Cook Islands Government

Financial Policies and Procedures Manual

October, 2022

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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
EMAILgarth.henderson@cookislands.gov.ck ♦
http://www.mfem.gov.ck

FOREWORD

31st October 2022

Kia Orana,

It gives me great pleasure in introducing the update of 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,

Garth Henderson
Financial Secretary

3 – Master Control Record

Version Control Number	Version Date	Revised Section	Initials
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	-	MFEM
7	May 2009	-	MFEM
8	November 2011	-	MFEM
9	January 2014	D7 - Cash-flow Management	MFEM
10	March 2014	D4 – Financial Reporting; D20 – Cash Recall	MFEM/ CIGFPPM Committee
11	May 2014	D10 – Ministerial Offices Hand-over process	MFEM/ CIGFPPM Committee
12	November 2014	A2 – Forward A3 – Master Control A4 – Guiding Principles A6 – Complaints Procedures C10 – Remuneration & Payroll D2 – Purchase & Sale of Goods & Services D3 – Public Tendering Complaints Process	MFEM/ CIGFPPM Committee

		D21 – Operating Contingency Fund D22 – Expenditure Arrears E1 – MFEM Contacts	
13	March 2019	A2 – Forward B1-Capital Expenditure B2-Asset Management B3-Fixed Assets Accounting Transactions B4-Depreciation and Amortisation B5-Aid Funded Assets B10-Disposal of Fixed Assets B15-Motor Vehicles (Replaced with Government Fleet Management Policy (2018)) B16-Capital Contingency Funds (Removed-No longer applicable) B17- Inventory C4-Trading Revenue C5-Aid Funding for Operating Expenses C9-Expensed Assets D12- Bad Debts & Provision for Doubtful Debts D16- Credit Cards D18- Stock takes	MFEM/ CIGFPPM Committee MFEM/ CIGFPPM Committee MFEM/ CIGFPPM Committee MFEM/ CIGFPPM Committee MFEM/ CIGFPPM Committee MFEM MFEM MFEM/ CIGFPPM Committee MFEM/ CIGFPPM Committee MFEM/ CIGFPPM Committee
14	June 2021	C8A – Administered Funds	MFEM/ CIGFPPM Committee
15	June 2022	A4 – Guiding Principles	MFEM/CIGFPPM Committee

		B18- Retention B19 - Accounts Receivable B14 – Unallocated Capital Funding C12- Sensitive Expenditure Guide	MFEM/CIGFPPM Committee

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 The principles of: fairness, impartiality, integrity, professionalism, political neutrality, and zero tolerance to fraud apply.

2.4 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 clarification from the Ministry of Finance and Economic Management must be sought. 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.

2.5 All activities are expected to follow generally accepted good business practice.

1) Good business practice in general means finding and using the best ways of working to achieve your business goals. It involves keeping up to date with the ways that successful businesses operate in your sector and others, and includes measuring your ways of working against those used by the market leaders

2) In public sector under Cook Islands Government financial policies, good business practice means **timely** and **quality** submission of financial reports to meet all government financial requirements under Cook Islands government financial policy and procedures manual and the MFEM Act.

2.6 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.

2.7 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.

2.8 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.

2.9 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. Please see OPSC Code of Conduct Policy

2.10 Monitoring and review process

1) The Executive Director and Head of Ministry is responsible for *ensuring all financial transactions and reporting comply with the Cook Islands government financial policy and procedures*;

2) MFEM will monitor *the compliance through a review of the monthly, annual financial reports and internal audits assignments.*

2.11 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:

2.11.1 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;

2.11.2 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

3.0 For matters of clarification contact the appropriate person in the Ministry of Finance and 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

✓ Purchase of goods and services	Part D Section 2
✓ Public tendering	Part D Section 2
✓ Phasing	Part B Section 23
✓ Funding	Part B Section 23
✓ Aid funding of expenditure	Part C Section 5
✓ Cash payments	Part B Section 22
✓ Responsibility for expenditure approval	Part C Section 7
✓ Transferring between categories	Part C Section 1
✓ Transferring between outputs	Part C Section 2
✓ Maintenance expenditure	Part C Section 3
✓ Carry forward and accrual of expenditure	Part D Section 08
✓ Ministerial Support Offices – Hand-over	Part D Section 07
✓ Ministerial Support Offices – Operations	Part D Section 10
✓ Sensitive Expenditure Guide	Part C Section 12
• ***Depreciation and Amortisation***	Part B Section 4
• ***Reporting***	
✓ Monthly	Part D Section 4
✓ Annually	Part D Section 5

3.0 Revenue Policies and Procedures

	Procedure
• ***Revenues***	
✓ Trading Revenue	Part C Section 4
✓ ROBOC's	Part C Section 4A
✓ Cash receipts	Part B Section 24
✓ Aid Funding	Part C Section 5

Capital Expenditure Policies and Procedures

	Procedure
• ***Planning*** for capital expenditure	Part B Section 1
✓ =>$5000 approved by Parliament	Part B Section 1
✓ Budget submissions forwarded to MFEM	Part B Section 1
✓ Planning checklist	Part B Section 1
✓ Maintain supporting documentation	Part B Section 1
• ***Adjusting*** capital budgets	
✓ Minor modifications	Part B Section 1
✓ Transferring between capital budgets	Part B Section 11
• ***Carrying forward*** capital budgets	
✓ Obtaining approval for carry forward of capital budget	Part D Section 08
• ***Purchasing*** capital	
✓ <$30,000 Quotations	Part D Section 2
✓ =>$60,000 Tendering	Part D Section 2
✓ Recording fixed assets	Part B Section 2
✓ Accounting for purchases	Part B Section 3
✓ Motor vehicles	Part B Section 15
• ***Paying*** for capital	
✓ Funded to the Ministry on presentation of invoices and "Capex Code"	Part B Section 1
✓ Retention	Part B Section 18
• ***Recording*** capital	Part B Section 3
✓ In the General Ledger	Part B Section 1
✓ In the Asset Register	Part B Section 2
✓ Retention	Part B Section 18

4.0 Bank Account Policies and Procedures

	Procedure
• ***Bank Account***	
✓ Opening and Closing	Part D Section 6
✓ Cash payments	Part B Section 22
✓ Cash receipts	Part B Section 24
✓ Reconciling	Part B Section 6
✓ Ministerial Support Offices – Hand-over	Part D Section 07
✓ Ministerial Support Offices – Operations	Part D Section 10
✓ Reporting – monthly	Part D Section 4
✓ Reporting – annually	Part D Section 5
✓ Trust Accounts	Part B Section 17

5.0 Inventory and Receivable Policies and Procedures

	Procedure
• ***Inventory***	
✓ Costing	Part B Section 17
✓ Write Off	Part B Section 17
✓ Stock take	Part B Section 17
✓ Register	Part B Section 17

Complaints Procedure
Public Awareness Information

Ministry	Ministry of Finance and Economic Management (MFEM)
Legislation Administered	Principal Acts: • Ministry of Finance and Economic Management Act 1995-96. • Statistics Act 1966 • Customs Revenue and Border Protection Act 2012 • Customs Revenue and Border Protection Act 2012 Explanatory Notes • Customs Revenue and Border Protection Act 2012 Regulations • Customs Tariff Act 2012 • Income Tax Act 1997 (consolidated) • Value Added Tax Act 1997 (consolidated to 01/01/2006) • Departure Tax Act 2012 • Legislation governing the application of taxes in the Cook Islands. • Seabed Mineral Regulations 2013 For additional legislation refer to http://www.mfem.gov.ck/
Brief overview of Ministry	MFEM is responsible for effective economic, fiscal, and financial management by Government. It provides the accompanying accountability arrangements, together with compliance with those requirements. MFEM is also responsible for Revenue Management, Development Coordination, Treasury and the Cook Islands Statistics Office. For additional information refer to http://www.mfem.gov.ck/
General Nature of Complaints	Generally complaints will be in relation to exercising the responsibilities imposed by the Legislation administered by the Ministry. They may also relate to the incorrect implementation of the Policies and Procedures referred to above. Some examples of the type of complaints that may be made are: • Taxation Assessments • Purchasing and Tender irregularities • Financial mismanagement • Conflicts of Interest • Staff conduct
Contact Details	

Initial complaint to Phone number	Maria Poila (682) 22878
Mobile Number Email address Postal address Location	 maria.poila@cookislands.gov.ck PO Box 120, Avarua, Rarotonga Ministry of Finance and Economic Management Takuvaine Road (opposite Ministry of Justice and above Post Office)

Complaints Procedure
Public Awareness Information

Ministry	**Crown Law Office** Te Akinanga o te Ture Rarotonga, Cook Islands
Legislation Administered	Established under the Crown Law Office Act 1980
Brief overview of Ministry	Crown Law is a statutory organisation whose principal functions are: 1. To advise the Government of the Cook Islands on legal matters that may be referred to it by Cabinet, a Minister, a head of department, or a statutory body or Corporation. This includes advice on the legality of all Acts, Bills, Regulations and Orders that are passed through Parliament. 2. The Attorney-General has the power to institute and conduct any civil or criminal proceedings and may discontinue any criminal proceedings whether instituted by the Attorney-General or otherwise.
General Nature of Complaints	
Contact Details	
Initial complaint to	An enquiry form is available on the Crown Law Office website To submit a query please click here to view and submit.
Phone Number	(+682) 29337
Location	Crown Law Office, Ministry of Justice Grounds
Postal Address	PO Box 494, Avarua, Rarotonga, Cook Islands

Complaints Procedure

Public Awareness Information

Ministry	**Public Expenditure Review Committee and Audit**
	Generally referred to as PERCA
Legislation Administered	**Principal Acts** PERCA Act 1995-96 For additional legislation refer to **http://www.auditoffice.gov.ck/**
Brief overview of Ministry	PERCA is responsible for: 1. Undertaking all audits in order to provide comfort as to the reliability of systems and procedures and the integrity of the information produced. 2. Pursuing issues of public concern that affects the management of public funds. 3. Conducting audits, investigations and enquiries into matters referred to it by the Committee. 4. Ensuring that Heads of Department have complied with their financial management obligations under the Act. Refer to http://www.auditoffice.gov.ck/ for additional information
General Nature of Complaints	Generally complaints will be in relation to exercising the responsibilities imposed by the Legislation administered by the Office of the Public Expenditure Review Committee and Audit. They may also relate to the incorrect implementation of the Policies and Procedures referred to above. **Some examples of the type of complaints that may be made are:** Misuse of public funds and resources by public officials Purchasing and tender irregularities Financial mismanagement Conflicts of Interest Misuse of government assets
Initial complaint to	Allen Parker
Phone number	682 21231
Mobile Number	682 54828
Email address	allen.parker@cookislands.gov.ck
Postal address	PO Box 659, Audit Office, Avarua, Rarotonga
Location	Avarua, Rarotonga

Complaints Procedure

Public Awareness Information

Ministry	TE MATO AKAMOEAU, OFFICE OF THE OMBUDSMAN
Legislation Administered	Ombudsman Act 1984, Official Information Act 2008, Disability Act 2008 Police Act 2012
Brief overview of Ministry	The Ombudsman is an independent and impartial officer of and responsible to Parliament. The Ombudsman investigates complaints received from the general public, but is also mandated to initiate an investigation of his own motion. He is also responsible for investigating complaints under the Official Information Act, Disability Act and the Police Act. It is tasked by Cabinet to set up a Human Rights mechanism within the Cook Islands.
General Nature of Complaints	• Decisions or recommendations relating to a matter of administration • Acts or omissions relating to a matter of administration • Refusal, charges, manner of release, imposition of conditions of use for information requested under the OIA • Unlawful discrimination against a person with a disability • Acts, decisions, omissions, recommendations, conduct, policy and procedure of the Cook Islands Police
Contact Details	
Initial complaint to	Assistant Ombudsman
Phone number	(682) 20605
Mobile number	
Email Address	complaints@ombudsman.gov.ck
Postal Address	P.O. Box 748, Avarua, Rarotonga, Cook Islands
Location	1st Floor, Iro House (upstairs from Café Jireh, opposite Rarotonga international airport)

Complaints Procedure

Public Awareness Information

Ministry	Office of the Public Service Commissioner (OPSC)
Legislation(s) Administered	Principal Act: Public Service Act 2009 Other relevant Acts: Employment Relations Act 2012 Commissioner's of Inquiry Act 1966 MFEM Act 1995-96 PERCA Act 1995-96
About OPSC	OPSC's legislated function is to assist the Public Service Commissioner with the administration of the Public Service Act. Statutory functions include: recruitment and performance management of heads of departments (ministries), establishing personnel policies and standards for the public service, approving organisation staffing structures, determining the salary ranges of public service positions and administering the remuneration system of government, ensuring compliance with the public service code of conduct, resolving employment disputes, inquiring into matters of public administration, providing advice on training and career development, reviewing the machinery of government and tendering advice to Ministers of the Crown. Other services include: advice on departmental planning and reporting; administering heads of department salaries, leave and official duty travel, including the New Zealand Government Superannuation Fund.
Complaints & Disputes	1. Public complaints regarding conduct should be reported to the: OPSC - for Heads of Departments Head of Department/Ministry - for public service employees 2. Public complaints regarding service delivery or poor public administration should be reported to: OPSC - for Heads of Departments Head of Department/Ministry - for public service employees 3. Employment disputes must be lodged with the respective head of department or Public Service Commissioner (for heads of departments only) within 14 days of the circumstances giving rise to the dispute. The Head of Department (or Commissioner) must resolve the dispute. Unresolved disputes are referred to the Public Service Commissioner or Public Service Appeal Board (for Heads of Departments) to resolve.

General Nature of Complaints	**Examples of complaints:** Poor or substandard service delivery Breaches of Public Service operational policies e.g. Leave Breaches of the Public Service Code of Conduct Note: Job sizing/evaluation disputes are not considered.
Initial complaint to	Public Service Commissioner
Phone number	(682) 29 421
Email address	pscinfo@cookislands.gov.ck
Postal address	PO Box 24, Rarotonga, Cook Islands
Website	www.psc.gov.ck
Location	Rarotonga, Cook Islands

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 (HOM), Office or Island Administration.

2.0 Mandatory Requirements

2.1 All fixed assets acquired whether aid funded, donated, capital funded or purchased through bulk funded POBOC/Administrated payments are to be recorded in the Fixed Asset Register (FAR) of the Ministry, Office or Island Administration.

2.1.1 All fixed assets to be classed according to the following categories

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, roads, 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 assets registered physically exists. At financial year end ,the ledger and the FAR are to be in complete agreement(refer to Part D, Section 5).

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 purchase or sale of assets must follow *Part D Section* 2 - *Purchase & Sale of Goods & Services.* Any disposal of fixed assets must follow *Part B Section 10 - Disposal of Fixed Assets.*

2.5 A*ll fixed* assets are to be stored securely at all *times.*

2.6 *All fixed assets are to be kept on the* Ministry, Office or Island Administration's premises. Public assets are not to be held privately.

2.7 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 $5,000.

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 not lumped together (except in circumstances stated in 3.4 below) in the FAR. This is possible through the use of Fixed Asset Control Number and be tagged or marked (See Section 3.9 below).

3.4 If an asset type is purchased in bulk with the same values, for example, 10 laptops with $1000 each, it can be registered as one line assets in the FAR, however the **quantity** of the assets need to be identified in the FAR and still have to be individually tagged.

3.5 All expensed assets with a value of **$200** and **more** need to be tagged as well however, the tag identification has to be different from property, plant and equipment. This will create less confusion during stock take and also prevent double accounting of assets already expensed.

3.6 All Fixed Assets will be subject to an annual stock take (refer to Stocktake Procedures Part D, Section 18).

3.7 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.

3.8 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.

3.9 Asset revaluations are not permitted under the Accounting Policies adopted by the Crown.

3.9.1 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

3.10 Fixed Asset Register

3.10.1 Attachment 1 shows an example of the layout and content of a Fixed Asset Register.

3.10.2 The Fixed Assets Register includes all assets that are in use. Note assets that are in use and have a zero book value should <u>still be included</u> in the Fixed Assets Register until sold or disposed off.

3.10.3 The Fixed Assets Register is reconciled to the following General Ledger accounts by asset category:

3.10.3.1 Cost of Fixed Assets

3.10.3.2 Accumulated Depreciation

3.10.3.3 Current year depreciation

3.11 Fixed Asset Control Number

3.11.1 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.

3.11.2 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.

3.11.3 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.

3.11.4 All unused fixed asset control tags shall be kept in a secure location.

3.12 Fixed Asset Stocktake

3.12.1 For detailed instructions, refer to Part D, Section 18

3.12.2 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 adjustment resulting from missing, impaired or damaged assets, will need the Financial Secretary's approval. If the adjustment is to align the general ledger to the FAR due to incorrect posting made, failure to appropriately update the FAR or incorrect opening balance, adjustment can be referred to the Head of the Ministry for approval. ***The Fixed Assets register shall be used to conduct the stock take.***

3.12.3 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. The HOM, Chief Executive or Island Secretary must sign on the final stock take count sheet (FAR)

Attachment

Attachment 1 - Fixed Asset Register Example

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 To appropriately account and record purchases and sales of fixed assets. (excluding Expensed Assets – Refer Part C Section 9)

1.2 Assets being disposed off need to be appropriately removed from the accounts and FAR

1.3 Any profit or loss on disposal needs to be disclosed and appropriately accounted for.

2.0 Mandatory Requirements

2.1 Parliamentary approval for all Capital Expenditure Appropriation.

2.2 Cabinet Approval for all Capital Items acquired through Executive Order.

2.3 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.*

2.4 Transactions are correctly reflected in Financial Accounts.

3.0 Process

Purchasing Physical Assets

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 The total cost price of an asset shall include all expenses relating to its purchase and includes costs necessary to have the asset ready for use (for example installation costs, freight)

Recording of Assets

3.3 The Agency's head of the Corporate Division is responsible for maintaining the fixed assets register. Refer to Part B Section 2: Assets Management; for details needed to be in the Assets register.

3.4 The Agency's head of the Corporate Division must ensure that the fixed assets register is kept updated.

Sale of Assets

3.5 Ensure assets sold are correctly identified and matches the detail of the item shown within the asset register and general ledger.

3.6 Ensure that requirement of Part D Section 2 – Purchase and Sale of Goods and Services are being adhered to.

3.7 Process sale transactions direct to the affected accounts (see example at paragraph 4.1).

3.8 The property, plant and equipment sold is then to be removed from the asset register, beginning of the next financial year.

4.0 Sale of a Vehicle or Other Fixed Assets

Sale of motor vehicle proceeds goes directly to the CIG Public Account and not to the Agency's operating account.
The following entries are for the sale of a vehicle.

4.1.1 Journal entry in Ministry accounts if Motor Vehicle (original costs $30,000) has been fully depreciated. Motor vehicle sold for $2,000.00

Transaction	Dr	Cr
Procurement Department sell Agency's Vehicle via Auction	Accumulated Depreciation $30,000	Motor Vehicle Assets $30,000

Journal entry in Crowns Accounts to account for the sale proceeds.

Transaction	Dr	Cr
Procurement Department sell Agency's Vehicle via Auction	CIG Public Account $2,000	Sale of Assets Revenue $2,000

4.1.2 Journal entries in Ministry accounts if motor vehicle (original Costs of $30,000) has net book value of $ 3,000 left when it was sold. Purchased at $3,500.00

Transaction	Dr	Cr
Procurement Department sell Agency's Vehicle via Auction	Accumulated Depreciation - MV $27,000.00	
	Loss on Sale of Vehicle - $3,000.00	
		Motor Vehicle Costs $30,000

Journal entry in Crowns accounts:

Transaction	Dr	Cr
Procurement Department sell Agency's Vehicle via Auction	Dr Bank $3,500.00	Sale of Assets $3,500.00

4.2 Funding and Purchase of Asset

The accounting entries for the capital funding of a new vehicle under Capital Distribution Fund (CDF) would be as follows:

Journal entry in Ministry accounts (recorded at the ***VAT Exclusive amount***):

Example: Ministry records the purchase of a new Motor Vehicle:

- Vat Inclusive $30,000
- Vat (15%) $3,913
- **Vat Exclusive $26,087**

Dr	Motor Vehicle Assets	$26,087	
Cr	Capital Funding (Equity/Taxpayers Funds)		$26087

(To account for motor vehicle acquired through Capital Distribution Fund (CDF))

4 – Depreciation & Amortisation

1.0 Purpose

1.1 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. [IPSAS 17 PPE, para 71]

1.2 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.

1.3 This section does not apply to Expensed Assets.

2.0 Definitions

2.0 "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.

2.1 "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.

2.2 "Amortisation" – is the same as depreciation but it relates to intangible assets such as software or goodwill (though goodwill is not expected to be a matter for Crown Agencies).

2.3 "Derecognize" – is the net book value amount of an item within the Fixed Asset Register shall be remove from the Agency's Balance Sheet, on disposal or when no future economic benefits or service potential is expected from its use or disposal.

3.0 Mandatory Requirements

3.1 Correct monthly allocation. Depreciation to be appropriated

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 that the complete asset cost should be capitalised for depreciation purposes, this include additional delivery or fit out costs.

4.3 Furthermore, the date depreciation of an asset begins is when it is **available for use**, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Public Agency. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. 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 to the extent that depreciation does not exceed and report a negative net book value of an item. Furthermore, if additions, disposals are made during the year, the journal will need to be adjusted to account for the new assets.

4.7 Monitor the Fixed Assets Register to ensure the depreciation expensed on an asset does not exceed its cost.

4.8 If newly acquired assets are received and available for use on or before the 15th of the month, depreciation expenditure begins incurring in that month. If received and ready for use after the 15th of the month, depreciation begins incurring in the following month.

4.9 Depreciation expense must be accounted for on all asset purchases. 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)
Buildings	20–40 years @ 2.5- 5% per annum
Infrastructure projects	30-50years @ 2-3.33% 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
Solar Power System	10-25years @ 4-10% 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

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 20% over five years. The motor vehicle has a depreciation expense of $4,800 per year over the five year period. This equates to $400 per month. It was purchased on 4th January and therefore will only have 6 months or $2,400 depreciation expense in the first year.

