received or receivable.

#### ***Revenue Levied Through the Crown's Sovereign Power***

Payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, such revenue is received through the exercise of the Crown's sovereign power. Revenue arising through taxes is recognised when the taxable event occurs and when the criteria for recognition of an asset are met.

<b>Revenue Type</b>	<b>Revenue Recognition Point</b>
Individual Income Tax	When an individual earns income that is subject to PAYE or provisional tax. This also includes withholding taxes.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June.
Customs levies	When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred.
Departure Tax	When departure tax coupons are purchased.
Other Revenue	When the debt to the Crown arises.

### ***Revenue Earned Through Operations***

Revenue from sales of goods is recognised when the product is sold to the customer.

### ***Fines***

Fines are economic benefits or services potential received by the Crown from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

### ***Investment Income***

Investment income is recognised in the period in which it is earned.

### ***Gains***

Realised gains arising from sale of assets or from the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

### ***Dividends***

Dividends are recognised when the right to receive the payment has been established.

### ***Aid Revenue***

Revenue is recognised when donor funds are expensed on approved projects.

## **Expenses**

### ***General***

Expenses are recognised when incurred and are reported in the financial period to which they relate.

### ***Welfare Benefits***

Welfare benefits are recognised in the period which the payment of these benefits relates to.



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

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

### ***Losses***

Realised losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

### ***Foreign Currencies***

Transactions in foreign currencies are translated into New Zealand dollar using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Financial Performance.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at the balance sheet date.

### ***Aid Expenses***

Expenses are recognised when incurred on approved projects and are reported in the financial period to which they relate.

### ***Depreciation***

Each part of an item of plant, property, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of plant, property, and equipment is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Buildings and improvements	10 years
Coastal protection	25 years
Power distribution network	20 years
Roading network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years

### **Non-Current Assets**

### *Plant, Property, and Equipment*

Plant, property and equipment are recorded at cost less accumulated depreciation.

The cost of purchased plant, property, and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

### ***Disposals***

When an item of plant, property and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

### ***Additions***

The cost of an item of plant, property and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Crown and the cost of the item can be measured reliably.

### ***Work in Progress***

Work in Progress is recognised as cost less impairment and is not depreciated.

### ***Infrastructure Assets***

Infrastructure assets are recorded at cost less accumulated depreciation.

The cost of purchased infrastructure assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Infrastructure assets include: roading networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures, waste management and airport assets.

When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Work in Progress is recognised as cost less impairment and is not depreciated.

### ***Intangible Assets***

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Intangible assets might include: databases, software purchased, or software developed.

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Amortisation of intangible assets is on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Software, databases	3 - 5 years
---------------------	-------------

### ***Cash and Cash Equivalents***

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

### ***Receivables and Advances including Debtors and Other Receivables***

Receivables and advances are recorded at cost.

After initial recognition, loans and receivables are measured at amortised cost less any provision for impairment. Gains and losses when assets are impaired or derecognised are recognised in the statement of financial performance.

### ***Inventories***

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

### ***Investments***

Investments in associate are accounted in the consolidated financial statements using the equity method. That is, investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit of the associate after the day of acquisition.

### ***Banking portfolio investments***

Loans are valued at net realisable value after provisions.

Applicable security is obtained depending on the size and nature of loans.  
Non-performing loans are reviewed monthly on a case by case basis.

***Provision for doubtful debts***

Provision is made for taxation debt where recovery is considered doubtful. There is no general provision against taxation debt.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. There is no general provision against banking portfolio Investments.

All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

***Aid Assets***

Donor funds are deposited into bank accounts until expensed on approved assets.

**Liabilities**

***Borrowings***

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance.

***Pension Liabilities***

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30th June 1997) actuarial value of the Crown's liability for pension payments. There are no pension liabilities accruing to the Crown as a result of Government employees' membership of the Government Superannuation Fund (New Zealand).

***Employee Entitlements***

These include salaries and wages accrued up to balance date, annual level earned but not yet taken at balance date. A long service bonus is paid out on the completion of 3 years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee.

***Other Liabilities***

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed.

***Aid Liabilities***

Funds received from various donors are treated as liabilities until expensed on approved projects at which stage the funding is included within the Statement of Financial Performance as revenue.

### ***Cash Flow***

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown. Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

### **Cash flow information allows users to ascertain how the Crown raised the cash it required to fund its activities and the manner in which that cash was utilised. Leases**

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental on the ownership of a leased asset. The obligations under such leases are capitalised at the present value of minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

The cost of leasehold improvements is capitalised and amortised over the lesser of the leasehold improvement's useful life or the original lease term.

### ***Commitments***

The Statement of Commitments discloses those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included.

### ***Contingent Liabilities***

Contingent liabilities are recorded when a possible obligation has arisen from an event in the past and which the existence will only be confirmed through the occurrence or non-occurrence of future events. Such liabilities will be disclosed if they are deemed to materially affect the reading of the presented financial statements.

## **CHANGES IN ACCOUNTING POLICIES**

### **Plant, Property, and Equipment**

As at the beginning of this reporting period, 1<sup>st</sup> July 2007, the Crown has voluntarily changed the accounting policy surrounding the carrying value of plant, property, and equipment (PPE). The new policy records all PPE as cost less accumulated depreciation/amortisation and impairment whereas the previous policy required certain SOE assets to be carried at revalued amounts.

IPSAS 3 – Accounting Policies, Changes in Estimates, and Errors provides that for a change in accounting policy, retrospective adjustments are to be done through one of two allowed approaches:

- benchmark approach in which the value of the adjustment is taken through opening retained earnings; or

- alternative approach in which the value of the adjustment is brought through the current year's profit.

IPSAS 3 allows for a prospective application using either of the approaches above in the event that it is impracticable or impossible to determine accurate values relating to adjustments required.

As the historical adjustments cannot be determined in any practicable and timely manner, and those values that are available to the Crown are incomplete and unverifiable, including them into the financial statements would not be beneficial and would not provide more reliable information to be presented. As

such, the Crown has adopted the prospective application to this change in policy. Therefore, the effect of this change in policy will be reflected from this accounting period going forward.

As there were no revaluations done in any of the entities making up the Cook Islands Government for the year ended 30 June 2008, no adjustments have been made in this period.