The accounting entry each month is as follows:

Dr Depreciation Expense	$400	
Cr Accumulated Depreciation - Motor Vehicle		$400

5 – Aid Funded Assets

1.0 Purpose

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

2.0 Mandatory Requirements

2.1 Aid funded fixed assets are all assets over $5,000 that are either purchased with donor funding or received direct from donors. Aid funded assets under $5,000 should be treated as Aid expense. The procedure to apply depends on whether the funding is provided through Aid Management Division of MFEM or direct to the Ministry. Refer to Part C Section 5 – Aid funding for operating expenses for details.

2.2 Aid funded fixed assets are recorded in the balance sheet and are depreciated like any other property, plant and equipment.

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 fixed 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 pays for an asset and then receives reimbursement from the Aid Management Division.

3.1.3 The Ministry receives an asset from a donor.

3.1.4 The Ministry pays for an asset and then receive reimbursement from the 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 funding or property, plant and equipment is provided directly to a government organisation, a written notification 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 fixed asset is required to be recorded in the Fixed 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 <u>Aid Management pays the supplier direct</u>:

Transaction	**Dr**	**Cr**
Aid Management pays supplier	Fixed Asset	Aid Revenue

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 once the Assets has been received or available for use. The entries to the ledger will incorporate

4.1.4.1.1 Debit to an asset account of the total value of the asset.

4.1.4.1.2 Credit to Aid Revenue

4.1.4.1.3 Credit to Taxpayers Funds ("Capital funding") the amount of local contribution. This would usually be funded through capital appropriation – ***only if there's local contribution otherwise, there's no need for this line entry.***

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

Transaction	Dr	Cr
Ministry pays supplier	Fixed Asset	Bank
Ministry recognises Aid Management owes it cash	Debtor (Aid Management)	Aid Revenue
Aid Management reimburses the Ministry	Bank	Debtor (Aid Management)

4.1.6 Where the aid funding is received by Crown via Aid Management Division and disbursed out to Government agencies, the following entries should be recognised at both Aid Management Division and Agency level:

Transaction	Dr	Cr
DCD receives aid funding from Donors – This is DCD end journal	Aid Bank	Aid Liability
DCD disbursed out aid funds to Government Agencies – This is DCD end journal	Aid Liability	Aid Bank
Aid Management received by the Ministry from DCD	Bank	Aid Liability

4.1.7 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.

4.1.8 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 fixed 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:

Transaction	Dr	Cr
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:

Transaction	Dr	Cr
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 When assets donated have no known value, a certified professional (eg mechanic) should be hired to determine the value of these assets.

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 and submitted to MFEM with the monthly variance report

3.0 Process

3.1. Bank reconciliations shall be performed on a daily or at least weekly 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 along with bank statement 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, Unit 4).

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

<u>Reconcile the cash book to the bank statement</u>

Balance as per **cash book** 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 **bank statement** as at ##/## ##		<u>XXX</u>
Difference*		XXX

<u>Reconcile the cash book to the general ledger</u>

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 15% 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.

3.6 For the agencies which have trading revenue **over $40,000**

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 VAT Collected / VAT Payable

4.2.1.1 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.

4.2.1.2 Multiply this figure by 9 and enter in Box 5 of the VAT return.

4.2.1.3 Enter any adjustments that may have resulted from discrepancies from past returns into Box 9.

4.2.1.4 Add Box 8 & 9 to equal the "Total VAT collected" in Box 10.

4.2.2 VAT Paid / VAT Receivable

4.2.2.1 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).

4.2.2.2 Multiply this figure by 9 and enter in Box 11 of the VAT return.

4.2.2.3 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).

4.2.2.4 Add Box 12, 13 & 14 to equal the "Total VAT paid" in Box 15

4.2.3 V AT to pay or refund due

4.2.3.1 Enter the difference between Box 10 and Box 15 in Box 16.

4.2.3.2 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.

4.2.3.3 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 <u>as a negative.</u> (This will be a credit)

4.3.1.3 Record the amount from Box 13 to your Customs VAT Paid/Receivable account <u>as a negative.</u> (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 <u>as a negative.</u> (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 *[Box 12]* x 9 = $720 *[Box 11]*

B) VAT Collected / VAT Payable Account

$100 [Box 8] x 9 = $900 [Box 7]

VAT Balance

$20 *[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

Value added tax on you sales and income	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 **Total VAT collected** on sales and income.	10	

Value added tax on you purchases and expenses	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 addjustments to VAT paid	14	➡
	Add boxes 12, 13 and 14. This is your **total VAT paid on** purchases and expenses	15	
	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.	16	➡

8 – Bulk Funded POBOCs and Administrated Payments

1.0 Purpose

1.1 This procedure is only used for POBOC and Administrated payments funding that is made in bulk to the Ministry to administer.

1.2 Explain how to account for POBOC and Administrated payments that are made in bulk.

2.0 Mandatory Requirements

2.1 Separately account for each POBOC and Administrated payments.

2.2 Reconcile each account at year end.

2.3 POBOCs and Administrated payments must never be entered into the P&L of a ministry (except when a ministry has overspent – detailed below). All POBOC and Administrated payments 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 and Administrated payments bulk funding must provide MFEM with a Monthly forecast of the Annual Appropriation. (Refer to Part D, Section 7 on Cash flow Management).

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

Dr Bank
    Cr POBOC and Administrated payments *Liability*
(To record the receipt of POBOC and Administrated payments *funding from Crown)*

3.3 A separate ledger account <u>must</u> be used for each different POBOC and Administrated payments that a ministry looks after for ease for the Ministry and Crown to ascertain any unused or overspent amount for each individual POBOC and Administrated payments.

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

3.4 All POBOC and Administrated payments spending should be coded to the same liability account relating to that POBOC and Administrated payments or to an adjacent account with 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 a General Ledger print out showing available funds.

3.5.1 It is the Ministry's responsibility to manage the cash flow around the POBOC and Administrated payments 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 at 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 and Administrated payments Overspending (P&L)

Cr POBOC and Administrated payments Liability

3.9 POBOC and Administrated payments 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 and Administrated payments 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 be operating, expenditure or POBOC and administrated payments.

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 A contingent liability is a liability that may occur depending on the outcome of an uncertain future event. A contingent liability is recorded if the contingency is likely and the amount of the liability can be reasonably estimated.

2.2 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.

2.3 Government liabilities are a measure of fiscal risk. Contingent liabilities, whether explicit or implicit, can affect the government's fiscal position and, therefore, its capacity to meet its spending obligations. Government liabilities are amounts of money that a government owes, such as that for the repayment of sovereign debt and for payments owed to suppliers of goods and services. Contingent liabilities are amounts that the government may owe, but the amount, or indeed the existence, of the liability will depend on future (and uncertain) events. Government guarantees are a common form of contingent liabilities. The government may guarantee a loan, but it will only be liable to make the payment if the recipient of the loan defaults. So, when financial statements are produced, it is often not known whether the government will have to repay all or some of the loans that it has guaranteed. Contingent liabilities are also significant because a government may be considered to be the insurer of last resort, and so its implicit or assumed guarantees may be very wide. For example, in recent case, governments are expected to make significant payments to deal with the aftermath of global pandemic covid-19.

2.4 Under accrual accounting, contingent liabilities require disclosure.

2.5 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, Agencies 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, Agency or Island Administration to provide a list of perceived Contingent Liabilities to MFEM for inclusion within the Annual Budget.

4.4 Each Ministry, Agency 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 off.

2.0 To ensure any cash proceeds are appropriately repaid to Crown 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 *Policy D02 – 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 $5,000 and over requires the authorisation of the Financial Secretary acting with the concurrence of the Minister.

3.2.2 The table below illustrates threshold for approval procedures

Head of Ministry has delegated authority to write off assets expect motor vehicles and heavy machinery to up **$5,000**	Financial Secretary has delegated authority to write off of all assets from **$5,001 to $30,000** expect motor vehicles and heavy machinery	Approval is required from Financial Secretary with concurrence of Minister of Finance for write off of all assets from above **$30,000**	Approval is required from Financial Secretary with concurrence of Minister of Finance for write off of all motor vehicles and heavy machinery, irrespective of the net book value.

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 useful	A mechanics or engineer's report.	Made available and verified by Audit.

3.2.3 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.

3.2.4 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.

3.2.5 Write-off of motor vehicles and heavy machinery, irrespective of the net book value, requires the authorisation of the Financial Secretary.

3.2.6 Refer to Part C Section 9 – *Expensed Assets* for disposal and sale of Expensed assets.

3.2.7 All write-offs should be formally documented and filed separately, and available for Audit.

3.3 Sale of assets proceeds cannot be used to fund any expenditure, except for the following reasons;

3.3.1 Where it is shown as being the trade-in contribution to the purchase of an asset approved by parliament.

3.4 Cover costs associated with the sale of the assets, for example, cost of the sale advertisement, costs for mechanic assessment of vehicle report etc. Sale of assets proceeds (regardless of whether it results in a gain or loss) must be remitted to the Crown.

3.5 Sale of assets 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 in the current year and remove in the subsequent year.

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 Refer to Part C, Section 9 – Expensed Assets for guidance and treatment of sale or disposal of expensed assets.

4.12 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:

4.12.1 The funding for the new vehicle is limited to the net appropriation plus what is actually obtained by way of Trade in or sale.

4.12.2 Any timing difference between the purchase of the new vehicle and the sale of the old vehicle can not be covered by crown funding.

4.12.3 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 Agency 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 Agencies.

1.4 This procedure only applies when all other external sources of funding are exhausted.

2.0 Mandatory Requirement

2.1 Parliament approves all budget for Capital Expenditure over $5,000.

2.2 Written approval must be obtained from the Financial Secretary acting in concurrence with the Minister of Finance for all transfers of Capital funding between capital projects within an Agency. This is in line with requirements stated in Part D02, sub section 1.5.

2.3 Each agency must remain within the overall capital budget appropriation 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. The documentation submitted should outline full costings and details relating to the request to transfer or reallocate to the recipient capital project or item, along with a full explanation and costings as to why the funding for the source 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 What are the implications on the delivery of outputs, should the transfer or reallocation take place?

3.2.2.3 If the capital project or item is no longer required, explain reasons.

3.2.2.4 For what reasons are the agency unable to wait until the next budget bids to request funding for the new capital project or item?

3.2.2.5 New item or not exiting capital item under current capital budget cannot be included in any capital budget transfer request form.

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.

3.3 The Treasury Management Division will ensure all the necessary information is received from the agencies 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 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.

3.7 Ministry to ensure that their Annual Phased Cash flow is being amended or re-phased on a timely basis to reflect the transfer and submit to Treasury Division before the 10th of the following month or as soon as possible.

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 31st 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
Road Network & Roads Upgrades
Coastal Protection
Water Supply and Sewer Systems
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 CIGPC (CIIC) entries:

Dr	Fixed Assets	XX	
Cr	Capital Introduced (Equity)		XX

3.6 The asset must also be shown in the Fixed Asset Register (FAR) as follow:

3.6.1 A transfer out of Ministry's FAR

3.6.2 A transfer in and out of Crown's FAR

3.6.3 A transfer in of CIGPC's FAR.

3.7 Journals associated with this is as shown on sub-section 3.3.1 above. The HOM and finance manager or corporate service manager 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.

3.10 Ensure all infrastructure and buildings conduct annual impairment testing to assess the recoverable amount of the asset to tis carrying amount (net book value).

Attachment 1 – Asset Transfer form

Note: If there are significant number of items to transfer, attach supporting Appendix listing with asset transfer form to MFEM - Crown Division.

See the following page.

Attachment 1

ASSET TRANSFER FORM

Asset Description	***Journal Entries**	**Start Date**	**Completion Date**	**Amount ($)**
			Total	$

*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, Agencies 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, Agency 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 in the next budget round for the Agency receiving the asset.

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.

Attachment 1 – Asset Transfer Form

Attachment 2 – Sample Application Letter for Sending Ministry/Agency

Note: If there are significant number of assets to transfer, attach supporting Appendix listing with application letter to Financial Secretary.

See the following page(s):

Attachment 1 - Asset Transfer Form

ASSET TRANSFER FORM

Asset Description	*Journal Entries	Purchase Date	Transfer Date	Amount ($)
			Total	$

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

Sending Ministry's Finance Officer:____________ Date: ____________ Sending Ministry's HOM: ____________ Date: ____________

Receiving Ministry's HOM: ____________ Date: ____________

Crown Office : ____________

Attachment 2 – Sample Application Letter for Sending Ministry/Agency

Insert Sending Ministry/Agency letterhead

**File Ref*:*

Letter Date

Insert Current Financial Secretary First & Last Name
Financial Secretary
Ministry of Finance and Economic Management

Kia Orana **Insert Recipient First Name**

RE: **Insert Subject Matter of Letter**

Pursuant to the Cook Islands Financial Policies and Procedures Manual (CIGFPPM) Part B Section 12A, I seek your approval for the asset transfer of the following:

Asset Description	Purchase Date	Transfer Date	Original Cost ($)	Net Book Value ($)
			Total	$

insert justification of transfer below

Eg. The reason(s) for the transfer is/are …

Thank you for your attention and await your decision.

Sincerely

Head of Ministry/Agency Signature

Insert First & Last Name of Head of Ministry/Agency
Insert Position/Title of Head of Ministry/Agency

insert Sending Ministry/Agency address

13 – Outer Islands Capital & Major Infrastructure Expenditure

1.0 Purpose

1.1 To ensure that all Ministries and Crown Funded agencies follow the proper procedure for acquiring capital items for the Outer Islands and Major Infrastructure.

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 Parliament approves all budgets for Outer Islands Capital and Major Infrastructural Projects.

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 approve Capital Expenditure. See *Part B Section 11 – Transfer between Capital Budgets.*

2.4 All Outer Island Machinery, Equipment and Motor Vehicles and other infrastructure upgrades purchased out of unallocated capital funds must follow *Part B Section 14 – Unallocated Capital Funding*.

2.5 All Outer Island Infrastructure and Infrastructure Upgrades to follow the Infrastructure Committee process

2.6 All Work in Progress (WIP) is to be recorded by the Agency managing the project (eg. ICI) and then transferred to the Agency that will maintain and own the asset once complete.

2.6.1 Completion of Asset Transfer process required (refer to *Part B, Section 12 and 12A – Asset Transfer to Crown/Other Crown Entities*).

2.7 It is not permissible to "top up" a capital purchase with operating funds

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 and 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 purchases are inclusive of freight and 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 Capital Assets costing less than $5,000 but more than $1,000 can either be budgeted as Capital Items or purchased from Operating budget as per Part B Section 1 –Capital Expenditure.

3.2.2.1 Any small items purchased from the Small Capital Funds must be recorded in relevant categories in the Fixed Asset Register (FAR) and to account for Depreciation – refer to *Part B – Section 4 Depreciation & Amortisation*

3.2.3 Small Capital items costing $5,000 or less from Operating Expenditure Budget must be recorded as Expense Asset in the Fixed Asset Register (FAR) Refer Part C Section 9 Expensed Assets

3.2.4 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 01 - 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 Infrastructure Cook Islands (ICI) 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 ICI 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 FMIS report for the Agency managing the project and must be reconciled an 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)

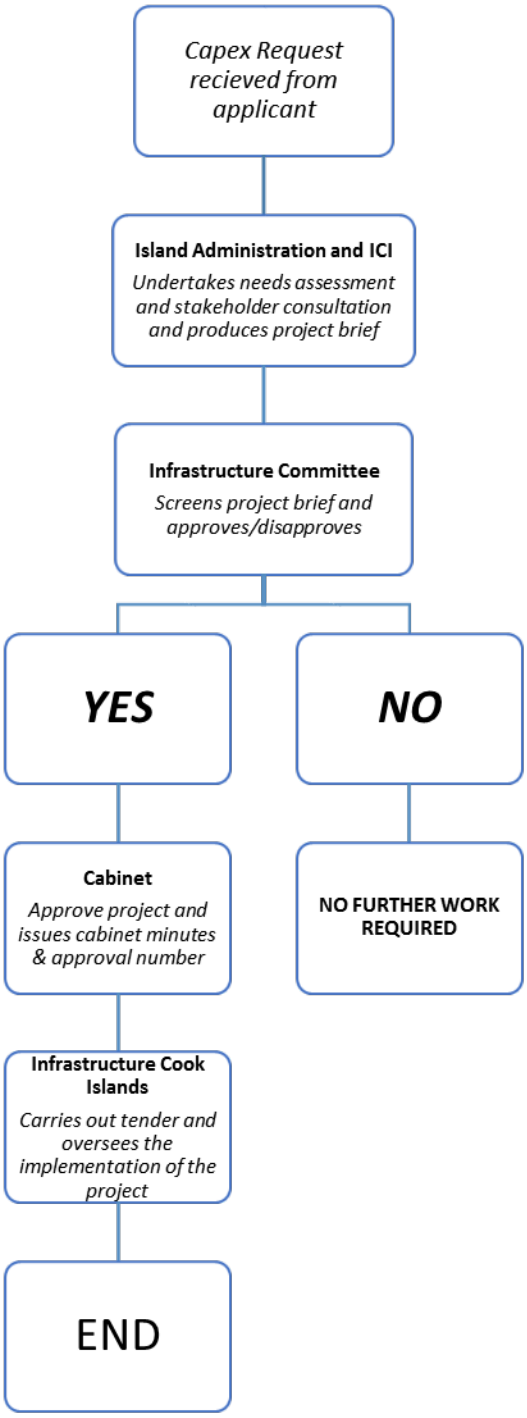
3.6 Changes to Cost of Project in Category 1 and Category 2

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

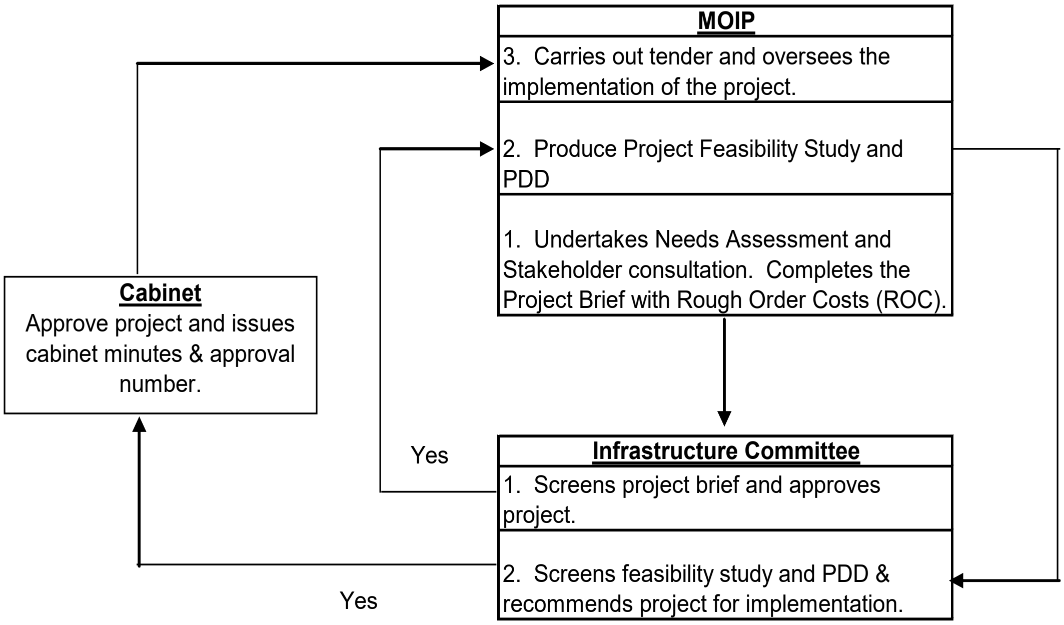
Change to Total Cost	**Documents Required**	**1st level of approval**	**2nd level of approval**
\$1,000.00 to \$5,000.00	Letter to MFEM	Executive Officer	Nil
> \$5,000.00	Resubmit proposal to IC detailing reasons for change in cost of project.	Infrastructure Committee	Cabinet

Attachment 1

Project Assessment for Category 2 Projects



Project Assessment for Category 3 Projects


MOIP
3. Carries out tender and oversees the implementation of the project.
2. Produce Project Feasibility Study and PDD
1. Undertakes Needs Assessment and Stakeholder consultation. Completes the Project Brief with Rough Order Costs (ROC).
Cabinet
Approve project and issues cabinet minutes & approval number.
Yes
Infrastructure Committee
1. Screens project brief and approves project.
2. Screens feasibility study and PDD & recommends project for implementation.
Yes

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 establish uniform procedures for Unallocated Capital Funds across agencies

1.2 To guide the distribution of Unallocated Capital Funds in a manner that complies with acceptable standards of accountability and transparency.

1.3 To encourage the consideration of efficient procurement approaches to include, bulk purchasing and standardisation of capital items.

1.4 To ensure that Unallocated Capital Funding is allocated at the request of appropriate authorities following processes as set out in their respective policies.

2.0 Mandatory Requirements

2.1 Capital requests must be consistent with Part B01 – Capital Expenditure.

2.2 Compliance with Part D02 - Purchase & Sale of Goods and Services Policy.

2.3 The capital items purchased must be necessary to deliver the outputs of the receiving agency.

2.4 All unallocated capital funds must be allocated and spent in accordance to the Unallocated Capital Fund Policy of that specific fund. This shall be developed by the Ministry/Agency administering the Unallocated Capital Funds.

2.5 Unallocated Capital Fund Policies are submitted to MFEM's Economic Planning Division (Budget Secretariat) for approval by the Financial Secretary.

2.6 An approved Unallocated Capital Fund policy must be held on file by MFEM's Treasury Division in order to release funds.

2.7 Transfers from and between Unallocated Capital Funds must be approved by the Financial Secretary.

2.8 The Head of Ministry is responsible for the use and management of the funds in line with the appropriation and approved Policy.

2.9 Parliament approves all budget for Capital Expenditure over $5,000.

3.0 Process

3.1 All budget submissions for Unallocated Capital Funds shall be forwarded to MFEM for compilation as part of the budget process by agencies responsible for the administration of the Unallocated Capital Fund.

3.2 Parliament approves the gross Unallocated Capital Funds to the appropriate agencies as part of the agencies annual appropriation.

3.3 All Ministries and/or Agencies who receive an Unallocated Capital Fund must prepare a detailed Policy for how this fund will be spent. As this Policy will be reviewed by MFEM it is critical that all necessary justification and details are included to the satisfaction of the MFEM Economic Planning Division.

3.4 All funding requests for Unallocated Capital Funds 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.

3.5 Savings on each Capital Fund item at the end of the financial year are not the entitlement of the responsible agency. All savings shall be returned to Crown.

3.6 Each agency shall maintain appropriate records on all transactions relating to each Capital item.

3.7 The ministry receiving the capital item will be responsible for keeping and reconciling their Fixed Asset register.

3.8 The asset register must be filed with MFEM at year end to be consolidated into the Crown's asset register.

3.9 Each agency is responsible for complying with the Tarai Vaka Process (TVP) where applicable.

4.0 Bulk Purchasing

4.1 All agencies are to implement bulk purchasing arrangements wherever practical in order to save time and take advantage of competitive prices consistent with quality and service requirements of government.

4.2 After the Budget has passed for that particular year, MFEM will identify common capital requests in a particular year to 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.

4.3 Where total price of bulk purchase exceeds $50,000 TVP determination criteria shall be applied to ascertain whether TVP is applicable.

4.4 The procurement of all capital items must be in-line with those of the Purchase and Sale of Goods and Services Policy.

4.5 The procurement of all vehicles must also comply with the Government Fleet Management Policy.

Agency means all Ministries, Island Administrations, Crown Funded Agencies and State Owned Enterprises.

Attachment 1:

Unallocated Capital Fund Policy Template

Please complete the Template for each Unallocated Capital Fund

REFER TO:

Cook Islands Government

Appendix 1: Government Fleet Management Policy (2018)

www.procurement.gov.ck

16- 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 value 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 in 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 DVDs 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 in 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 goods) 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, etc.

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 (W-house)	60		160	$25.00	$1,500.00	$3,500.00
23/03/06	Sell to X-pert		50	110	$20.00	($1,000.00)	$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 (W-house)	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 separated. E.g fuel, gravel, nails and etc.

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 X-pert		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 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 Stock-take

4.3.1 All inventories shall be subject to an annual stock-take by the Ministry, Office or Island Administration to ensure the existence, security and condition of each item. This stock-take 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 stock-take.

4.3.3 The stock-take should be undertaken by more than one staff member, both of whom sign the completed form.

4.3.4 Staff who undertake the stock-take 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 Stock-take' form. The HOM, Chief Executive or Island Secretary must sign the ‘Inventory Stock-take' 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 $100,001 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 $5001 and $100,000 requires the authorisation of the Financial Secretary only.

4.4.1.3 Write-off of inventory with a book value of $5000 and below requires the authorisation of the Head of Ministry only.

4.4.1.4 The table below illustrates write-off of inventory approval and book values.

Head of Ministry has delegated authority to write off inventory up to **$5,000**	Financial Secretary has delegated authority to write off of inventory from **$5,001 to $100,000**	Approval is required from Financial Secretary with concurrence of Minister of Finance for write off inventory above **$100,000**

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 stock-take need only be undertaken once the seal on the inventory is broken.

4.6 Supporting Documentation

4.6.1 Ensure that all inventory related supporting documentation must be filed for audit purposes.

Attachment

Attachment 1 – Stock Card Example

Attachment 2 - Inventory Stock-take 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,

ATTACHMENT 2

Inventory Stocktake Form **Page No:** of

Ministry:____________________________________ Date of Stocktake: ____________

Supervisor of Stocktake: ______________________ Signature: ___________________

Assistant: ___________________________________ Signature: ___________________

Item ID	Description	No per Stock Card	No per Stocktake	Condition

Head of Ministry

Signature: ____________________________

Date:

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 earnt 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.

3.0 Process

3.1 Any Government Department or Crown Agency that require a 'trust fund' account must apply for approval from the Financial Secretary with the concurrence of Cabinet. The application should include a policy paper detailing:

3.1.1 Purpose of the Trust

3.1.2 Source of Funding and Agreement

3.1.3 Trustees and Administrator of the fund

3.1.4 Policy to drawdown on the Fund

3.2 Once approved by the Financial Secretary, a separate bank account will be opened according to the agreement above.

3.3 The principles of transparency, accountability, contestability must be adhered to when spending trust funds at all times. As such the Cook Islands Government Financial Policies and Procedures must be adhered to in the management and accounting of trust funds.

3.4 When Funds are received the following entries are to be posted a to your accounting system

3.4.1	Dr Bank Account	xx	
3.4.2	Cr Trust Liability		xx

3.4.3 (To record funding received from the source)

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

3.5.1	Dr Expenses	xx		
3.5.2	Cr Bank Account		xx	
	3.5.2.1 (Recording funds expensed)			
3.5.3	Dr Trust Liability		xx	
3.5.4	Cr Revenue			xx
	3.5.4.1 (Recognizing the revenue as expensed on approved projects)			

3.6 At the end of the financial year.

3.6.1 Revenue must always equal expenses as per the trust accounting policy

3.6.2 Bank account balance must always equal the liability trust account.

3.6.3 The reporting must be consolidated with the ministry's financials to show below the line the activities from the trust fund.

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.

18- Retention Payment and Treatment

1.0 Definition

1.1 In the construction industry retention is security held by a procuring Contractor to guarantee the performance of a supplying Contractor, in order to safeguard against defects in the event that the supplying Contractor fails to satisfactorily rectify them.

1.2 The security is usually in the form of cash withheld (retained). However it can be substituted for a bank guarantee or insurance bond.

1.3 Retention payments are a percentage of milestone payments owed to a Subcontractor or head Contractor. They are withheld pending full practical completion and resolution of any defects.

1.4 Retention is a percentage of the amount certified as due to the Contractor on an interim certificate, that is deducted from the amount due and retained by the Client.

1.5 It is important to note that payment of withheld retention monies are not conditional or dependent upon events or obligations under another contract.

2.0 Purpose

2.1 To ensure that the capital budget is in line with Ministry outputs and Government policy.

2.2 To ensure that a project is completed properly and the Contractor carries out the required duties under the contract appropriately.

2.3 To ensure that retention payments are properly treated and fully captured by Ministries, Island Administrations and Crown Agencies.

3.0 Mandatory Requirements

3.1 To meet the criteria of policy B01 Capital Expenditure.

3.2 Retention amounts should be known or stated in the payment schedule of the contract prior to work starting. For larger projects valued over a million retention is 5% and on smaller projects valued less than a million it is 10%. This is held as part of the contractor's bond and contractual obligations.

3.3 The retention amount should be taken off the amount certified. The retention amount then should be parked at the Balance Sheet level until the project defects period is complete and a completion report is signed.

3.4 To request the release of retention payment the signed completion report and a maintenance certificate must be submitted to the principal, along with the request letter to enable the release of the retention payment.

4.0 Process

4.1 Once the project phase or project is completed, the principal will need a completion report attached with the original contract and any variation of the contract that indicates the schedule and the retention amount for reconciliation and audit purposes.

4.2 The implementing agency submits an invoice from contractor to MFEM TMD indicating the amount to be paid immediately. The 5% or 10% retention amount will be deducted off the invoice value and will be parked in the agency's Balance Sheet.

4.3 Common practice and guidance is that 50% retention can be released at practical completion stages, unless contract states differently. The remaining 50% will be verified and released at the end of the defect liability period which usually ends 12 months from the date of practical completion.

4.4 Any incomplete or rejected work should be listed in the completion certificate/report. If the hired Contractor refuses to complete the job, the applicable amount of money will be deducted from the remaining 50% retention funds so that the principal can hire a third party to complete the job.

4.5 The principal must reconcile the retentions each month, as well as at the end of the financial year to ensure that the retention amount is the agreed percentage of the contract value. The retention portion must reconcile back to the contract.

4.6 Once the defects period is finished and the completion report is signed, a maintenance certificate is issued. The main contractor will send the principal a signed completion report, the issued maintenance certificate and a retention release request letter (with verified bank details) to expedite the release of the remaining 50% retention monies. The principal is obligated to meet contracted retention release timeframes.

4.7 The principal submits the final retention invoice to MFEM-TMD to process the final retention payment and to reduce the retention liability accordingly in the accounting system.

4.8 Once the remaining 50% retention is released a copy of all documents must be submitted to Crown for verification and for asset transfer purposes, if this is applicable to the principal.

4.9 Retention balances can be carried forward if the project is being completed over more than one financial year.

5.0 Accounting Treatment

5.1 Dr Expense Cr Retention Payable
(To accrue the retention payment)

5.2 Dr Retention Payable Cr Cash
(To release the retention payment)

Accounting Treatment for Retenti

Please see example attached

act Value	$100,000 plus VAT	
Retention 10%	10,000	

Maggie Ren:
This retention is part of the $100k contract. This is payment schedule suppose be look like. But as contractee, you never add or accure retention on top of your contract value.

Payment Schedule to Contractor

Payments	Amount	Retention	VAT	VAT on Retention when retention get paid
1st	20,000	2,000	2,700	300
2nd	40,000	4,000	5,400	600
3rd	40,000	4,000	5,400	600
Total	100,000	10,000	13,500	1,500

1st Claim

When ICI received 1st claim from contractor, ICI should recognise the the retention like this

Dr.	Capital Exp	20,000
Dr.	VAT Output	2,700
Cr.	Retention Liability	2,000
Cr.	Accounts Payable	20,700

When 1st claim is paid by ICI

Dr.	Accounts Payable	20,700
Cr.	Bank	20,700

Retention invoice received and paid

Dr.	Retention Liability	2000
Dr.	VAT Output	300
Cr.	Bank	2300

12A – Accounts Receivable

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 establish the responsibilities, internal controls, authorizations and procedures for the accurate and timely preparation of customer invoices for goods and services rendered by Government.

1.3 To ensure adequate support for all invoice amounts, timely collection of amounts outstanding, recording of transactions, reporting of outstanding accounts and ensuring that practices are consistent throughout the Ministries.

2.0 Definition

2.1 Accounts receivable means a claim for money, goods, services and other non-cash assets. These are generally established via billing advice/invoice or contract/agreement. These are set up as assets of government, recognized as revenue earned or service delivered.

3.0 Responsibilities

3.1 The collection of accounts receivable is a shared responsibility between:

3.2 Ministries

3.2.1 Complete and approve credit applications and credit limits. Credit limits are based on customer's past trading records that ministries have obtained when completing a credit reference check.

3.2.2 Ensure customers are invoiced in a timely and accurate manner.

3.2.3 Ensure communication to customers regarding collection occurs in a timely and professional manner.

3.2.4 Review the aged accounts receivable report on a regular basis and follow up on default debtors.

3.2.5 Initiation of external Debt Collection Agency services for debts over $1,000 with ageing over 90 days. Contact Crown if external debt collection agent is required for your Ministry.

3.2.6 Ensure that default customers are on "credit stop" and are no longer eligible for credit. Also that payment in advance has been secured before receiving any future services.

3.2.7 Create a provision for doubtful debts on a six monthly basis.

3.2.8 Debt write off approvals less than $5,000 must be from CEO or Head of Ministry.

3.2.9 A debtors log is maintained for each debt recording an accurate account of the debt collection process to resolve outstanding debts.

3.2.10 Accurate audit trail for all accounts receivable transactions.

3.3 MFEM

3.3.1 Approves debt write-offs over $5,000.

3.3.2 Review of the Monthly Variance Reports and the monthly aged receivable reports.

4.0 Segregation of Duties

4.1 Segregation of roles and responsibilities is required to ensure that an individual cannot process a transaction from invoicing through to collection of monies without requiring checks and approvals from other staff. This reduces the misappropriation of funds and the risk of fraud.

4.2 The following activities should be undertaken by different employees:

4.2.1 The billing for goods and services is initiated by a staff member in the operating division responsible for delivering the goods and/or services.

4.2.2 The Invoice should be prepared or approved by a staff in Finance.

4.2.3 Payments should be accepted and posted by an alternate staff in Finance.

4.2.4 Adjustments to customer accounts recommended by staff must be approved by the Finance Manager.

4.2.5 Collection steps are performed by the operating division and finance department.

5.0 Mandatory Requirements

5.1 Establishing a credit application approval system to minimize the risk of giving unauthorised credit to customers.

5.2 Each Ministry must have a standard credit application form that can be sent to customers. This will have the customer's information including contact details and email addresses for communication purposes. The credit limit and terms of trade are also recorded and agreed to at the application stage.

5.3 Every effort such as an email reminder, telephone call and letter of demand must be made by a Ministry, Island Administrator or Crown Agency to collect outstanding receivables.

5.4 All receivables must be reviewed on a monthly basis to conduct appropriate credit control and collection process.

5.5 It is mandatory that a statement of account is sent out to all customers at the beginning of each month, detailing the following:

- Date of invoice
- Invoice number
- Total amount of invoice
- Age of the debt i.e 30, 60, 90+ days
- Payment received from customer
- Total amount owed by the customer

5.6 A reminder or follow up telephone call is made close to 20th month, preferably 5 working days before the 20th of each month.

5.7 A debtor log is created and updated at the end of each month. The log must be checked and signed by the Director of Corporate Services at the end of each month.

5.8 The debtor log and a listing of default debtors should be prepared by the Finance Manager then reviewed and approved by the Director of Corporate Services. A copy of the listing and debtor log should be filed for audit purposes.

5.9 The amount in the debtor sub ledger should always equal to the general ledger in the Balance Sheet.

6.0 Process

6.1 On Boarding Process

6.1.1 A customer's on boarding process starts by completing the credit application form.

6.1.2 Once the form is completed a credit check needs to be performed via telephone by contacting past trading partners to verify the customer's account and the credit limits given.

6.1.3 Successful applications will be passed on to the accounts receivable officer to set up the customer in the system.

6.2 Age debtor review process

6.2.1 Proper collection procedures begin with checking and validating invoices. Invoices should be prepared promptly and accurately based on supporting documentation.

6.2.2 The following information should be included on an invoice:

- Customer’s full contact details, including phone and email
- Customer’s Purchase Order Number
- Full details of the service provided
- Credit Limit
- VAT number
- Terms of Trade
- The Ministry’s bank account details.

6.2.3 It is a mandatory requirement that all customers are sent a statement at the beginning of each month showing an aged accounts receivable balance. Currently for the Agencies deployed into FMIS the statement is system generated and automatically emailed out at the beginning of the new month. Customers are advised of their balance whereby they can address any outstanding amounts aged more than 30 days. Sending statements via email is preferable especially if customers have provided email addresses on the credit application form.

6.2.4 All aged debtors must be followed up 5 days before 20th of each month, so as to ensure the payment will be received on the 20th of the month.

6.2.5 A debtor log must be kept to record actions taken to collect the outstanding debt. This must be checked and signed by the Finance Manager.

6.3 Debt Collection Process

6.3.1 All customers that have not paid their invoices and have exceeded their terms of trade are considered a default debtor that is subject to the standard CIG debt collection process. All action taken to collect the debt are to be recorded including dates and time emails were sent and telephone calls were made. This log will provide a record of debt collection action taken against each default debtor. This will be utilized when the debt is unpaid and either referred to a debt collection agency or an application for write-off is made. This log of events is mandatory for the debt collection process.

6.4 Aged Debts over 30 days and less than 60 days:

6.4.1 A reminder email/letter is sent with the monthly statement to bring the account up to date.

6.4.2 A reminder telephone call is made close to the 20th month.

6.4.3 A debtors log is created.

6.5 Aged Debts over 60 days:

6.5.1 A reminder is sent with the monthly statement to bring the account up to date.

6.5.2 Another reminder telephone call is made close to 20th month to collect the outstanding amount and to ascertain whether the customer is in financial difficulty and may require a repayment plan.

6.5.3 Advise the customer the credit limit is "on hold" if not paid within 7 days.

6.5.4 If still outstanding after 7 days a visit to the debtor is made to discuss the following:

- Ascertain if any reason for non-payment or difficulty in paying. A repayment plan can be discussed and submitted for approval.
- The debtor is made aware that the credit limit is cancelled until such time as the debt is cleared.
- If there is no resolution from the visit, the debtor is advised that the account will be referred to an external debt collections agency.
- The debtors log is updated and the record must kept on file and checked and signed by the Director of Corporate Services.

6.6 Aged Debts over 90 days

6.6.1 Application is made to the Head of Ministry to approve any referral to a debt collection agency.

6.6.2 The debt can be referred to a debt collection agency if all debt collection processes above have been followed and documented with no satisfactory outcome.

6.6.3 Debts over $1,000 can be referred to a debt collection agency if no resolutions reached between the parties (customer and Ministries).

6.6.4 The debtors log is updated and referred to DCA (Debt Collection Agency).

6.7 Debt Collection Agency (DCA)

6.7.1 MFEM should negotiate and procure a debt collection service between a DCA and Government on behalf of all Ministries. This will ensure consistent and adequate work for the DCA to maintain a level of service on a consistent basis. The DCA fee is based on a percentage of each account collected. The fee is paid by the default debtor.

6.7.2 Every month the DCA should provide a status report to the respective Ministries.

6.7.3 If the debt reaches the 180 days ageing it is to be referred to the Ministry to create a provision for doubtful debts.

6.8 Provision for Doubtful Debts

6.8.1 All debts that have been actively pursued and is still outstanding after 180 days from date of invoice are to be subject to the provisions of Section 12B Part D of CIGFPPM.

6.9 Issuing Credit Notes

6.9.1 A credit note is issued when a customer is overcharged or incorrectly charged. The preparer of the credit note and the approver must be different staff. Once credit notes are signed a record must be kept on file for audit purposes.

6.9.2 It is recommended that the approver for credit notes are:

- Under $1,000 is the Director of Finance/Corporate Services
- Equal or above $1,000 to be approved by the Head of Ministry and HOM under MFEM

Appendix:
This is CIG credit application form, we encourage all ministries are using this as part of their internal document when there's new debtor on board with ministry

D12A Credit
application form NEW

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 $100,001 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 $5001 and up to $100,000 requires the written authorisation of the Financial Secretary only.

3.4.3 The Write-off of bad debts with a total value of $5,000 and less 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 The table below illustrates approval and values of write –off of bad debts

Head of Ministry has delegated authority to write off bad debts up to **$5,000**	Financial Secretary has delegated authority to write off of bad debts from **$5,001 to $100,000**	Approval is required from Financial Secretary with concurrence of Minister of Finance for write off bad debts above **$100,000**

3.4.5 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.

3.4.6 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 ministration/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 work paper example

Attachment 3 – Doubtful Debts Expenses work paper example

See the following pages.

Attachment 1

MINISTRY LETTER HEAD

Date:

To: Financial Secretary, MFEM.

From: HOM, **Ministry of XXXXX**

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 ***WP K***
Bad Debts Expense Reconciliation
Year ending 30 June 2002

Debtor Name	**Amount**	
John Smith	$250.00	K1 (copy of approval for write off)
Jane Ayre	$ 60.00	
	$310.00	A1 (Bad Debts Expense on P&L)

Attachment 3

Ministry of Training ***WP K.1***
Provision for Doubtful Debts Reconciliation
Year ending 30 June YYYY

Debtor Name	**Amount**	**Provisioning**
John Smith	$250.00	$100.00
Jane Ayre	$ 60.00	$60.00
	$310.00	$160.00 (Provision for doubtful debts In the B/S)

Prepared by: ____________________

Date: _____________________

Authorised by the HOM: _______________________

Date: _________________________

14 – Surplus/Depreciation and Amortisation Recall

1.0 Purpose

1.1 To ensure that all surpluses that have not been given approval, 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.

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

	$
Cash	XXX
Investments	XXX
Trade Debtors (non-Crown)	XXX
VAT Receivable	XXX
Other Assets	XXX
(enter liabilities as negatives)	
Trade Creditors (non Crown)	(XXX)
Sundry Creditors	(XXX)
VAT Payable	(XXX)
Employee Entitlements	(XXX)
Other Liabilities	(XXX)
Balance - strictly cash and excluding crown	**XXX**
Crown Receivable	XXX
Crown Payable	(XXX)
This is the value to bring in as the "Surplus Payable to the Crown"	**XXX**

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;

Dr. Surplus Repayable (Equity account in taxpayers funds)

Cr. 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:

Dr. Depreciation/amortisation Repayable (Equity account in taxpayers funds)

Cr. 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 20th 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.

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 <u>Under no circumstances</u> 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 D09 – 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 <u>Under no circumstances</u> can cheques be pre signed.

7 - Cash flow 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 optimized so excess cash is held by Crown.

2.0 Mandatory Requirement

2.1 All Ministries, Pa Enua and Support Offices are to provide a cash flow forecast to MFEM within 10 working days of the approval of the Appropriation Bill by Parliament. A cash flow 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 cash flow 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 cash flow 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 Cash flow

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. For Ministries full deployed onto Unit4 will need to export a cash flow from Unit4 following the FMIS Unit4 manuals.

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.

3.2 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 Enua 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 FMIS report, at month end, to each Ministry, Pa Enua 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/Amortization

3.3.1 Depreciation/amortization cost for the year should equal the Ministry's Fixed Asset Register, including purchases and disposals for the year.

3.3.2 Depreciation/amortization on new capital purchases should be included from the month in which the purchase is budgeted for.

3.3.3 Other Depreciation/amortization should be spread evenly over the year.

3.3.4 Refer to *Part B04 – Depreciation & Amortization* and *Part C06 – 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.

3.4.4 Ministries that are full deployed onto Unit 4 will manage operating funds from the budget loaded in Unit 4.

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 cash flow 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 cash flow is received.

3.9.1.2 Non provision of the appropriately signed revised phased cash flow 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 1st or 20th day of the month following when the documents are received, or a date agreed with MFEM.

3.10 Amendment of Phased Cash flow

3.10.1 Where it is necessary to amend cash flows, these must be submitted by the 10th of the month to take effect that month. Previous months funding must be Actuals as per FMIS 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 cash flow due to an expenditure category transfer. Refer to *Part C Section 1 – Expenditure Category Transfer* for this procedure.

3.10.4 Amended cash flow must still equal the Appropriation Bill.

3.10.5 An electronic copy (excel version) of the signed cash flow should be sent to MFEM and an original signed hard copy be sent to MFEM.

3.10.6 For Ministries full deployed onto Unit 4, all cash flow amendments will need HOM approval attached via email or signed cash flow.

Annual Phased Cash Flow

Organisation name:

Appropriations	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total	Appro	Variance
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
Total Gross Expenses	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Carry-forward Amounts													0		
Total Net Expenses	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Bulk Funding	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Capital Funding													***0***		***0***
POBOCs	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Total**	**Appro**	**Variance**
													0		0
													0		0
Total POBOCs	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
ROBOCs	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Total**	**Appro**	**Variance**
													0		0
													0		0
													0		0
Total ROBOCs	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***

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

ICI Project Tracking.xlsx

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
Total Operating Expenses Budget	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
FMIS Bulk Funding												
Variance (should be nil)	0	0	0	0	0	0	0	0	0	0	0	0

Enter Bulk Funding (per FMIS) 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 all cash and cheques received physically is handled in an appropriate and responsible manner.

1.2 To ensure that any receipt of cash is correctly accounted for.

1.3 Cash is defined as money being dollar notes, coins and cheques for the purpose of this procedure.

2.0 Mandatory Requirements

2.1 All cash and cheques must be held securely at all times.

2.2 A Cook Islands Government receipt must be issued immediately at the time cash/cheque has been received

2.3 Cash receipts must be reconciled and banked daily.

2.4 Cash receipts must be correctly posted in the ministry/agency's accounting software, in a timely manner.

2.5 Cash receipts must remain in sequential order.

3.0 Process

3.1 Receipt of cash

3.1.1 Receipts **CAN ONLY** be issued from a Cook Islands Government (CIG) triplicate receipt book, which can be purchased from the Ministry of Finance and Economic Management Finance Officer.

3.1.2 Receipts are colour coded as follows - White Copy for customer/Green Copy for banking deposit slip/Pink Copy for the Office.

3.1.3 All cash received, must be issued a CIG receipt. There are NO exceptions. Each receipt must contain the following information as stated below.

3.1.3.1 Ministry/Agency/Persons name, Date cash received, Reason for the payment, (eg; Trading Revenue for XXX, Invoice Number, etc), the General Ledger Account/Sub Account the funds are receipted for in accordance to the ministry/agency's chart of accounts, and signed by the staff who receipted the cash, as well as attach any supporting documents for the cash received.

3.1.4 All cash received and receipted must be retained in a secure location, until the banking deposit occurs.

3.2 Banking

3.2.1 To ensure transparency and accountability, segregation of duties should occur where possible, being that preparation of the banking deposit should be prepared by another staff member, different from the person who receipted the cash.

3.2.2 The Green copy of all receipts and their supporting documents should be reconciled to the cash/cheques on hand and attached to the banking deposit form to be presented to the bank.

3.2.3 If a large sum of funds is received for banking after a banking cycle has occurred, an extra banking may be necessary, otherwise ensure security is paramount, if a delay is required.

3.2.4 The bank deposit slip must be stamped by the bank and filed in a secure location, should it be required for auditing or general enquiries.

3.2.5 All cash received that relates to the ministry/agency's Trading Revenue, should be deposited to the ministry/agency's bank account.

3.2.6 If cash is received for Revenue On Behalf of Government or Revenue Earned On Behalf Of Government (ROBOC) it should follow the same process and be banked into the following account; **Bank**–Bank Of South Pacific, **Account Name**-CIG Public Account, **Account No**-01 271074 01

3.3 Processing of Accounting Transactions

3.3.1 Processing of accounting transactions should occur in a timely and efficient manner, in preparation for month end reporting.

3.3.2 Where a Ministry receives a high volume or large dollar 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, firstly identify if it relates to an invoice. If the cash relates to an invoice, then post the payment in Unit 4 System in the 'Sales' window through 'Receive Payments' by retrieving the debtor/customer for the payment to be applied to the outstanding invoice.

3.3.3.1 DR Bank

3.3.3.2 CR Debtor (Name of debtor/customer 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/s receipting 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 assurances to prevent loss/theft of cash and that transparency and accountability is upheld.

3.5.3 Where possible, given staff numbers, that a different staff member should do each of the following tasks: Receiving/receipting of cash/Preparation of the banking deposit form/slip/Processing of accounting transactions and the reconciliation of accounts.

3.5.4 If staff is limited to two, one should do the receipting, the processing of accounting transactions and the reconciliation of accounts while the other prepare the bank deposit form/slip.

3.5.5 If staff is limited to three, one should do the receipting, one the processing of accounting transactions and the reconciliation of accounts and one prepare the bank deposit form/slip.

3.6 Cancelling Cash Receipts

3.6.1 To retain the sequential order for the receipt book, cancelling any cash receipts (for any reason), all three copies of the receipt should remain in the receipt book at all times and shown as cancelled.

19 - Cash Recall

1.0 Purpose

1.1 Ensure that the annual cash recall procedures are adhered to by all Government ministries/agencies in accordance with the MFEM Act 1995/96.

2.0 Mandatory Requirements

2.1 The annual cash recall process is governed by the Cook Islands Government in compliance with the following sections of the MFEM Act:

2.1.1 Section 43 outlines that public money is the property of the Crown and that all money paid into any designated bank account shall be deemed to public money, and may not be removed except as provided for by the Constitution or the MFEM Act.

2.1.2 Section 44 outlines that the Financial Secretary may from time to time invest any balances of the Public Account or any part there of or for such period on such terms which he thinks fit.

2.1.3 Section 68 stipulates that where the provisions of this Act conflict with the provisions of any Act other than the Constitution, the provisions of this Act shall prevail.

2.2 This procedure is to be adhered to by all Government funded ministries/agencies and, support offices

3.0 Process

3.1 On the last working day of each financial year, MFEM-Crown Accounts will arrange a transfer of the operating bank account balances of each government funded ministry/agency and support offices to be transferred to the Cook Islands Government Public Account.

3.1.1 The final bulk fund in June for any financial year will be released a week before the 20th to allow all ministries/agencies and support offices sufficient time to settle as many financial obligations, prior to the cash recall occurring on the last working day in June.

3.1.2 The first bulk fund in July of the next financial year will be paid into each bank account on the first working day, provided that a phased cash flow has been submitted to MFEM-Funds Division in accordance with Part D, Section 7 of the Cook Islands Government Policies and Procedures Manual (CIGFPPM).

3.1.3 Authorised signatories for their respective ministries/agencies and support offices, bank accounts are required to complete the relevant bank letter of request and submit to MFEM-Crown Accounts by the 10th working day of June. (Refer Attachment 1 and 2)

3.2 Ministry/Agency Obligations pre-cash recall

3.2.1 All Government funded ministries/agencies and support offices must provide to MFEM – Crown Accounts;

3.2.1.1 A cash recall letter for their respective banks signed by the authorised signatories by the deadline stipulated

3.2.1.2 An accrual/accounts payable list of all financial obligations that need to be considered for payment from the cash recall, by the deadline stipulated

3.2.2 Ensure that all cheques issued to suppliers are provided sufficient time to be presented to avoid having unpresented cheques, before the cash recall process occurs. It is recommended to cease writing cheques 3-4 working days.

3.2.2.1 In a timely manner, notify and liaise with your bank regarding any cheques that you are aware of that are not presented, so arrangements can be made to make allowances. Where the bank cannot provide an allowance for Ministries/Agencies and Support Offices, MFEM – Treasury can repay all current unpresented cheques.

3.3 Ministry/Agency Obligations post-cash recall

3.3.1 For payments to be issued from cash recall for accounts payable, a payment voucher, approved by the HoM, with the original invoice should be presented to MFEM – Crown Accounts

3.3.2 For payments to be issued from cash recall for unpresented cheques, providing that appropriate steps have been made to prevent this from occurring, a payment voucher, approved by the HoM, with June's bank reconciliation attached should be presented to MFEM – Crown Accounts.

3.4 Treasury Obligations post-cash recall

3.4.1 MFEM - Treasury will only issue payments direct to a nominated bank account whether it be a supplier or the Ministry/Agency or Support Agency supplier's,

3.4.2 MFEM – Treasury will only pay those invoices/accruals that have been submitted on the accounts payable listing supplied by the Ministry/Agency or Support Office.

3.4.3 MFEM – Treasury will only issue payments to the balance of the cash recalled. If accounts payable exceeds the cash recall balance, Ministries/Agencies and Support Offices will have to cover those costs from the following years appropriation, however caution should be taken, as this could result in an appropriation overspend.

3.4.4 MFEM – Treasury will issue remittances for all payments issued from cash recall

3.4.5 MFEM – Treasury will retain the cash recall balance until the annual accounts of the Ministries/Agencies and Support Office have been audited, where decisions (between MFEM and the entity) will need to be made as to what the re-called cash will be used to pay eg. tax arrears, prior year audit fees, crown surplus and depreciation repayable.

3.5 Journal Entries in the Ministry/Agency accounts:

Transaction	**Dr**	**Cr**
Cash re-call withdrawn from bank account	Cash re-call (Asset Account- Receivables)	Cash at Bank (ministry operating account)

Transaction	**Dr**	**Cr**
Payment of accounts payable by MFEM (on behalf of Ministry)	Accounts Payable (through the subsidiary ledger)	Cash re-call (Asset Account- Receivables)

3.6 Journal entries in the Crown accounts:

Transaction	**Dr**	**Cr**
Cash re-call deposited into Crown bank account	Cash at bank (Crown public account)	Cash re-call from Ministries (Crown liability account)

Transaction	**Dr**	**Cr**
Payment of accounts payable by MFEM (on behalf of Ministry)	Cash re-call from Ministries (Crown liability account)	Cash at bank (Crown public account)

4.0 All aid funds should not be included in the Ministries/Agencies and Support Offices' operating accounting as stipulated under Paragraph 44(5) of the MFEM Act.

Attachment 1 – Cash Recall Letter Bank of the South Pacific

<Ministry Letterhead>

<Date>

<Bank Manager's Name>
Bank Manager
<Bank>
Avarua
Rarotonga

Dear <Bank Manager's Name>

RE: Recall of Government Cash Balances as at 30 June <year>

As authorized signatory to bank account <insert operating bank account number> held at your bank, I hereby give you authorization to carry out the instructions as directed by the Financial Secretary in his letter dated <insert date of Fin Sec letter>.

These instructions are to transfer the total bank balance from the above stated bank account(s) to the Bank of the South Pacific CIG – Public Account 01-271074-01 by 30 June <year>.

Thank you for your corporation and should you have any queries please contact myself or the Treasury Division of the Ministry of Finance and Economic Management (MFEM).

Yours sincerely

<HOM name>
Head of Ministry
<Ministry Name>

Attachment 2 – Cash Recall Letter ANZ

<Ministry Letterhead>

<Date>

<Bank Manager’s Name>
Bank Manager
<Bank>
Avarua
Rarotonga

Dear <Bank Manager’s Name>

RE: Recall of Government Cash Balances as at 30 June <year>

As authorized signatory to bank account <insert operating bank account number> held at your bank, I hereby give you authorization to carry out the instructions as directed by the Financial Secretary in his letter dated <insert date of Fin Sec letter>.

These instructions are to transfer the total bank balance from the above stated bank account(s) to the ANZ CIG – Public Account 117281 by 30 June <year>.

Thank you for your corporation and should you have any queries please contact myself or the Treasury Division of the Ministry of Finance and Economic Management (MFEM).

Yours sincerely

<HOM name>
Head of Ministry
<Ministry Name>

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

2.2 (a) Current Appropriations

2.2.1 Personnel

2.2.2 Operating Expenses

2.2.3 Administered Payments

2.2.4 Depreciation

2.2.5 Trading Revenue

(b) Capital Expenditures

2.2.6 Cook Islands Funded

2.2.7 Donor Funded and

(c)POBOC's (Payments on Behalf of the Crown).

(d) Financing Transactions

3.0 Mandatory Requirement

2.3 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.

2.4 Refer to the Transfer between Outputs procedure (Part C Section 2) for details on transfer of expenditure within Operating Expenditure.

3.0

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 provided under section 2.1 above. 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 the Appropriation Bill or the relevant Appropriation Amendment Bill of a given financial year

2.2.2 Also, included are the POBOCs managed by an agency. POBOC's are not identified as an output of a Ministry, but are only managed by a Ministry on behalf of Government.

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 in a current financial year 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 in 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 Transfer of resources between outputs must be approved by the HOM.

4.2 Cash flow Management

4.2.1 The Agency shall send in a revised cash flow to MFEM

4.2.2 No approval required from the Financial Secretary if the transfer is within the same output .i.e movement between personnel and operating,

4.2.3 The HOM or Secretary must sign this revised cash flow.

4.2.4 Refer to Part D, Section 7 for more information around cash flows.

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. Repairs & Maintenance costs are for routine maintenance to keep your assets running in their current state. Capital Expenditure costs are funds spent to improve assets beyond their original benefit. 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 <u>sole</u> 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 with the concurrence of the Minister.

3.3.1 This requirement applies only to Government Departments funded through Ministry Outputs, as per Schedule 1 of the Budget Estimates. It does not apply to organisations funded through Administered Payment and/ or POBOCs

3.4 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

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

3.5.1 Ensure that receipts issued and posted to accounting software package (datafile) are in sequential order.

3.5.2 Other revenue that is not part of the Ministry or Agency's trading revenue output(s), ensure that receipts issued and posted to accounting software package (datafile) are in sequential order.

3.5.3 If there are multiple receipt books, ensure this is properly recorded in sequential order.

3.5.4 Trading revenue shall not be recorded as a General Journal entry.

3.5.5 For cash or credit sales, Trading revenue or Other Revenue must be recorded in the Sales Module of your accounting software package (datafile).

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, and there is the intention to use it to increase gross expenditure, this **MUST** be disclosed to the Financial Secretary in writing seeking **PRIOR** approval to use the excess trading revenue. The Financial Secretary with the concurrence of the Minister will determine the action to be taken with the excess trading revenue.

4.4 At the end of the financial year, the excess trading revenue **MUST** be reported before the end of the financial year to the financial secretary should there any carried forward request to be carried out for any upcoming new financial year initiatives.

4 – ROBOCs (Revenue Earned on Behalf of Crown)

1.0 Purpose:

1.1 To ensure that all ROBOC is correctly disclosed and appropriately 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, and Reports requirement schedule.

4.0 Process

4.1 Each Ministry is to include ROBOC items in its Cash flow. 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) Bank South Pacific (BSP).

4.4 All banking into the BSP 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:

a) 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.

b) Copy of receipts issued

c) 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 dishonored, the fees will be transferred to the responsible ministry/agency or administration's bank account.

FMI5 - Aid funding for operating expenses

1.0 Purpose

1.1 To ensure Aid funding for capital items are treated separately from 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 must be appropriated through the budget appropriation process

2.2 All aid received directly from donors **MUST** be reported to DCD, MFEM upon receipt of funds.

2.3 Ministries must be able to split their Aid funding between that which is received direct from donors and that which is received from DCD. This will be disclosed differently within the annual accounts at year end.

2.4 Aid funds received are split between capitals and operating. Assets purchased below $5,000 are classified as aid expense.

2.5 Operational Aid revenue and expenditure must be accounted for separately from Government appropriations and expenditure.

2.6 Refer to *Part B Section 5 – Aid Funded Assets* for treatment of capital items.

2.7 The procedure to apply for both capital and operating depends on whether the funding is provided through Development Coordination Division (DCD) the aid management division) of MFEM or direct to the Ministry.

2.8 Aid Revenue and Aid Expenses must always match in the Agency's general ledger except in cases where aid has been used to purchase property, plant and equipments or receiving of donated assets direct from the donor

2.9 Ministry with aid funded personnel paid through Crown payroll to ensure that aid owing to Crown at financial year end are appropriately accounted for and reimbursed in a timely manner.

3.0 Process

3.1 Ensure in the general ledger that the Aid Revenue is easily identified as received direct from the donor or from DCD.

3.1.1 This may be done by using several different Aid Revenue accounts for annual reporting purposes.

3.2 Make sure that Aid Revenue and Aid Expenses always match in the general ledger except for reasons noted in 2.8 above

3.3 Operating Aid funding through DCD

3.3.1 Where DCD 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 DCD)

3.3.2 Where DCD 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 DCD 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 <u>the cash is received from the donor, then the Ministry makes payments</u>:

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 <u>the donor reimburses the ministry for personnel costs paid through MFEM</u>:

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

3.4.4.2 When the Ministry receives the reimbursement from the donor, the money must be reimbursed to MFEM immediately as that is where the personnel is paid from. MFEM will put a credit into the FMIS report for the reimbursed amount and this will clear any variance between Solomons and the personnel appropriation income and personnel expenses within the ministry. Period in which the reimbursements relates to must be posted and clearly identified in the Solomon report

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)

3.4.4.3 Ministry MUST inform MFEM before year end, on any outstanding aid yet to reimburse to Crown this will allow MFEM to accrue for aid personnel not yet reimbursed at year end in the Solomons accounting system.

3.4.4.4 Ministry to record aid funds not yet received for the reimbursement of aid personnel at year end as;

Dr Aid Receivable xxx

Cr Aid Payable to Crown xxx

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 DCD, 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 DCD

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 FMIS 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, but must be shown in the Aid section at the bottom of the variance report which is submitted monthly to MFEM

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 appropriately accounted for.

1.2 To ensure that Ministries getting bulk funded Aid funds provides accurate financial reports to MFEM/ Development Coordination Division (DCD) and on a timely basis.

1.3 Ensure that the DCD reports submitted to Donors are accurate, reliable and relevant.

2.0 Mandatory Requirements

2.1 Aid funds received must be appropriated through the budget appropriation process

2.2 A separate trust bank account shall be opened for the bulk funded Aid funds if required by Donor Grant Funding Agreements and upon approval of the Financial Secretary

2.3 Monthly financial reports (including reconciliations of all trust bank account) must be provided to DCD by the tenth (10^{th}) working day of each month, unless advised separately.

3.0 Process

3.1 All Crown Agencies with bulk funded Aid funds will submit to DCD a Funds Request Form and Grant Funding Agreement for the approved funding from the donors.

3.2 All Crown Agencies that require bulk funded aid funds will provide DCD with funding milestones if not stipulated in the Grant Funding Agreement for the approved funding from the donors.

3.3 Deposit the funding from the donor to the separate bank account opened for this specific purpose as per 2.2.

3.4 In the ledger, please post the entries below to your accounting system

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

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

Dr Aid Project 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)

3.6 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.

3.7 A variance report on the actual spending must be filed with DCD within 10 working days after month end. Please refer to Part D Section 4 for requirement on monthly reporting

3.8 At the end of the financial year.

3.8.1 Aid revenue must always equal Aid expenses except when the funding are used to purchase property, plant and equipments or when Ministry receives donated assets direct from donor. See Part B, Section 5 – Aid funded Assets for details.

3.8.2 The Trust Accounts (Assets) must always match the Aid Liabilities.

3.8.3 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

3.9 The bank balance at financial year end (reflected in the Trust account and matched by the Aid Liability) will be recalled to MFEM, DCD Aid Trust Account and must be appropriated in the following financial year. This will depend on the agreement.

6 – Depreciation Funding

1.0 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 1*).

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*).

- 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.

3.4 Any shortfall in the budget for depreciation will be met by savings in other areas of the Ministry or Crown Agency's appropriation. Any significant overspend against the overall appropriation need to be appropriately documented in the Ministry's monthly variance report. Failure of reasonable explanation will result in the referral of the overspending to the Public Expenditure Review Committee (PERC) for review.

3.5 Depreciation is a non cash expenditure item and will not be funded during the year.

3.6 At year end, if actual depreciation expenditure is *higher* than budgeted depreciation and the variance is;

3.6.1 Related to a newly acquired capital purchased through unallocated capital funds (refer to Part B Section 14) then, 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.

3.6.2 *Not related* to a newly acquired capital purchased through unallocated capital funds then, the government department will cover the variance from its operating budget as per *3.5* above.

3.7 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.

3.8 At year end, depreciation will be repayable to the Crown (refer *Part D Section14 – 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 Appropriation

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 money 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 The Finance Director or head of the Corporate Division of Agencies is responsible for ensuring that no payments are made without proper authority. Extreme care should be taken to ensure that payments are made to the right supplier/person for the right amount at the right time. Cash flows should be monitored to ensure the Agency remains within the net cash requirement approved by Parliament.

3.6 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.

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. A POBOC Policy must be submitted to the Budget as part of the submission.

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 Procurement Policy.*

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.

8A – Administered Payment Fund

1.0 Purpose

1.0 The purpose of the administered payment fund policy is to establish the procedures, roles and responsibilities of the Government and to outline the criteria that applies to each fund.

1.1 The purpose of this policy is to ensure that the approval to transfer from an administered payment to an output of a Government Department is released at the request of appropriate authorities and following the approval criteria provided

1.2 The administered payment fund will serve as a category of expenditure where Government has provided funding to an agency for a particular purpose that directly relates to an output of a Ministry.

1.3 Administered Payment cater to the numerous payments which cover a more general definition of a 'specific purpose payment'. The category of POBOCs is reserved for key commitments that are legally required of the Crown.

1.4 The MFEM Act stipulates that the funds allocated to POBOCs cannot be transferred to other areas of government spending. This means that savings within one POBOC cannot be used to fund, for example, overspends in another POBOC.

1.5 An Administered Payment is accounted for similar to POBOCs however, these relate more directly to agency outputs. Unlike POBOCs, these funds can be transferred across an Agency's outputs with the approval from the Financial Secretary in concurrence with the Minister of Finance.

2.0 Mandatory Requirements

2.1 This policy applies to all Government Departments (Agencies/Ministries and Island Administrations).

2.2 This policy is made pursuant to section 63 of the Ministry of Finance and Economic Management Act 1995-96 (MFEM Act), and any subsequent legislation that empowers the Ministry of Finance and Economic Management (MFEM) to issue instructions to Ministries and line agencies to ensure compliance with financial disciplines.

3.0 Definitions

3.1 Administered Payment means an operational expense that is appropriated for a specific purpose and to be accounted for separately from normal operating expenditure. May also be referred to as an Administered Fund.

3.2 Government Department (also referred to as 'Agency') means any department, or instrument of the government, or any branch or division thereof, that has money appropriated to it by Parliament for the purposes of its expenditure

3.3 Head of Agency / Head of Ministry means person holding delegated responsibility of a Minister

3.4 Output means the productions of goods and/or services by a government department

4.0 Process

Roles and Responsibilities

The Agency is responsible to submit a proposal through the budget process.

An Administered Payment is determined and appropriated through the budget process or a supplementary budget.

Parliament approves the Agency's Gross Appropriation, which includes Administered Payments.

The Ministry of Finance and Economic Management is responsible for monitoring and ensuring the effective financial management of the fund.

4.1 All budget submissions for Administered Payment Expenditure shall be forwarded to MFEM for compilation as part of the budget process by the Government Department responsible for administering the fund. Details of each expenditure category relating to the Administered Payment item must be included with the budget request with appropriate justification for each.

4.2 Parliament approves the funding to be appropriated.

4.3 The Agency will submit a fund policy to MFEM who will confirm the details are sufficient, prior to accepting the fund policy for use in disbursement of funds. The fund policy will include details of:

a) Purpose of the Administered Payment,
b) Individuals (by role/title) authorized to instruct the release of payments,
c) Details of each expenditure category within the total funds appropriated,
d) Supporting legislation, policy or contracts as suitable, for example a reference to a specific Remuneration Tribunal Order stipulating rates of remuneration used to calculate the total amount of the personnel expenditure category of the fund.

4.4 All funding requests for Administered Payment shall have supporting documentation such as invoices, receipts and copy of signed payment voucher (if any) provided to the Treasury Division. The Head of Ministry or a delegated authority must sign off all requests before the release of funds. All payments are to be made directly to the nominated bank account, which the requesting agency is responsible for.

4.5 Each Agency shall maintain appropriate records on all transactions relating to each Administered Payment item.

4.6 Where an Administered Payment is requested to be bulk funded or partially bulk funded, refer to the Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM). The treatment will be the same as the POBOC bulk or partially funded section.

4.7 Administered Payment variance reporting is to be included in the Monthly Variance Report for the responsible Ministry. See Part D Section 4 of the CIGFPPM – Financial Reporting.

4.8 Government agencies are just as accountable for ensuring Administered Payment monies are expended for the purpose intended, as they are 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 administered payment.

4.9 If an Administered Payment is managed by a separate entity rather than the appropriating agency that the administered payment is under e.g. CINSF Office, the entity will be treated the same as any other government agency.

4.10 Savings on each administered payment item at the end of the financial year or at the end of each project can be transferred to an output of the Ministry responsible for administering the fund.

a) The Head of Agency submits a request to the Financial Secretary requesting for the remainder of the funds or a certain amount of the administered payment savings to be transferred to another output or Administered Payment of the appropriating Agency
b) If the request meets the criteria for transfer, the Financial Secretary will approve the request in concurrence with the Minister of Finance.
c) Once the approval is received, MFEM will transfer the requested funds to the output of the Government Department responsible for administering the fund.

<u>Criteria for the Transfer of Savings</u>

For savings from a specific Administered Payment to be approved for transfer to another output of the Government Department, the proposal shall fulfil the following criteria:

- Demonstrate the significance of the problem/issue which the proposal seeks to address
- Demonstrate alignment to the National Sustainable Development Plan and Priorities
- Ensure costings are realistic and breakdown is provided with sufficient evidence
- Proposal should align to achieve an output of the Ministry or its core functions
- An Administered Payment cannot be used to purchase fixed assets

Reference 

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 $5,000. These are labelled “expensed assets” and are purchased from operating funding.

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 $5,000 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 and the cost (excluding VAT) does not exceed $5,000.

2.2 Assets purchased from aid funding with costs not exceeding $5000 (Vat exclusive) are classified as Aid Expenditures. (*See Part C Section 5 – Aid Funding –Operating).*

2.3 Conditions based on operating appropriation, Ministries, Island Administrations and Crown funded Agencies have been now categorised into three tiers for account and report on expensed assets both on an individual item and group items of assets.

2.4 Motor Bikes are not permitted to be purchased from operating appropriation. (*See Part B Section 15 -Government Fleet Management Policy*)

2.5 The table below illustrates the three tiers and conditions of individual and bulk items expensed assets purchases and reporting

	Tier 1 - Operating Appropriation $200,000 and less	**Tier 2- Operating Appropriation $200,001 - $500,000**	**Tier 3- Operating Appropriation $500,001+**
Individual Item Purchase $5000 and less (excluding motor bikes)	Expensed Asset	Expensed Asset	Expensed Asset

<u>Bulk Item Purchases</u>			
$5,000 - $10,000	Depreciating Fixed Asset	Expensed Asset	Expensed Asset
$10,001 - $20,000	Depreciating Fixed Asset	Depreciating Fixed Asset	Expensed Asset
$20,001 - $30,000	Depreciating Fixed Asset	Depreciating Fixed Asset	Depreciating Fixed Asset

2.6 All staff responsible for the purchase of assets are delegated the appropriate authority to do so.

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 All Ministries, Island Administrations and Crown funded agencies must adhere to the conditions of recording expensed assets as per prescribed table in Attachment 1and Attachment 2

3.2.3 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.

3.2.4 The expensed assets above **<u>$200</u>** should be labelled for easy identification and a record should be maintained to show who each expensed asset is assigned to in the entity.

3.2.5 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
(Purchases from operating funding)

Dr Aid Liability Account
Cr Aid Bank Account

Dr Aid Expense
Cr Aid Revenue
(Expensed Asset purchased through Aid funding)

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 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.

Attachment 1:

Capital Expenditure Decision Table for Individual Capital Item Purchase	**Tier One- Appropriated Operating funding $200,000 and less**	**Tier Two- Appropriated Operating funding from $200,001 to $500,000**	**Tier Three- Appropriated Operating funding from $500,001 and more.**
<u>$5,000 or less purchases of Capital Nature Item</u>			
Funded by Operating or Capital Appropriation	*Operating Appropriation funding*	*Operating Appropriation funding*	*Operating Appropriation funding*
Record on Asset Register	*Yes(purchased item greater than $200 only)* *No(purchased item less than $200)*	*Yes(purchased item greater than $200 only)* *No(purchased item less than $200)*	*Yes(purchased item greater than $200 only)* *No(purchased item less than $200)*
Expensed Asset or Fixed Asset	*Expensed Asset*	*Expensed Asset*	*Expensed Asset*
Depreciating Asset	*No*	*No*	*No*
Profit and Loss or Balance Sheet Item	*Profit and Loss item*	*Profit and Loss item*	*Profit and Loss item*
<u>$5,000 or more purchases of Capital Nature Item (Capital Appropriation)</u>			
Funded by Operating or Capital Appropriation	*Capital Appropriation funding*	*Capital Appropriation funding*	*Capital Appropriation funding*
Record on Asset Register	*Yes*	*Yes*	*Yes*
Expensed Asset or Fixed Asset	*Fixed Asset*	*Fixed Asset*	*Fixed Asset*
Depreciating Asset	*Yes*	*Yes*	*Yes*
Profit and Loss or Balance Sheet Item	*Balance Sheet item*	*Balance Sheet item*	*Balance Sheet item*

Attachment 2:

Capital Expenditure Decision Table for Bulk Purchase from Operating Appropriation	**Tier One- Appropriated Operating funding $200,000 and less**	**Tier Two- Appropriated Operating funding from $200,001 to $500,000**	**Tier Three- Appropriated Operating funding from $500,001 and more.**
Bulk Purchase $5,000 to $10,000			
Expensed Asset or Fixed Asset	*Fixed Asset*	*Expensed Asset*	*Expensed Asset*
Record on Asset Register	*Yes*	*Yes*	*Yes*
Depreciating Asset	*Yes*	*No*	*No*
Profit and Loss or Balance Sheet Item	*Balance Sheet item*	*Profit and Loss item*	*Profit and Loss item*
Bulk Purchase $10,001 to $20,000			
Expensed Asset or Fixed Asset	*Fixed Asset*	*Fixed Asset*	*Expensed Asset*
Record on Asset Register	*Yes*	*Yes*	*Yes*
Depreciating Asset	*Yes*	*Yes*	*No*
Profit and Loss or Balance Sheet Item	*Balance Sheet item*	*Balance Sheet item*	*Profit and Loss item*
Bulk Purchase $20,001 to $30,000			
Expensed Asset or Fixed Asset	*Fixed Asset*	*Fixed Asset*	*Fixed Asset*
Record on Asset Register	*Yes*	*Yes*	*Yes*
Depreciating Asset	*Yes*	*Yes*	*Yes*
Profit and Loss or Balance Sheet Item	*Balance Sheet item*	*Balance Sheet item*	*Balance Sheet item*

Key words

Tier(s):	Tier(s) identify levels/categories of ministry/agency and Pa Enua Operating Appropriation funding as per the Appropriation Bill.
Capital Funds:	Appropriated funds for the purpose of capital projects, asset replacements and asset acquisition.
Operating Funds:	Appropriated funds for the purpose of operational needs of ministry/agency and Pa Enua.

10 –Remuneration and Payroll

1.0 Purpose

1.1 To ensure full accountability for each personnel payment from Ministries, Island Administrations and Crown Funded Agencies.

1.2 To ensure correct and accurate deduction of tax and superannuation contributions.

1.3 To ensure consistent process for remuneration, wages and salary adjustments.

1.4 To ensure that the physical operation of the payroll is efficient and follows best business practice.

2.0 Mandatory Requirements

2.1 Remuneration costs appropriated by Parliament.

2.2 Remuneration entitlements (including allowances) are for services rendered to the Crown and in line with the 'Bands' of the Job Sizing regime managed by the Office of the Public Service Commissioner (OPSC).

2.3 All new appointments must be to fill an approved position by the OPSC. Other appointments not on the approved structure will require the endorsement by the Public Service Commissioner.

2.4 All notice of appointments (NOAs) must use the template attached at the end of this policy and signed by the Head of Ministry (HOM) or delegated authority.

2.5 All timesheets are to be authorised by the Head of Ministry (HOM) or delegated authority.

2.6 All personnel related payments to employees must be processed through the centralised Government payroll system.

2.7 Pursuant to Sections 1(3) and 36(1) of the Cook Islands National Superannuation Act 2000 – All government employees, with the exemption of those members contributing to the existing New Zealand Government Superannuation Scheme, must have superannuation deducted at a rate of five per cent unless otherwise individual contract stipulate specific rates with employer contributions matching this contribution with at a further five per cent from the effective date of employment

3.0 Process

3.1 Payroll System

3.1.1 Treasury Division of MFEM is responsible for managing the centralised payroll system including processing timesheets, superannuation deductions, payroll detail maintenance and providing payment details to the banks.

3.1.2 The OPSC is the agency responsible for;

3.1.2.1 Processing the approving new employee appointments for establishment on the centralised payroll system;

3.1.2.2 Processing the approving adjustments to employee records, including changes to remuneration, position and transfers on the centralised HR system;

3.1.2.3 Processing the approving the removal of employees from the HR and payroll system.

3.1.3 All Agencies must complete NOA form for new employee appointments and submit this to the OPSC for processing. OPSC will forward the approved NOA to MFEM-Treasury for processing.

3.1.4 All Agencies must complete the notice of remuneration adjustment (NOR) form for adjustments to employee records and forward this to OPSC for processing. OPSC will forward approved forms to MFEM-Treasury.

3.1.5 All Agencies must fill in the Notice of Employee Termination form and submit this to OPSC for processing. OPSC will process and forward to MFEM-Treasury thereafter.

3.1.6 All additions, deletions, and changes to remuneration details in the payroll system requested by the Ministry must be directed to OPSC and must be approved by the Head of Ministry or a delegated authority.

3.1.7 The payroll system uses 1825 hours per annum to calculate hourly rates for all government employees.

365	Total number of days per common year
7	Total days in a week
52	(365/7) Total weeks in a year
35	Total working hours in a week
1825	(52 x 35) Total working hours in a year

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 and performance bonuses inclusive of compulsory employer superannuation contributions.

3.3 Remuneration

3.3.1 When advising MFEM of a remuneration package for an employee, a job sizing band for the position must also be provided.

3.3.2 Where proposed remuneration is above the maximum of the job sizing band, the Ministry will require authorisation from the PS Commissioner before it can be processed through the payroll system.

3.3.3 Any request for remuneration 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, endorsement from the Public Service Commissioner.

3.3.4 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 Part C Section 10A - Performance Bonus Payments on awarding these payments. HOM's must ensure that this is done before the submission is lodged with MFEM for processing.

3.4.2 HOM's have the authority to reward staff with bonuses. All performance bonuses should be made transparent with performance measures and the value placed against those measures.

3.5 Timesheets

3.5.1 Timesheets will be completed by each Ministry/Crown Agency through the payroll 'self-service' function.

3.5.2 All salary time sheets should total to 70 hours for permanent full time employees unless there is occasional one off pre-approved overtime by the Head of Ministry or Agency or under the arrangements of an approved NOA.

3.5.3 Other departments with shift employees may have more normal hours than others, this will be on a case by case.

3.5.4 Timesheets will cover the previous two-week Monday to Friday period and paid in arrears on the Wednesday fortnight.

3.5.5 All timesheets must be approved by the HOM or delegated authority before submission for payroll processing.

3.5.6 Timesheet cut off times for approval are on Fridays the week prior to pay week.

3.6 Leave

3.6.1 All leave entitlements will be managed by the Payroll system according to the Government Leave Policy administered by the OPSC.

3.6.2 Annual leave will be accrued on a fortnightly basis.

3.6.3 All leave applications will be processed through payroll self-service system. Employees can only apply to use annual leave already accrued.

3.6.4 Each employee will have access to the payroll 'self-service' screen to check leave balances and also apply for leave.

3.6.5 Approved leave applications will be submitted automatically to payroll for processing.

3.7 Loose Vouchers

3.7.1 ALL personnel related loose vouchers will be done together with the normal payroll processing. All loose vouchers must include compulsory superannuation and PAYE deductions.

3.7.2 Special one off cases will be assessed on a case by case basis. This is not encouraged.

3.7.3 Loose vouchers must show Gross Pay, PAYE and superannuation calculations. If you are unsure what rates to use (it varies with each person) or the PAYE requirements, then contact the Payroll Officer (*Part E Section 1 – MFEM Contacts*) or RMD.

3.7.4 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

3.7.5 Sufficient time must be given to MFEM to process special case loose vouchers. MFEM will endeavour to process loose vouchers within one working day provided the voucher is completed correctly, is appropriately signed and has all necessary supporting documentation.

3.7.6 Loose voucher payments will be paid directly to the employee's nominated bank account, no physical cheques will be produced unless in exceptional circumstances.

3.7.7 Bonus payments and other "irregular" personnel payments, and cheques over $1,000 will be required to clear as per any other cheque. All must go through the system either before or after.

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.

Checklist for lodging Performance Bonus Requests/Vouchers	✓
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	

21 – Expenditure Arrears

1.0 Purpose

1.1 To establish a Government policy for expenditure arrears as required by the Public Expenditure and Financial Accountability (PEFA).

1.2 To ensure that expenditure arrears are kept at a minimum.

2.0 Definition

2.1 Expenditure arrear are those payments that have not been settled within 30 days from the date of the invoice.

3.0 Mandatory Requirements

3.1 This 30 day arrears policy should not be used as a reason to not honour 20th of the month payments that most suppliers expect. It is merely a policy by which arrears/ outstanding payments are calculated for the PEFA assessment purposes.

3.2 All Ministries and Crown Agencies are required to keep an Aged Payables Ledger which must be reported to MFEM through the Monthly Variance Report (refer *Part D, Section 4, Financial Reporting*).

4.0 Process

4.1 All invoices must be entered into the accounting system upon receipt and should be paid within existing cash flow requirements.

4.2 As a benchmark for good practise, Crown agencies should ensure that expenditure arrears are kept at a minimum and expenses are paid from the appropriation fund of that respective year.

4.3 At year end, it is important to ensure that all invoices for goods and services bought/ rendered in that year, are obtained soon after year end and are paid through available cash recall funds (refer Part D, Section 20, Cash Recall). Invoices not entered in the Accounts Payable Subsidiary Ledger cannot be paid from cash recall.

4.4 Any unpaid invoices in excess of 30 days should be investigated to rule out the following reasons to which payment was not made:

4.4.1 There are no funds available;

4.4.2 Invoice is unpaid because goods/ services have not been received;

4.4.3 The invoice was duplicated;

4.4.4 The payment did eventuate but was not applied against the subsidiary ledger (it was applied against the general ledger) – refer *Part D, Section 5, Year End Accounts Preparation, Paragraph 3.5*.

22 – Sensitive Expenditure Guide

1.0 Definition

1.0 Sensitive expenditure is any spending of public funds including donor funds that may be viewed as providing a private benefit to an individual staff member, their family or friends that is additional to the business benefit of an agency or ministry. Sensitive expenditure also needs to be seen as socially responsible. This may occur in entertainment, hospitality, and catering; travel and accommodation; donation and gifts; and using credit cards etc.

1.1 It may also include expenditure by a public entity that may be deemed unusual for the entity's purpose and/or functions. It risks harming Government's reputation and the public sector in general, especially if the expenditure could be viewed as inappropriate spending or lacks legitimate business reasons. Therefore, the expenditure should be able to withstand Parliamentary and public scrutiny and be subject to the standards of probity and financial prudence.[1]

1.2 This guideline sets minimum requirements that apply to all employees working within the Cook Islands Government; Government Agencies, Ministries and SOEs. This standard does not apply to third parties or people engaged by the Government through a procurement contract, where the terms of the contract negotiated differ from this standard, for justifiable reasons.

2.0 Principles and Guidelines

2.1 Have a justifiable business purpose that is consistent with the Ministry's objectives. A justifiable business purpose means a reason that would make clear sense, supported by evidence of the need for the spending and evidence that a range of options have been considered;

2.2 Preserve impartiality. Impartiality means decisions based on objective criteria, rather than based on any sort of bias, preference, or improper reason;

2.3 Be made with integrity. Integrity is about exercising power in a way that is true to the values, purposes, and duties for which that power is entrusted to, or held by, someone. It is about consistently behaving in keeping with agreed or accepted moral and ethical principles;

[1] In this guide, we define 'financial prudence' as, Government Ministries, Government Agencies and SOEs, using its resources carefully and not committing to a course of action beyond its means. We define 'probity' as Parliament and the public's expectation of Government Ministry, Government Agency and SOE's to act appropriately and ethically.

2.4 Be moderate and conservative when viewed from the standpoint of the public and given the circumstances of the spending. It includes considering whether the justifiable business purpose could be achieved at a lower cost;

2.5 Be made transparently. Transparency in this context means being open about the spending, and willing to explain any spending decisions or have them reviewed; and

2.6 Be made with proper authority. This means that the person approving the spending has the appropriate financial delegation to do so, for the type and amount of spending and follows correct procedures; and must withstand the external audit and public scrutiny.

3.0 Purpose

3.1 This Policy provides guidance to HOMs and senior managers when decision making for entertainment, hospitality, catering, donations, and gifts. These areas are not covered by other policies.

3.2 Travel and accommodation expenditure - The travel and travel related expenditure are covered by the CIGOV Travel Policy.

3.3 Using Credit Cards - Refer to Part D, Section 16 of CIGFPPM.

4.0 Mandatory Requirement

4.1 All business-related expenses must gain prior approval from HOM.

4.2 Expense Claim form must be submitted to MFEM – TMD for approval with the necessary business-related receipts attached.

4.3 VAT receipts and evidence of prior approval must be kept on file.

4.4 Entertainment budget must be actively monitored by the Ministry's finance division. If expenditure is over and above the entertainment budget, the HOM and MFEM must be informed. In addition, explanations, and document support for the over spend must be provided to Crown for reporting and auditing purposes.

5.0 Guiding Principals

5.1 Conflicts of Interest

5.1.1 All decisions and actions made on behalf of the Cook Islands Government must follow fair and consistent procedures and shall deliver the best outcome for Government. Decisions must be free from bias or a predetermined outcome.

5.1.2 Actual, potential, or perceived conflict of interest must be reported to your manager immediately. If unsure, declare it.

5.1.3 A register of all declared conflicts of interest must be held by each Ministry. This is the responsibility of the HOM, and subject to review when requested by both OPSC and MFEM.

5.2 Entertainment and Hospitality with <u>External Parties</u>

5.2.1 Entertainment and hospitality can range from providing tea, coffee, and biscuits to Ministry-funded hosting events to giving gifts.

5.2.1.1 Expenditure on entertainment and hospitality is sensitive because of the range of purposes it can serve, the opportunities for private benefit, and the uncertainty as to what is appropriate.

5.2.1.2 The following three business purposes for entertainment and hospitality expenditure are:

- building relationships;
- representing the organisation;
- reciprocity of hospitality where this has a clear business purpose and is within the Ministry's normal operations.

5.2.1.3 The principles of a justifiable business purpose and moderate and conservative expenditure are particularly relevant here.

5.2.2 Meals and alcohol

Meals must have a clear business purpose and be moderately priced. As a guide they should not exceed NZD$65 per head for dinner and NZD$45 per head for lunch. These amounts include both alcoholic and non-alcoholic beverages. Dollar values specified are inclusive of VAT. This will be reviewed on a yearly basis to account for inflation.

5.3 Entertainment and Hospitality within and between Ministries

The principles of a justifiable business purpose and moderate and conservative expenditure are particularly relevant here.

5.3.1 Café meetings

5.3.1.1 Café meetings between staff will not be funded. If staff choose to meet in a café, the expense is personal, not business related.

5.3.1.2 Café meetings with external parties can be paid by the Ministry, where it meets the business purposes test.

5.3.2 Staff recognition, team building, retreats and Christmas functions

5.3.2.1 For any event under this category, it should be demonstrable that the event has a justified business purpose and the expenditure is moderate and conservative.

5.3.2.2 Where possible the venue for events under this category should be on-site. If the function must be held off-site, the choice of venue must be appropriate and moderately priced.

5.3.2.3 Approval must be gained before the event from the person holding delegated authority to expend the budget being charged. If the person holding the delegated authority could be a beneficiary, or a perceived beneficiary, of the expenditure, then the HOM will sign-off the event.

5.3.2.4 Low value events, such as morning teas, afternoon teas, and staff events can be approved, provided they aren't frequent, fit within the budget constraint and they follow the principles set out in the Sensitive Expenditure Policy. This applies even when the HOM is also in attendance at the event.

5.3.3 As a guideline, the following catering values are considered appropriate:

5.3.3.1 Staff recognition, team building and Retreats

External Catering - $30 to $35 per person.

5.3.3.2 Christmas and End of Year Functions – based on number of attendees.

- Over 300 staff – $35 per person;
- Between 100 to 300 staff - $40 per person;
- Below 100 staff - $45 per person.
- The number of attendees may include spouses or guests and not simply the number of staff.

5.3.3.3 All catering must:

- Cater for the number of attendees including staff and guests:
- Provide value for money.
- The cost of alcohol consumed by staff will not be funded by the Ministry, as it is socially unacceptable This must be funded either privately or through the social club fundraising.

5.4 Catering by the Ministries Social Clubs

The Ministries Social Club may provide an in-house catering service as per section 5.3.3 by undertaking the following:

5.4.1 Implementing a social club policy that stipulates all catering is to **be performed outside of normal working hours;**

5.4.2 For each catering assignment, record of annual leave by the catering staff taken for the catering duties if performed during normal working hours;

5.5 Donations

A donation is a payment (in money, goods, or services) made voluntarily and without expecting reciprocation.

5.5.1 Ministries are to ensure that:

5.5.1.1 The purpose of the donation is consistent with the business purpose of the Ministry; and

5.5.1.2 The cost of the donation is appropriate in the circumstances.

The principles of preserving impartiality, integrity, and being moderate and conservative are particularly relevant here. Making a donation should not result in any obligation on individuals or organisations, other than to apply the donation to the purposes of the recipient.

5.5.2 Donations are to be:

5.5.2.1 Lawful in all respects, including complying with parliamentary appropriations;

5.5.2.2 Disclosed in aggregate (where required);

5.5.2.3 Appropriately documented;

5.5.2.4 Made to a recognised organization – not to an individual and not in cash;

5.5.2.5 Non – political; and

5.5.2.6 Consistent with the objectives of the Agency making the donation.

5.6 Gifts

5.6.1 Giving gifts

5.6.1.1 The principles of a justifiable business purpose, being moderate and conservative, acting with integrity, and preserving impartiality are relevant here.

5.6.1.2 Giving gifts presents significant risks, including that:

5.6.1.2.1 The value or nature of a gift is inappropriate or excessive to the occasion or the reason for giving it;

5.6.1.2.2 The gift is given in explicit or implicit expectation of favour in return; and

5.6.1.2.3 The gift is given in substitution for legitimate payment or remuneration.

5.6.1.3 The giving of gifts to staff where Ministry contributes in addition to funds raised through contributions by staff is only acceptable in the following circumstances:

5.6.1.3.1 Farewells and retirements for staff with more than five years of service to the Ministry;

5.6.1.3.2 The bereavement of a close family member of a staff member;

5.6.1.3.3 On a staff member's serious illness or accident

5.6.1.3.4 On a staff members death, the gift shall be given to the family. The amount shall be not more than $500.00

5.6.1.3.5 Small token gifts value should not be more than $50 can be gifted to staff on graduation, birth of first child, bestowed with tribal titles.

5.6.1.4 The giving of gifts to external parties or individuals where the Ministry contributes is only acceptable in the following circumstances:

5.6.1.4.1 A meeting, event, or ceremony where the giving or exchanging of gifts is customary. A meeting, event, or ceremony where the giving or exchanging of gifts is customary.

5.6.1.4.2 Any gifts up to and including NZD$100 must be pre-approved by the Director or middle management responsible for the cost

5.6.1.4.3 Gifts with a value above NZD$100 will require the approval of the Head of the Agency/Ministry, or executive officers in the Pa Enua.

5.6.1.4.4 Under no circumstances can gifts given by the Ministry be exchanged for cash by the recipient.

5.6.1.4.5 Gifts for other events (including births, engagements, weddings, birthdays, Easter, and Christmas) will not be funded by the Ministry.

5.6.2 Receiving gifts

5.6.2.1 Although receiving gifts is not a sensitive expenditure, it is sensitive in nature and requires to be managed carefully.

5.6.2.2 It is important that receiving a gift does not affect the Ministry's or an individual's decision making because this could be perceived as acting without impartiality or integrity

5.6.2.3 Cash gifts are unacceptable in any circumstances.

5.6.2.4 The rules apply to gifts:

5.6.2.4.1 Carefully consider whether it is appropriate for the Ministry to accept a gift;

5.6.2.4.2 Record the acceptance of all gifts, except for inexpensive gifts that are openly distributed by suppliers and clients, in a gifts register; Gift registers are the responsibility of the HOM and should be open to review when requested by OPSC and MFEM.

5.6.2.4.3 Treat all gifts that are accepted as the property of the Ministry, to be used for the

5.6.2.4.4 Ministry's direct benefit.

5.7 Communications Technology

All communications technology such as cell phones, telephones, e-mail, and internet must have a justified business purpose and is not exclusively or predominantly for personal use. Modest personal use of this technology is accepted as long as any costs incurred, are recovered where practicable.

5.8 Reimbursements

5.8.1 The Cook Islands Government will promptly reimburse expenses on receipt of a correctly completed Expense Claim Form with receipts attached for all items claimed.

5.8.2 Expense claim form must be signed and approved by HOM

5.8.3 An approved expense claim form with the relevant attached invoices as support must be submitted to the MFEM – Funds Team for the reimbursement to be accepted and processed.

5.9 Monitoring and Review

- Please refer to **A4 Guiding Principles** as part of the monitoring and review for this policy.

Appendix 1: Expense Claim Form

Expense Reimbursement Form

Internal Use Only

Employee Name:	
ID:	
Manager Name:	
Department:	

Expense Period	
From:	
To:	

Business Purpose:

Itemized Expenses

DATE	DESCRIPTION	CATEGORY	COST
		SUBTOTAL	$ -
		Less Cash Advance	
		TOTAL REIMBURSEMENT	$ -

Note: Mileage reimbursement for personal car = $0.77/km

Don't forget to attach receipts!

Employee Signature Date

Approval Signature Date

Expense Reimbursement Form

Appendix 2: Conflict of Interest Register

CONFLICT OF INTEREST REGISTER

*Use the **Conflict of Interest Register** to document all conflicts of interest and actions and decisions taken. As the information contained in this document is private and confidential please ensure steps are taken to protect this document.*

<Ministry/Agency Name>

Date of disclosure	Name or organisation	Nature of conflict of interest	HOM notified Yes / No	Steps taken to address the conflict	Action taken and decision
				Choose an item.	
				Choose an item.	
				Choose an item.	
				Choose an item.	
				Choose an item.	
				Choose an item.	
				Choose an item.	
				Choose an item.	
				Choose an item.	
				Choose an item.	

conflict-of-interest-register-template.docx

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.

3.4 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.

Forward forms to Treasury-MFEM.

REFER TO:

Cook Islands Government

Purchase and Sales of Goods and Services Policy 2016 on **Appendix 2 and Appendix 3.**

4 – Financial Reporting

1.0 Purpose

1.1 Ensure that MFEM provide financial information to Ministries, Pa Enua and Support Offices on a timely basis.

1.2 Ensure that Ministries, Pa Enua and Support 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, Pa Enua and Support Offices through the use of a standard chart of accounts.

1.5 Ensure that all Ministries, Pa Enua and Support 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, Pa Enua and Support Offices.

2.3 Financial Reports are to include those outlined in Attachment 1 and supplied to MFEM when required (monthly, quarterly, six monthly, annually).

2.4 All agencies include SOE who's receiving bulk funding from Crown are required to submit the monthly financials to Crown. "Agency" is a Crown Agency such as a ministry, island administration, or ministerial support office.

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 provided in Unit4 FMIS format, either through an Agency Transaction Report (non-deployed) or Financial Statements (fully deployed)

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. All reports must submitted to Crown to meet the Crown reporting standards and requirements.

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. Agencies can request extensions on deadline submission a maximum three times during the financial year. It is the agencies responsibility to communicate the status of their submission to 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 finished 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 All Balance Sheet items must be reconciled back to General Ledger

3.1.13 From time to time other reports may be requested.

3.1.14 Attachment 3 provides a template for the monthly variance reporting requirements

3.2 Standard Chart of Accounts

3.2.1 Ministries, Pa Enua and Support 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, Pa Enua 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 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 D05 - Year End Accounts Preparation* for guidance.

Attachment 1

Reports Requirement Schedule

Report	Details	Required
Itemized budget	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. Electronic Copy (Excel Version) is also required.	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 For fully deployed agencies, you will comment on any variances between actual and budget (Personnel, Operating, Depreciation, Trading Revenue, ROBOC, POBOC, CAPEX) directly on the Profit & Loss Statement	Monthly
Appropriation Variance Report (non-deployed agencies)	Compares **year to date** budget versus actual expenditure and summarized by • Personnel • Operating • Depreciation • Trading Revenue • ROBOC • POBOC • Capex Explanations for significant differences. Ranking See Attachment 2 Electronic Copy (Excel Version) is also required Signed by the Head of Ministry or Crown Funded Agency.	Monthly
Balance Sheet	A print out from your accounting system and reconciliations on each item	Monthly
Bank Reconciliation (Non – deployed agencies)	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	Monthly
Detailed General Ledger or Datafile	A Year-to-Date Excel spreadsheet detailing all transactions for every account	Monthly
Cashflow Report	Refer to Part D Section 7-Cashflow Management (CIGFPPM)	Annually
Other reports/ letters	Refer to *Part D Section* 5 - *Year End Accounts Preparation* for guidance (CIGFPPM). Refer to Part D Section 20 – Cash Recall Letter	Annually

Attachment 2

Standard Format – an electronic copy will be supplied from Crown team

PROFIT & LOSS
Revenue
Crown Appropriation
Funding from Crown
Funding from Crown
Funding from Crown
Trading Revenue
Trading Revenue
Other Revenue
Interest Received
Gain on Sale of Asset
Donations
Other Income
TOTAL REVENUE
Cost of Sales
Expenditure
Personnel and Employee Benefits
Salaries - Paid by MFEM
Wages - Paid by MFEM
Overtime - Paid by MFEM
PAYE - Paid by MFEM
Superannuation - Paid by MFEM
Allowances
Wages - Paid by Agency
Overtime - Paid by Agency
PAYE - Paid by Agency
Superannuation - Paid by Agency
Higher Duty Allowance
Staff Relocation Costs
Employee Insurance Liability
Annual Leave Accruals
Payroll Accrual Expense
Depreciation and Amortisation
Depreciation on Computer Equipment
Depreciation on Office Equipment
Depreciation on Furniture and Fittings
Depreciation on Motor Vehicles
Depreciation on Plant, Property & Equipment

Depreciation on Buildings & Infrastructure
Amortisation on Intangibles
Depreciation on Renewable Energy
Depreciation on Other Physical Assets

Other Expenses
Office Expenses
Audit Fees
Repairs and Maintenance
Fuel & Oil
Utilities
Freight Expenses
Entertainment
Event Expenses
Professional Services
Staff Expenses
Vehicle Rentals
Meetings & Conferences
Rental Leases
Advertising & Marketing
Security
Sponsorship/Donations/Gifts
Insurance
Bank Fees
Travel Expenses
Expensed Assets
Bad Debts
Doubtful Debts
Other Operating Expenses
Trading Costs
Loss on Sale of Asset
Provision for Legal Settlements
Interest Domestic
Interest Foreign

TOTAL EXPENSES

OPERATING SURPLUS/ (DEFICIT)

Aid Revenue
Aid Revenue from DCD
Aid Revenue Received - New Zealand
Aid Revenue Received - Australia
Aid Revenue Received - China
Aid Revenue Received - Japan
Aid Revenue Received - India
Aid Revenue Received - European Union
Aid Revenue Received - United Nations
Aid Revenue Received - UNEP
Aid Revenue Received - UNESCO
Aid Revenue Received - UN Adaptation Fund
Aid Revenue Received - UNFPA
Aid Revenue Received - Global Environment Fund
Aid Revenue Received - Other Aid Revenue

Aid Revenue from Donors	
Aid Revenue Received - New Zealand	
Aid Revenue Received - Australia	
Aid Revenue Received - China	
Aid Revenue Received - Japan	
Aid Revenue Received - India	
Aid Revenue Received - European Union	
Aid Revenue Received - United Nations	
Aid Revenue Received - UNEP	
Aid Revenue Received - UNESCO	
Aid Revenue Received - UN Adaptation Fund	
Aid Revenue Received - UNFPA	
Aid Revenue Received - Global Environment Fund	
Aid Revenue Received - Other Aid Revenue	
TOTAL AID REVENUE	
Aid Expenses	
Aid Expenses	
TOTAL AID EXPENSES	
AID SURPLUS/ (DEFICIT)	
NET SURPLUS/ (DEFICIT)	

BALANCE SHEET

Assets
Current Assets
Cash and Equivalents
Other Bank Accounts
Other Trust Accounts
Undeposited Funds
Petty Cash

Debtors and Other Receivables
Accounts Receivables
Aid Receivables
Inter-Ministry Receivables
VAT Receivables
Unidentified Receivables
Provision for Doubtful Debts
Dishonored Cheques
Accrued Revenue
Prepayments
Cash Recall
Advances
Crown Receivables
AR Contra Account
AR IM Contra Account

Inventory
Inventory Held for Use
Inventory Held for Sale
Provision for Obsolete Stock

TOTAL CURRENT ASSETS

Non-Current Assets
Fixed Assets
Motor Vehicles Cost
Motor Vehicles Accumulated Depreciation
Furniture & Fittings Cost
Furniture & Fittings Accumulated Depreciation
Plant & Equipment Cost
Plant & Equipment Accumulated Depreciation
Computer Equipment Cost
Computer Equipment Accumulated Depreciation
Office Equipment Cost
Office Equipment Accumulated Depreciation
Buildings & Infrastructure Cost
Buildings & Infrastructure Accumulated Depreciation
Intangible Assets Cost
Intangible Assets Accumulated Amortisation
Land Cost

Other Physical Assets Cost
Other Physical Assets Accumulated Depreciation
Renewable Energy Cost
Renewable Energy Accumulated Depreciation
Work in Progress

TOTAL NON-CURRENT ASSETS

TOTAL ASSETS

Liabilities

Current Liabilities

Creditors and Other Payables

Accounts Payable
Inter-Ministry Payables
Inter-Ministry Payables SOE's
Aid Payables
Excess Trading Revenue
Other Accruals
Accrued Interest
POBOC Liabilities
Rent Received in Advance
Surplus Repayable
Depreciation Repayable
Suspense Account
AP Contra Account
AP IM Contra Account

Employee Entitlements

Salary Accrual Liability
Annual Leave Accrual Liability
Annual Leave Provision
Current LSB Accruals
Sick Leave Provision
Other Employee Entitlements

VAT Payable

VAT Payable
VAT Control

TOTAL LIABILITIES

Equity

Capital Funding from Crown
Capital Funding from Aid
Capital Funding Repayable to Crown
Depreciation Repayable to Crown
Net Surplus Repayable to Crown
Prior Period Adjustments
Retained Earnings
Other Equity Adjustments
Revaluations of Assets
Distributions to the Crown
Transfer of assets from other Crown Entities

Transfer of assets to other Crown Entities	
TOTAL EQUITY	

Attachment 3

Monthly Variance Report Template – an electronic copy will be supplied by Crown team

Appropriation Variance Report

Agency:
Year to Date:

Category	Budget	Actual	Variance	% Var	% Annual Budget	Rank	Comments
Personnel Expense	45,000	33,000	12,000	26.7%	#DIV/0!		
Personnel Accrual	0	0	0	0	#DIV/0!		
Operating Expense	45,678	4,561	41,117	90.0%	#DIV/0!		Comments for Operating Expenses are to be made against the standard chart of accounts
Depreciation Expense	22,500	20,000	2,500	11.1%	#DIV/0!		
Total Expenditure	***113,178***	***57,561***	***55,617***	***49.1%***	***#DIV/0!***		
Trading Revenue	60,000	62,000	2,000	3.3%	#DIV/0!		
Net Expenditure	***53,178***	***(4,439)***	***57,617***	***108.3%***	***#DIV/0!***		
Capital Appropriation	40,000	20,000	20,000	50.0%	#DIV/0!		
Aid Expenses	100,000	90,000	(10,000)	-10.0%			
Aid Revenue	150,000	150,000	0	0.0%			
POBOCs	46,000	40,000	(6,000)	-13.0%	#DIV/0!		Comments for POBOCs can be done on page 2
ROBOCs	12,000	22,000	10,000	83.3%	#DIV/0!		Comments for ROBOCs can be done on page 2

Note:
Data on this page and next page is entered in the grey cells
Negative variances are unfavourable

Rank	Reasons for Variances
1	Phasing Issue. Actuals will come within budget towards the end of financial year
2	Over expenditure. Action is being taken to reduce expenditure during the balance of the year
3	Over expenditure. There is a serious problem. (contact MFEM)
4	This is a real saving

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.

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, 31st July

2.2 The MFEM IPSAS Annual Accounts template **must** be used which Crown team will provide the template to all agencies.

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.

3.2.3 For deployed agencies, check with FMIS team to see if your opening balance have been updated.

3.3 Bank Reconciliation

3.3.1 Ensure all bank accounts are reconciled – this section is only related to non-deployed agencies.

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 Vodafone 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.

Transaction	**Balance Sheet Account**
Agency owes Crown for surplus repayable	Crown Payable
Crown owes Agency 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 FMIS 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 total hours owing by the appropriate hourly pay rate.

3.12.1.4 Enter the amounts into the accounts

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

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 x $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 (Expense) (this may be split by output)
Cr Payroll Accrual (Liability)

3.12.3 Accrue outstanding TOIL owing

3.12.3.1 The Toil component in the "Employee Entitlements Owing" account (Current Liability) should equal the Toil outstanding as at 30 June

3.12.3.2 Ensure the existing Toil accrual has been reversed back to the correct accounts

3.12.3.3 Calculate the amount by multiplying the number of total hours owing by the appropriate hourly pay rate.

3.12.3.4 Enter the amounts into the accounts

Dr Personnel Expenses (Expense) (may be split by output)
Cr Employee Entitlements Owing (Liability)

3.12.4 Accrue Performance Bonus

3.12.4.1 Refer to the C10A Performance Bonus policy

3.13 Accruing Revenue & Expenditure

3.13.1 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

3.13.2 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).

3.13.3 To record accrual of expenditure transactions either:

3.13.3.1 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

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

3.13.4 To record accrual of revenue transactions:

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

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

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

3.14 Bulk Funded POBOC's & Capital

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

3.15 ROBOCs

3.15.1 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)

3.16 General Ledger

3.16.1 Review transactions to ensure they are allocated correctly:

3.16.1.1 Expense type (personnel, telephone etc)

3.16.1.2 Capital or operating

3.16.1.3 Output

3.16.1.4 VAT treatment

3.17 VAT

3.17.1 Refer to *Part B Section 7 - V AT Returns*

3.17.2 Reconcile the Balance Sheet to June VAT return

3.17.3 Identify any reconciling items and explain differences

3.18 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*.

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

3.20 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:

Account	Supporting Documents
Bank	Bank Statement/Bank confirmation
Trade Creditor	Creditor invoices/Statements
Crown Revenue Reconciliations	FMIS Reports
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.

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 Enua 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 Enua 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 1, 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 Driver's 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 for closing the account.

4.2 All funds in the Bank Account to be closed and 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) 29465
Email: russell.hynd@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 Management Act 1996 with specific reference to Section 29.

SIGNATURE OF HEAD OF MINISTRY: ______________________________

Please fill in the following information for account keeping purposes.

<u>DETAILS OF ACCOUNTS:</u>

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)

<u>AUTHORISED SIGNATORIES:</u>

FULL NAME OF SIGNING PERSONS	POSITION HELD	SPECIMEN SIGNATURE

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.

2.2 At the completion of the financial reports, ALL documents (hard and soft copies) and the accounting software (data file) is to be handed to the Crown Manager at MFEM.

2.3 A full audit must be completed for the ministerial office for the period 1 July to the date of the closure of the office bank account. If not completed already, previous years accounts must be audited before the current year audit.

2.4 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.

2.5 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*.

2.6 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.

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 choose to keep a staff member, formal documentation must be submitted to MFEM, in accordance *with Part C10 – Remuneration.*

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 severance 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 may be paid.

3.1.5 Severance payments will not be made until the requirements of Attachment 1 have been satisfied.

3.1.6 The notice period should end 10 working days, or the time allowed for 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 OPSC policy of one month's notice.

3.2 Final Accounts

3.2.1 Accounts must be prepared up to the date of the closure of the office's bank account.

3.2.2 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.

3.2.3 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.

3.2.4 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.

3.3.5 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) <u>before</u> the transaction occurs.

All such expenditure shall be paid through the Treasury Division of MFEM upon submission of appropriate supporting documentation.

3.3.6 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. refer paragraph 3.5.

3.3.7 All severance payments are to be accrued in the final accounts of the Office.

3.3 Cheque Book and Bank Accounts

3.3.1 The bank account of the outgoing minister will be closed by the Treasury Division of MFEM within 5 working days of the date of cessation of the Minister's position. All outstanding invoices thereafter should be certified and forward to the Treasury Division of MFEM for payment against the Office appropriation.

3.3.2 All outstanding invoices should be submitted to the Treasury Division of MFEM within 10 working days for payment.

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 A full fixed (and expensed) asset stock take is required to be performed within 5 working days of date of cessation of the Minister's position. This stock take needs to be verified by the Treasury Division of MFEM and the Audit Office. The reconciliation of this stock take to accounting records (fixed assets register, general ledger, etc) is required to be performed and reflected as the Office's asset position in the final accounts prepared and submitted by the Office.

3.4.2 All assets belonging to the Office are to be surrendered to Audit and MFEM upon completion of the stock take.

This includes (but is not limited to):

- Mobile phones and sim cards
- Laptops
- Office keys
- Vehicle keys
- USBs and external hard drives
- All electronic devises
- Art work, office fixtures
- A copy of the office data file, fixed asset register and all supporting documents

3.4.2 All asset transfers need to be supported and should follow the procedures of *Part B Section 12 and 12A – Asset Transfers to Crown and CIGPC and Asset Transfers to Other Crown Entities*.

3.4.3 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.

3.4.4 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 Supplier Accounts

3.5.1 The Finance Officer (and CEO) must ensure that all supplier accounts (phone, power, stationery, petrol, supermarket, etc) are closed within 5 working days of the date of cessation of the Minister's position.

3.5.2 Outstanding invoices to be submitted to Treasury Management of MFEM within 10 working days for payment. Any invoices received after this timeframe will not be paid from the Office's appropriation.

3.6 Office Security

3.6.1 Treasury Management of MFEM to arrange for the changing of locks to the Office and hold the keys to the new locks until a replacement minister has been appointed. Keys will be made available for the outgoing Finance Officer (and CEO) in their efforts to complete the Office's accounts and attend to audit queries.

3.7 Budget allocations

3.7.1 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.

3.7.2 The incoming Minister's budget will be determined by the amount remaining from the original appropriation after deducting all expenses of the former Minister.

3.7.3 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.

3.8 Funding for Incoming Minister

3.8.1 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.

3.8.2 The phased cashflow is to equal the incoming Minister's budget as explained in 3.7.2.

3.9 All other policies and procedures in the Cook Islands Government Financial Policies and Procedures apply to Ministerial Support Offices at all times.

Attachment 1 - Ministerial Support Office Clearance Checklist

- ✓ Fixed (and expensed) Asset Stock take completed within 5 working days and signed off my MFEM and Audit [refer Paragraph 3.4]
- ✓ All Office assets (fixed and expensed) surrendered to Audit and MFEM within 5 working days [refer Paragraph 3.4]
- ✓ Bank Accounts closed within 5 working days[refer Paragraph 3.3]
- ✓ All supplier accounts closed within 5 working days [refer Paragraph 3.5]
- ✓ Office locks are changed within 5 working days [refer Paragraph 3.6]
- ✓ Final Accounts have been completed (to a standard acceptable to Audit) within 10 working days [refer Paragraph 3.2]
- ✓ Severance payments in line with the requirements of paragraph 3.1

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, Administered Payments 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 31st 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 (Balance Sheet - 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 (Balance Sheet - Liability)

Cr Expenses (Profit & Loss)

Then

Dr Actual invoice

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 3.1 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	-10
	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	+10
	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 MFEM will keep a schedule of all budget items approved to be carried forward to the following year.

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 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 <u>irrespective</u> 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 need 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 updated 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 the Ministry should go through the process of recovering data and find any problems before they are in an emergency the situation escalates further.

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 have a back up and password protected in the same way as the accounting software databases.

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 Administrated Payment "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 staffs 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 20th 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 1st or 20th 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 $5,000 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 and Annual 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*.

3.8.4 Annual Reporting -Refer to *Part D Section* 5 - *Year End Accounts Preparation* for guidance.

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.

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 shall establish a Credit Card limit for any requested Crown Credit card, however this shall not exceed $5,000.

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 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. All credit card expenditure must be supported by original VAT-acceptable documentation that details the transaction's date, value and business purpose and card holder who have incurred the expenditure

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.

3.7 Cards must be destroyed / made unusable and the appropriate providers advised to cancel the card when the card holder leaves employment, term of office expires.

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 <u>personal</u> 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 <u>cross checked</u> with the relevant receipts for Audit purposes.

13 – Stock-takes

1.0 Purpose

1.1 To ensure accuracy of the inventory and fixed assets stock records.

1.2 To verify the value of stock in the balance sheet by physical verification and value stock in terms of costs and potential sales.

1.3 To detect wastage and impairment and put in place processes to reduce or eliminate

1.4 To reveal any weakness for the supervision and control of stock

2.0 Mandatory Requirements

2.1 This Policy and Procedure covers inventory and fixed asset stock takes

2.2 At least 2 people must be part of a stock-take

2.3 Stock takes should be done at least annually (preferably 6-monthly). The 30th of June is a date which needs to be planned for stocktaking.

2.4 The Finance Manager should provide an analysis of variances between stock counts and inventory/fixed assets systems. Losses due to suspected fraud or theft must be referred to the Head of the Agency.

2.5 For Inventory write offs, procedures outlined in Part B Section 16 4.4 must be adhered to.

2.6 For Fixed Assets write offs, procedures outlined in Part B Section 10 3.0 must be adhered to.

2.7 Proper accounting procedures must be applied to account for variances.

3.0 Process

3.1 Coordinating the Stock takes

The Finance Director or Asset Manager is to coordinate the stock takes by liaising with the Manager responsible for Inventories giving consideration to;

a. the final trading dates at year end

b. ability for Auditors to attend stock take.

c. the date of stock take to be on 30 June or as close as possible.

The Finance Director should also liaise with each Division Managers to ensure, fixed assets registers are readily available for stock take.

3.2 Preparing Stock take

The Finance Director should consider the following prior to conducting the physical count;

a. Establishing a cut-off points for receiving and dispatching stock and inter-store transfers. The cut-off points and store closures should be communicated with all employees and parties involved.

b. Training sufficient staff to carry out stock take;

c. Prepare stock list in order that the stock take is likely to be conducted. For Fixed Assets, the fixed Assets register would be the listing to conduct the stock take from.

d. Tidying and arranging stock to minimize or make counting easier.

3.2 Conducting the Count

a. Prepare an inventory list to compare to the physical count. For Fixed assets this would be the Fixed Assets Register.

b. At least 2 people need to be involved in the stock take, preferably two that are independent of the inventory function.

c. Collect all stock sheets when counting is finished.

d. Check that all sheets are accounted for and signed by the person who conducted the count.

e. File all sheets for audit purposes.

f. Do not alter stock for a few days should you need to recount the area.

3.3 Analyzing Stock Results

a. Finance Director/Manager to identify and explain the likely causes of the variance or stock loses.

b. Implement a plan to minimize or eliminate these problems.

3.4 For write – offs, refer to *Part B, Section 10 – Disposal of Fixed Assets* and *Part B, Section 16 – Inventory*, for details.

20 – Operating Contingency Fund

1.0 Purpose

1.1 To establish guidelines for managing the disbursement and replenishment of contingency funds appropriated by Parliament.

1.2 To minimise and eliminate unforeseen emergencies and enables multi- year planning

1.3 To ensure that appropriate research and analysis of contingency expenditure is undertaken before commitments are made

2.0 Mandatory Requirements

2.1 Written approval from the Financial Secretary before submission to Cabinet.

2.2 Cabinet approval through a Cabinet Minute is required for the incurrence of expenditure from the Contingency Fund.

2.3 In a given financial year, Treasury may only disburse Contingency Funds to the extent of the Appropriation Bill.

2.4 The Contingency Fund will cover events resulting in significant costs which were not reasonably foreseeable when the budget was approved and which cannot reasonably be avoided. It **will not** fund:

- 2.4.1 wages and salaries;
- 2.4.2 any aspect of Ministerial Support Office activities;
- 2.4.3 Constituency expenses ; and
- 2.4.4 Capital expenditure.

2.5 MFEM will maintain an annual budget for the Contingency Fund and this may be revised accordingly in future years.

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 purchase/ payment of operating expenditure not included in the Appropriation Bill.

4.0 Process

4.1 Use of the Contingency Fund

4.1.1 All request to the Contingency Fund must be lodged in written form to the Financial Secretary.

4.1.1.1 Areas to cover in written request to Financial Secretary

4.1.1.1.1 Issue
4.1.1.1.2 Options to address the issue
4.1.1.1.3 Proposed option
4.1.1.1.4 Cost implications
4.1.1.1.5 Amount requested
4.1.1.1.6 Impact of funding and non-funding

4.1.2 Upon Financial Secretary approval a formal request to Cabinet should be obtain prior to drawdown from the contingency fund.

4.1.3 Upon Cabinet approval all relevant source documents must be attached to support the draw down from the contingency fund and submitted to MFEM for payment. Required supporting documents should include:

4.1.3.1 Payment voucher;

4.1.3.2 Cabinet minute

4.1.3.3 Invoice/ purchase order

4.1.3.4 Other relevant supporting documents

4.1.4 All expenditures drawn down from the Contingency Fund will be published annually in the annual reports of the Crown.

1 – MFEM Contacts

Website: **www.mfem.gov.ck**

Office of the Financial Secretary

Phone: (682) 22-878 Fax: (682) 29-465
Address: PO Box 120, Rarotonga, Cook Islands

Garth Henderson, Financial Secretary garth.henderson@cookislands.gov.ck
Maria Poila, Executive Secretary maria.poila@cookislands.gov.ck

DIVISIONS

Treasury

Phone: (682) 29-511 Fax: (682) 29-465
Address: PO Box 120, Rarotonga, Cook Islands

Teu Teulilo, Treasury Operations Manager teu.teulilo@cookislands.gov.ck

Funds Management
Terry Piri, Funds Manager terry.piri@cookislands.gov.ck

Crown Accounting
Ana Narovu, Senior Crown Accountant ana.narovu@cookislands.gov.ck

Budget & Planning
Kai Berlick, Budget & Planning Manager kai.berlick@cookislands.gov.ck

Shared Services
Peerui Tepuretu, Shared Services Manager peerui.tepuretu@cookislands.gov.ck

Payroll
Tutu Tavioni, Payroll Supervisor tutu.tavioni@cookislands.gov.ck

Revenue Management

Phone: (682) 29-365 Fax: (682) 29-465 Phone: (682) 31-187 (Aitutaki)
Address: PO Box 120, Rarotonga, Cook Islands

Xavier Mitchell, Treasurer/Comptroller/Controller xavier.mitchell@cookislands.gov.ck

Taxation
Alan Richardson, Deputy RMD Director alan.richardson@cookislands.gov.ck

Customs
Ngapoko Ngatamaine, Chief Customs Officer ngapoko.ngatamaine@cookislands.gov.ck

Statistics Management
Phone: (682) 29-511 Fax: (682) 29-465
Address: PO Box 120, Rarotonga, Cook Islands

Taggy Tangimetua, Manager/Government Statistician taggy.tangimetua@cookislands.gov.ck

Enua Pakitoa, Senior Statistics Officer enua.pakitoa@cookislands.gov.ck

Development Coordination
Phone: (682) 29-521 Fax: (682) 29-465
Address: PO Box 120, Rarotonga, Cook Islands

Mani Mate, Director of Development Coordination Division mani.mate@cookislands.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 1st of July of one year to the 30th 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 economic 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 cash 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 $5,000 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 levy imposed on an individual or a legal entity by a state or a functional equivalent of a state
Taxpayers Funds	The amount of equity the crown has in a Ministry.
Tiers	Tier(s) identify levels/categories of ministry/agency and Pa Enua Operating Appropriation funding as per the Appropriation Bill.
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 consumption tax levied on value added. In contrast to sales tax, 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
Office equipment	5 years
Furniture and fittings	4-10 years
Motor vehicles	5 years
Plant and equipment	5 – 15 years
Intangible Asset amortisation	3 years
Buildings	20 years
Infrastructure Projects	30-40 years
Heavy Machinery	5-15 years
Solar Panels	4 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.

Revenue Type	Revenue Recognition Point
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:

Computer equipment	3 – 4 years
Office equipment	5 years
Furniture and fittings	4-10 years
Motor vehicles	5 years
Plant and equipment	5 – 15 years
Intangible Asset amortisation	3 years
Buildings	20 years
Infrastructure Projects	30-40 years
Heavy Machinery	5-15 years
Solar Panels	4 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, 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 of 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

APPENDIX

REFER TO:

Cook Islands Government

Government Fleet Management Policy (2018)

www.procurement.gov.ck

COOK ISLANDS GOVERNMENT

Purchase and Sale of Goods and Services Policy

(Procurement Policy)

This policy was approved on 4th October 2016

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TABLE OF CONTENTS

ABBREVIATIONS

BTIB	Business Trade Investment Board
CIG	Cook Islands Government
EOI	Expressions of Interest
MFEM	Ministry of Finance and Economic Management
NTT	Notice to Tenderers
PSGS	Purchase and Sale of Goods and Services
RFT	Request for Tender
SOE	State Owned Enterprises
TC	Tender Committee

DEFINITIONS

TERM	EXPLANATION
Agency	means all Ministries, Island Administrations, Crown Funded Agencies and State Owned Enterprises and “Agencies” has a corresponding meaning.
Board	means the Board of Directors established by enactment.
Cabinet	means the Cabinet of Ministers as established by Article 13 of the Constitution.
Central Procurement	means one agency having responsibility for completing procurement activities for another agency or agencies.
Coercive Practice	means impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.
Collusive Practice	means an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.
Conflict of Interest	means a situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.
Corrupt Practice	means the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
Format	means the actual text/content within a tender document but does not include letter heads, style or font.
Fraudulent Practice	means any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
Head of Agency	means the person holding delegated responsibility of a Minister and includes a Chief Executive Officer or a Managing Director of a State Owned Enterprise. Where the purchase and/or sale is for a State Owned Enterprise the Minister may be referred to as the Board of Directors.

TERM	EXPLANATION
Island Government	has the meaning given to it in section 4 of the Island Government Act 2012-2013.
Non-Price	means those benefits, qualities, procedures or systems which are not evaluated using cost alone.
Obstructive Practice	includes (a) deliberately destroying, falsifying, altering, or concealing of evidence material to an investigation; (b) making false statements in order to materially impede an investigation; (c) threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or (d) materially impeding contractual rights of audit or access to information.
Price	means the cost of goods or services evaluated based on budget availability or cost.
Tender Committee	where the purchase and/or sale is for a State Owned Enterprise the Tender Committee may be referred to as the Board of Directors.
Tender Report	means the report to be submitted to the Tender Committee by the tendering agency, including an assessment summary on the procurement process conducted with recommendation for Tender Committee approval.
Tender Secretariat	means the secretariat to the Tender Committee
Tender Team	means the group of people who are responsible for the management of the tender process and includes those people who are specifically responsible to evaluate Tenders.
Quote report	means a report prepared for the purposes of a quote process for purchases over $30,000.

INTRODUCTION

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1 OVERVIEW

1.1 Authority

1.1.1 The policy is made pursuant to section 63 of the Ministry of Finance and Economic Management Act 1995-96 (MFEM Act), and any subsequent legislation that empowers MFEM to issue instructions to ministries and line agencies to ensure compliance with financial disciplines.

1.2 Application

1.2.1 This policy applies to all CIG agencies.

1.2.2 It is recognised that State Owned Enterprises (SOE) may require some adaptation of this policy due to the structure and the commercial nature of their businesses. SOEs are expected to comply with this policy unless otherwise authorised by the Financial Secretary or Gazetted under the MFEM Act.

1.2.3 This policy must be read together with the PSGS Templates Booklet which may be amended from time to time. Templates and sample documentation referred to in this policy are published separately by MFEM and available from time to time on the MFEM website.

1.3 Purpose

1.3.1 This policy is designed to ensure that the Crown conducts all sales and purchases in a uniform manner which is open, transparent and provides value for money for the Crown.

1.4 Mandatory Limits for All Sales and Purchases

1.4.1 The following sets out the monetary (VAT Exclusive) limits with regards to all sales and purchases.

Transaction Type	Estimate Cost / Sale Price	Specific Process
Purchases (Within Agency Budget)	Over $60,000	Tender
	$30,000 – $59,999	Quotations with TC approval
	$1,000 - $29,999	Quotations
Purchases (Outside of Agency Budget)	All	Cabinet
Asset Sales	All Vehicles Other Assets where original cost is over $3,000	Tender or Auction
	Original Cost is under $3,000	Advertise within entity on a first-come first-served basis.

1.5 Authority Levels

1.5.1 This table sets out who may authorise spending for a particular purpose.

Transaction Type	Estimate Cost / Sale Price	Specific Process
Purchases	Up to $30,000	Head of Agency
	Over $30,000	Head of Agency and Tender Committee
Transfer of Agency's operating appropriations	Appropriated operating funding transfer between outputs	Head of Agency
Transfer of operating appropriations	Appropriation to another agency	Transfer not allowed, Head of Agency may pay via MOU up to budget limits
Transfer within Agency's Capital appropriations	All appropriated capital	Financial Secretary with Concurrence of Minister
Transfer of Asset	All appropriated capital	Head of both Agency sign off. Approval by Financial Secretary
Sale of Assets	All sales	Head of Agency

1.6 Delegation of Authority

1.6.1 Heads of Agencies who wish to delegate authority for procurement are to clearly document such delegation in writing in accordance with the law that establishes their Agency and the CIG Public Service Manual.

1.6.2 Documentation for delegated authority should include the following information:

a) The type of transaction authorised, e.g. operating expenditure or capital expenditure;

b) The level of expenditure authorised; and

c) The area of the organisation, or the appropriation, to which the authority extends e.g. Management Accounting Division of MFEM only.

1.6.3 The Heads of Agencies must delegate the appropriate authority in writing to Heads of Divisions (or equivalent), Finance & Purchasing personnel or any other relevant personnel. The law does not authorise the delegation of authority to anyone who is not employed by the Agency.

1.6.4 Members of Parliament or Island Government must not be delegated authority to purchase goods or services. This does not mean that they cannot be consulted or offer advice.

1.6.5 Any payments to the Head of Agency 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.

1.7 Funding

1.7.1 All purchasing must be made from the net total in the relevant Appropriation Act. It is not permissible to top up a capital purchase with operating funds.

1.8 Conflicts of Interest

1.8.1 All public servants must declare interests in writing in any business entity that is seeking public funds by way of tender bid or otherwise to the Head of Agency. See templates available.

1.8.2 All tender bids should be accompanied by a conflict of interest declaration by those representing the bid.

1.8.3 Tendering agencies should ensure that all personnel directly involved in the tendering process must declare any conflicts of interest before the tender is evaluated. In the case of the Head of Agency, declaration should be made to the Public Service Commissioner.

1.8.4 When the Head of Agency believes a conflict of interest arises, or could be seen to arise, the individual affected must remove themselves from the tender situation. Details of all conflicts must also be reported to the tender committee.

1.8.5 When a tender is issued by MFEM, the Solicitor-General (or a nominee of the Committee) will chair the Committee 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.

1.9 Variations to Existing Contracts

1.9.1 When a contract which was entered into as a result of a tender process requires variation which would have the effect of increasing the agency spend by more than 15% of the total spend under the contract or more than $30,000 (whichever is the lesser), the proposed variation must be approved by the tender committee.

1.9.2 When a contract entered into as a result of a quotation process requires variation and the effect of that variation would be to exceed $30,000 in total payments made under the contract, the proposed variation must be approved by the tender committee.

1.9.3 Agencies must provide the following information when requesting an approval:

a) Tender title and Reference number, if applicable;

b) Background information in regards to existing contract;

c) Reasons for variation;

d) Total cost of variation;

1.9.4 A request for variation will only be considered in the following circumstances:

a) where there is an urgent need to proceed with a variation in order to protect life or property; or

b) where there is an urgent need for the variation to be carried out due to unforeseen events; or

c) Market or funding restrictions specifically required by the project and the tender committee is satisfied of the case.

d) when Intellectual Property (IP) owned by one or more supplier is necessary to the success of the procurement process, for example a renewal of a service contract to support existing enterprise software. The Tender Committee may require a review of alternative options or an explanation of the necessity of expenditure prior to approval.

1.10 Central Procurement

1.10.1 A tender or quote process is not required for agencies procuring from the central procurement provided that the agency responsible for the central procurement has complied with this policy.

1.10.2 If goods are to be procured as a replacement for good(s) which are to be disposed of, those replaced good(s) must be returned to the procurement agency at Book Value.

1.11 Fraud and Corruption

1.11.1 All agency staff, tenderers, suppliers, contractors, sub-contractors, service providers or suppliers, and any personnel thereof (procurement parties), must observe the highest standard of ethics during the procurement and execution of CIG contracts including ensuring good governance, accountability and transparency in accordance with standards of fiscal responsibility as required by the MFEM Act.

1.11.2 Government has the right to immediately terminate the procurement process because there has been a breach of ethics by a procurement party who:

a) Has made, caused to be made, received any offer, gift, payment, consideration, inducement, reward or benefit of any kind, which would, or could be construed as an illegal, unethical, or corrupt practice.

b) Is being investigated for a fraudulent practice or is subject of a finding of fraud, or is convicted of a serious criminal offence;

c) Influences the actions of another party by a coercive practice or collusive practice; or

d) Does anything which amounts to an obstructive practice.

PURCHASES OF GOODS AND SERVICES

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2 EXPRESSIONS OF INTEREST

2.1 Expression of Interest Process Requirements

2.1.1 The purpose of an Expression of Interest (EOI) is to explore market availability. EOI may be sought prior to completing a full tender process. The tender specifications documents may have to be revised to include any changes resulting from the receipt of EOI. Any proposed tenderers who submit an EOI must be provided the opportunity to tender.

2.1.2 EOI may be used as a process for creating a list of reputable suppliers. Any method for evaluating and selecting these suppliers must be approved by the Tender Committee.

3 QUOTATIONS

3.1 Quotation Process Requirements

3.1.1 Purchases between $1,000 to $60,000 must follow the quotation process.

3.1.2 At least 3 quotes should be obtained from suppliers of goods and products in the Cook Islands, unless circumstances dictate that fewer quotes are obtainable. Quotations should only be obtained from those genuinely interested in supplying the goods or service.

3.1.3 When it is not possible to obtain 3 quotes, an indication of the appropriate price for the product or service should be obtained from New Zealand (or other relevant suppliers) in order to ensure that the quotation provided represents a fair price for the good or service.

3.1.4 A Head of Agency must authorise any purchase greater than $1,000 where less than 3 quotations are obtained.

3.1.5 Ensure the same instructions/specifications are supplied to all parties furnishing quotations including the VAT component. Ensure that the detail of the quotes is sufficient to be able to make valid comparisons e.g. if freight is included

3.1.6 The following is a list of issues to consider when obtaining a quote. This list is indicative only as each situation is different.

a) Full description of the purchase/sale item including, where relevant, size, weight.

b) Gross Amount.

c) Tax Amount.

d) Delivery date and availability.

e) Condition, if second hand.

f) Warranty conditions.

g) Maintenance.

h) Levies.

i) Freight.

j) Payment requirements – discounts, payment terms and dates.

3.1.7 All quotes between $1,000 and $29,999 must be compared with each other, assessed and approved by the Head of Agency.

3.1.8 All quotes above $30,000 must be approved by the Head of Agency and the Tender Committee:

a) Quotes must be advertised for a minimum of 10 working days to provide a reasonable period of time for potential tenderers both here, outer islands and overseas to submit proposals. Advertisement must be advertised by way of at least 3 different sources of public media services

b) Signed declarations of conflict of interest must be provided by all agency staff members responsible for the quote process and the suppliers providing the quotes.

c) The agency must complete and submit a Quote Report signed by the Head of Agency to the tender committee to obtain approval for their recommended purchase.

d) The Quote Report must provide supporting documentation including:

i. proof of advertising;

ii. signed declarations of conflict of interests,

iii. original copy of quotes; and

iv. the quote document check list.

v. when only one or two quote(s) are obtainable the information about the reasonableness of those quote(s) must be provided with the quote(s) for approval of the Tender Committee.

4 TENDERS

4.1 Tender Committee

4.1.1 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 Crown and the taxpayer receive the best possible value for money.

4.1.2 The Tender Committee consists of the Financial Secretary (or nominee), Solicitor-General (or nominee) and other technical advisors as required, provided that these advisors are not members of the tender committee but act in an advisory capacity only.

4.1.3 Tender Committee members who wish to delegate authority for procurement activities are to clearly document such delegation in writing and which must be kept for record keeping and audit purposes.

4.1.4 MFEM is responsible for providing secretariat support to the tender committee.

4.2 Tender Waiver

4.2.1 If an agency wishes to deviate from the tender process the agency must write to the tender committee to obtain approval for a tender waiver. A waiver will only be considered in the following circumstances:

a) when there is an urgent need to proceed with a project in order to protect life or property; or

b) when there is an urgent need for the project to be carried out due to unforeseen events; or

c) when no tenders have been received for a particular project; or

d) the tender committee is satisfied that there are exceptional circumstances specifically required by the project;

e) when Intellectual Property (IP) owned by one or more supplier is necessary to the success of the procurement process, for example a renewal of a service contract to support existing enterprise software. The Tender Committee may require a review of alternative options or an explanation of the necessity of expenditure prior to approval.

4.2.2 A lack of forward planning by agencies is not an acceptable reason for urgency nor will it be considered an 'exceptional circumstance' for a particular tender project.

4.2.3 If no written approval is provided by the Tender Committee, funding will not be authorised for release.

4.3 Recording

4.3.1 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. All tender outcomes will be published.

4.3.2 All related documentation for the process of the tender will be made available to the Office of the Ombudsman or any other properly authorised investigative office for investigation purposes if requested. All tender processes are subject to review by the Audit Office under the provisions of the Public Expenditure Review Committee Act.

4.4 Confidentiality

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

a) Disclose to any person any official information that has come to the knowledge of the employee in the course of the tender process;

b) 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.

4.4.2 Any member of the tender team that is not a public servant must agree to the above conditions by signing an agreement with the agency before being approved as a member of the team.

4.4.3 The evaluation process and relative documents are confidential. It is at the discretion of the Head of Agency whether to disclose the evaluation process to the tenderers. If it appears to the Head of Agency that he/she may be asked to exercise that discretion the tender documentation should clearly state the evaluation process may be disclosed to tenderers.

4.5 Documentation

4.5.1 Template documentation is available for the preparation of tenders and must be used. If there is a compelling reason why this documentation is not appropriate for the tender you are preparing you should seek Crown Law Office legal advice before obtaining approval from the Tender Secretariat to use other tender documentation.

4.5.2 These documents are:

a) Template Request for Tenders;

b) Contract for the Supply of Products;

c) Contract for Supply of Products and Services;

d) Contract for the Engagement of a Consultant;

e) Contract for Construction

f) Template Tender Report;

g) Declaration of Confidentiality and Conflict of Interest;

h) Document Checklist

i) Self Evaluation Checklist

j) Tender Log

4.6 Electronic Tender Submissions

4.6.1 Agencies may use the electronic tender account to submit their tenders (e-tenders) but must obtain the tender secretariat's approval to use the electronic tender account before advertising the tender.

4.6.2 The agency may allow tenderers to submit their tenders in hard copy.

4.6.3 E-tenders must only be opened on the day of the opening of the tender box. Access to the electronic tender account is limited to ensure integrity, confidentiality and that the tenders are kept secure.

4.6.4 To ensure that e-tenders have been successfully received by the electronic tender account, bidders should ensure that they receive an automatic receipt from the electronic tender account notifying a successful receipt. If a receipt is not received tenderers should contact the contact officer responsible for that tender.

4.6.5 Tender documents must include an approved statement explicitly stating that e-tenders are acceptable to the agency and describing how e-tenders will be submitted.

5 OPEN TENDER

5.1 General

5.1.1 A tender is an invitation to the market to provide offers for the provision of goods and or services. These offers will be evaluated and where appropriate, the Crown will enter into a contract with the successful tenderer.

5.2 Open Tender Steps

5.2.1 The following are the steps which must be undertaken when conducting a tender. Each of these steps is discussed in detail below.

Step 1: Ensure you have an appropriation.

Step 2: Ensure you have delegated authority to conduct the tender.

Step 3: Establish a tender team to manage the tender process and to evaluate tenders.

Step 4: Prepare design and specifications.

Step 5: Prepare tender documentation and contract including legal review.

Step 6: Forward proposed documentation to the tender secretariat for sign off.

Step 7: Advertise tender.

Step 8: Open tender box and ensure tenders comply with the mandatory requirements.

Step 9: Evaluate tenders.

Step 10: Forward proposed award decision to tender committee for sign off.

Step 11: Proceed to award.

5.3 Step One - Appropriation details

5.3.1 Prior to any tendering process taking place, the Head of Agency must ensure funding is available to carry out the completion of the contract or explicitly state that a contract will only be let once funding is available.

5.4 Step Two - Delegated Authority

5.4.1 Prior to issuing any tender process all staff should ensure that they have the appropriate delegated authority in order to do so and also that they act within the limits of that authority. Refer to section 1.6 of this policy for further details.

5.5 Step Three - Tender Team

5.5.1 A tender team must be established to issue, document, manage the tender process, and evaluate tenders. The tender team shall consist of 3-5 members with appropriate expertise, from within or outside the agency, e.g. engineer, technical assistants, financial advisers and/or any other relevant personnel.

5.5.2 The tender team members may change at times during the process but it is recommended that a core membership be maintained throughout the whole process for continuity and consistency. For any project of complexity or length it is important that a person with experience in project management be included to advise on project logistics.

5.5.3 Each tender team member must sign a conflict of interest and confidentiality form declaring any conflict of interests which may, or may be seen as affecting his or her involvement with the tender. If a conflict of interest exists, but the team member is to remain a member, the tender team must record how they will manage conflict of interest. Copies of all declarations and descriptions of how conflicts of interest are to be managed must be kept on the tender file. Any declarations containing possible conflicts should be acknowledged as seen and signed by the Head of Agency.

5.5.4 One tender team member will be appointed as Chair and delegated the responsibility for ensuring procedural integrity and compliance throughout the process. One tender team member will be delegated the responsibility of recording all information and activity relating to the process.

5.5.5 If any Member of Parliament, including Ministers, are involved in the tender or quote, this must be noted by the 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, without bias and will withstand public scrutiny.

5.6 Step Four - Specifications

5.6.1 The specifications are a clear statement identifying what the agency wishes to purchase and outlining what is required from the supplier. For instance:

a) Freight, duty, wharfage and handling and transport. To avoid confusion appropriate Incoterms should be used. Refer https://www.searates.com/reference/incoterms/ for further details and useful terms.

b) Installation or construction requirements.

c) Time frame for expected completion.

d) Detailed design/plan (for civil works construction projects), drawings or photographs (for motor vehicles, machinery and equipment).

e) Quantity listing materials, e.g. cubic metres of cement, number of nails or timber.

f) Quality standards e.g. grade or mix of cement required, hurricane or standard nails, type of timber etc.

5.6.2 The specifications should be prepared by an appropriately qualified person and should be peer reviewed by another suitably qualified person. In addition the grammar, formatting and punctuation should be reviewed by a suitably qualified person.

5.6.3 Check to make sure the specifications in the tender are matched word for word in the contract section.

5.7 Step 5 – Tender Documentation and Contract

5.7.1 The tender documentation must clearly set out the process which will be followed in conducting the tender. It is essential that this is clear and complies with the requirements of this policy in order to avoid litigation risk for the Crown. The tender must contain the mandatory terms discussed below, the proposed form of contract, the specifications of the goods or services which the tenderer is to provide, pricing details and any further information that may be relevant to the assessment, i.e. previous experience as well as how tenders will be evaluated. See Step 9 for tender evaluation procedures.

5.7.2 There are **mandatory terms** for tenders. **Schedule One** contains mandatory tender terms which must be contained in any tender documentation. These mandatory terms are contained in the template documentation which you should use to prepare a tender.

5.7.3 **Template contracts** must be attached to tenders. If the template contracts do not meet your requirements you should seek advice Crown Law who will assist by directing you to the appropriate contracts or drafting a contract for you. The tender evaluation criteria must include a provision for the tenderer to accept the contract terms or to propose amendments.

5.7.4 A standard form should be drawn up that separates the **price** into relevant columns or sections and which matches the specifications. The tender team must be easily able to compare different tenders and understand if there is anything missing or additional in tenders that requires a price adjustment.

5.7.5 All tenders must clearly show the VAT exclusive price, the VAT amount and a total inclusive of VAT amount. All values must be shown in New Zealand Dollar (NZD) currency.

5.7.6 Due diligence questions on aspects of technical and commercial performance must also be included such as history/background of tenderer, similar projects or successful contracts completed, quality of services or materials. It is necessary to gather all the relevant information on functionality/performance, commercial considerations, and technical aspects of the tenderers proposal, in order to assist the agency in ensuring that the right decision is made when choosing the successful tenderer. There should be no limit on the amount of information to be provided.

5.7.7 Evaluation criteria should be determined when tender documents are being prepared and included in the tender documentation. This will ensure that tenderers provide the correct information. Value for money must be integrated into the evaluation criteria otherwise you are free to set whatever criteria you believe will get the best result.

5.8 Step 6 - Tender Committee Secretariat Sign Off Prior to Advertising

5.8.1 Agencies must complete the internal checks and if satisfied, complete the documentation self-evaluation checklist (refer to templates). Documents should be proof read by the agency and at a standard ready for the market. The tender secretariat will review the documents, but is not a proof reader.

5.8.2 All tender documents should be forwarded to the tender secretariat with sufficient time to allow for a complete review. The review should be relatively quick if agencies have followed the policy requirements and used the template documents. Agencies who have not used the templates can expect a longer tender secretariat review time.

5.8.3 The review will ensure compliance with this policy including checks and endorsement of the documentation self-evaluation checklist. All documents will be returned to the agency upon the completion of the review.

5.8.4 Agencies must prepare a tender box, clearly marked "Tenders" with a slot and locked casing for the receipt of hard copy tender proposals.

5.8.5 Agencies must communicate with the tender secretariat to ensure an electronic tender account is made available to receive e-tenders. The tender documents should ensure that tenderers are advised of the availability of an electronic tender account.

5.9 Step 7 - Advertising Tenders

5.9.1 The tender advertisement must include:

a) the name of the agency requesting the tender;

b) the contact person and details (telephone/email) for enquiries;

c) a brief description of the goods or service required;

d) details of where tender specification documents can be obtained; and

e) closing date and time for the lodgement of tender proposals.

5.9.2 All tenders must be advertised for a minimum of 10 working days. This will provide a reasonable period of time for potential tenderers in Rarotonga, the outer islands and overseas to submit proposals.

5.9.3 The request for tender should be advertised by way of at least three (3) different sources of public media services e.g. local newspapers, local television, Ministry notice boards, e-tender subscribers, 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.

5.9.4 The tender advertisement must include heading consistent with tender documentation so that tenderers receive tender documents consistent with the advertisement.

5.9.5 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 via Notice to Tenderers (NTT) to anyone who has expressed an interest and all other potential tenderers. If a tenderer has already submitted a tender, they must be allowed to resubmit the tender for the variation to the specifications. Information can be made available via web, or directly if specifically stated in the tender document.

5.9.6 Agencies must prepare a tender log form to register all parties that collect or request copies of the tender 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 there are any amendments to the tender process.

5.9.7 Agencies must prepare a tender log form to register all parties that deliver or have sent in their tenders. 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 there are any amendments to the tender process.

5.9.8 Negotiations **must not take** place between the tender team and any prospective tenderers during the advertising stage.

5.9.9 When there are queries for clarification about the tender from prospective tenderers the agency must respond to the queries in writing. The agency must make the same information available to all tenderers or potential tenderers by circulating the written response to those who have registered for tender documentation and attached to the tender documentation for those that have not yet collected the tender documentation.

5.10 Step 8 - Opening of Tender Proposals (Manual and Electronic Tenders)

5.10.1 The tender box should be opened as soon as possible after the closing date but in any event no more than two (2) working days after the closing date.

5.10.2 All tender team members present must have completed a conflict of interest and confidentiality declaration before the tender box is opened.

5.10.3 The tender box should be opened only at the tender opening and in the presence of relevant members of the tender team and at least one (1) other witness. Agencies may include as witnesses any one of the following people: Police Officer, Member of the Clergy, MFEM Finance Officer, an Accountant, a Lawyer or a Justice of the Peace.

5.10.4 The tender log form for receiving tenders should be used to verify what is declared from the opening of the tender box. The tender should be opened and the names of each tenderer should be read out. The log form can be filled out by anyone attending the opening other than the person reading out the tender details.

5.10.5 Should any member present identify a possible conflict of interest during tender opening, this should be immediately declared and the declaration form updated before continuing.

5.10.6 The tender team must check the proposals to ensure that tenderers have conformed to the mandatory conditions of tender. Any offer that does not meet the mandatory conditions is non-conforming. Regardless of how attractive the proposal is it should be removed from the remaining evaluation process.

5.10.7 Notification must be sent out immediately to non-conforming tenderers, informing them of the failure of their tender proposal to conform to the mandatory conditions. The letter must 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. The letter should give the non-conforming tenderer 48 hours to respond with reasons for why the tender should be deemed conforming. The letter should also advise that the tender team may accept the reasons or may determine that the reasons do not affect the decision to deem the tender non-conforming and their decision is final and binding.

5.10.8 All conflict of interest forms should be reviewed by the tender team. The Chairman must reiterate the need for confidentiality and if after opening the tender bids conflicts are discovered the tender evaluation should be suspended until the Chairman has disclosed these to the Head of Agency and appropriate action has been taken.

5.10.9 If all tenders received are non-conforming a new tender process must be commenced. The agency should review the tender specifications to ensure it is possible for potential tenderers to comply with the requirements. The agency must advise the tender secretariat of the situation and the plans for moving forward.

5.11 Step 9 - Evaluation of Tenders

5.11.1 Should any member of the tender (evaluation) team present identify a possible conflict of interest, the tender evaluation should be suspended. The Chairperson must disclose the conflict of interest to the Head of Agency who will decide how the conflict of interest will be managed. The declaration form and explanation about how the conflict is to be managed must be recorded before the tender evaluation continues.

5.11.2 Tender Compliance

a) The most critical part of the evaluation of tenders is ensuring that bids fully meet the specifications of the tender. The tender evaluation team is responsible for ensuring that there is fair comparison of tenders.

b) When the tender documents allow, tenders may be accepted for only part of the full tender specification.

c) The tender evaluation team has the right to disqualify tenders which do not meet the specifications or do not offer to complete the full requirements of the tender. The disqualification is binding and no discussion will be entered into.

d) The tender evaluation team has the right to alter tender prices where appropriate in order to properly meet the specifications of the tender. This should be achieved through using qualified estimates of cost. If there are no tender prices made the tender should be marked non-compliant and disqualified. The disqualification is binding and no discussion will be entered into. A full justification for any price adjustments must be recorded in the Tender Report.

5.11.3 Evaluation Criteria

a) Tenders must be evaluated using the weighted scoring method. This method requires the assessment and grading of identified factors resulting in a score, usually out of 100 or 1000.

b) 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 companies.

c) 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 assessed.

d) If an agency has provided a contract with the tender documents, the tenderers acceptance of the terms of that contract must be assessed and weighted positively. A tenderers non-acceptance of the terms of the contract by making any amendments to the terms must be assessed and weighted negatively.

5.11.4 Short Listing

a) Short-listing may be required for more complex purchases or where a large number of tender proposals are received. If the need to short-list eventuates, the process as outlined in the tender documentation must be followed to ensure a fair and just selection of short-listed tenderers has been conducted.

5.11.5 Tender Proposal Evaluation

a) The tender proposals (or copies) may be handed out to the evaluation team members after the tender box opening. Evaluation team members should be given enough time to review bids before assigning views.

b) If the tenders are not to be evaluated immediately after the tender box is opened, a date, time and venue should be decided upon for the tender (evaluation) team to meet to evaluate the tenders. The evaluation of tenders should only be conducted after the Tender Compliance is completed.

c) The tender documents must be made available to the evaluation team members as soon as possible or at least 24 hours prior to the evaluation process beginning. This allows the tender (evaluation) team members the opportunity to familiarise themselves with the process and tender documents. A set of these documents must also be made available during the evaluation.

d) The evaluation process is a very sensitive procedure and must be conducted in strict confidence with minimal interruptions in preferably a private location.

e) Limited access to any tender must be applied at all times. The original tender must be made available during evaluation for cross-reference or verification purposes. Tenders are confidential for the duration of the tender process.

f) Tenders can be distributed confidentially in either electronic or hard copy.

g) A member of the tender (evaluation) team should officially introduce the other evaluation team members to the process and hand out the necessary documentation required for the purpose of evaluating the tenders. The evaluation team members must be reminded of their obligations and informed on how the evaluation will commence.

h) The evaluation team members have the right to request further information or clarification on any areas, whether relating to the tenders or relating to the evaluation. The tender team should be available to provide any clarification sought.

i) The evaluation team members may discuss openly any aspects throughout the process.

j) At the completion of the evaluation for each tender, the chair of the evaluation team shall collect all documents from each member and make note of any recommendations.

k) A Tender Report, endorsed by each member of the evaluation team must be completed and submitted with recommendations, for the attention of the respective Head of Agency.

l) The tender that is the lowest (for purchases) may not always be the preferred tender but a comprehensive justification for why they are not preferred must be documented in the Tender Report.

m) The Head of Agency must endorse the evaluation recommendation prior to it being sent for Tender Committee review.

n) The evaluation of tenders should be conducted by applying only the evaluation criteria notified to the tenderers in the tender documentation. Under no circumstances should the evaluation criteria be amended from those provided to the tenderers outlined in the tender documentation.

o) The tender evaluation team must assign a score to each tender that has been deemed compliant. Tenders should be scored in respect of each of the elements in the evaluation criteria stated in the tender document and must use a 'Weighted Scoring' method to ensure that Value for Money (VfM) is achieved, for example:

Criteria	Weight %	Tender 1	Tender 2	Tender 3
Non-Price Criteria				
1. Locally established company Locally supplied resources (labour and/or materials)	5	5	0	5
2. Acceptance of contract terms	5	5	5	5
3. Relevant skills	10	3	3	10
4. Past Performance	5	2	5	5
5. Technical Skills	10	4	5	10
6. Resources	5	2	5	5
Total Non-Price Elements	**40**	**21**	**23**	**40**
Price	60	30	40	25
TOTAL WEIGHTING	**100**	**51**	**63**	**65**

p) Tender 3 scored the highest margin in comparison to the others. Although Tender 3 did not score the highest in the price criterion it gained the highest non-price score for this tender.

q) The assignment of weightings is based on the following principles:

i. The items that reflect the critical elements of the project will be assigned a weight

ii. Weightings will reflect the relative importance of each criterion

iii. Scores will be based on the information provided in the submitted Tender

iv. Non-price criteria will not have a value exceeding 50% unless justification for assigning a higher amount is provided and approved by the tender secretariat with Crown Law advice during section 5.8 (Step 6) of the tender process.

v. All tenders must include the following evaluation criteria: Locally established company/locally supplied resources (labour and/or materials), compliance with contract terms and price unless approved by the tender secretariat with Crown Law advice during section 5.8 (Step 6) of the tender process.

r) The price should be scored without consideration of any non-price criteria.

s) The tender evaluation team should conduct a risk assessment for each tender submitted. This will identify the most significant risks presented by the tender and consider the likelihood of the risk occurring; the consequence of that risk; and a risk mitigation strategy. In conclusion, the mitigated risk will be determined to form an overall measure of the risk represented by each tender. The risk mitigation strategy may include the inclusion of specific clauses in the executed contract. Therefore, a Tender considered to be High Risk might still be selected subject to the Tenderer's willingness to accept the proposed contract amendments.

5.12 Step – 10 - Tender Committee

5.12.1 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:

a) Cover letter outlining tender with reference to Cabinet minute endorsing purchase of good/service, if required;

b) Completed Document Checklist

c) Tender Report;

d) Completed Declaration of Confidentiality and Conflict of Interest forms

e) Completed Self-Evaluation Checklist

f) Tender Specification Document;

g) Any notices or correspondence entered into with tenderers

h) Copy of Advertisements of Tender in all media used;

i) Copy of Advertisements to confirm content and placement requirements (step 7)

j) Tender Log (Registered Interest Log and Received Tenders Log);

k) Original copy of Tender proposals received;

l) Site visit report (only applicable if a tender is for works to be carried out in the Outer Islands);

m) Any additional information as deemed relevant by the Agency.

5.12.2 To ensure a timely and effective review of tenders, the following documentation should be submitted to the tender committee:

a) The completed Tender Report with justifications and supporting documentation attached.

b) A comprehensive justification if the lowest evaluated and responsive tender is not the preferred tender.

5.12.3 The tender committee may request any further information or other supporting documentation pertaining to the tender that would assist the tender committee in delivering a favourable review.

5.12.4 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.

5.12.5 The Tender Documents will be reviewed for completeness and adherence to the policy by the tender secretariat. This process will take approximately (5) working days. As soon as practicable thereafter the tender documents will be submitted to the tender committee with a commentary from the Tender Secretariat. The Tender Secretariat has the right to request further information from the tender team as required to ensure that the tender committee is adequately informed.

5.12.6 The tender 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 from the Tender Secretariat.

5.13 Step 11- Awarding of the Contract

5.13.1 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 immediately notified in writing, by the agency of their success or failure in being awarded the tender.

5.13.2 If approved by the tender committee, contract and/or post-offer negotiations may take place. Approval will not be given unless there is sufficient justification and this condition has been allowed in the tender documentation.

5.13.3 All tenders must be published on the CIG Procurement portal. Publication must include the successful tenderers' name and the title of tender. It is the agency's responsibility for ensuring that the correct and final information is provided to the Tender Secretariat to publish on the procurement website. Publication information must include:

a) The tender reference ID number provided by the tender secretariat

b) Title of Tender Project

c) Quarter Contract Signed

d) Type of tender conducted i.e. Open Tender or Closed Tender

e) Name of tendering agency

f) Name of successful tenderer

g) Bid price amount (VAT Exclusive)

6 CLOSED TENDER

6.1 General

6.1.1 A closed tender is a tender which is only available to certain parties which the agency has selected to provide a response.

6.1.2 A closed tender must follow the same steps required for an open tender process (refer to section 5) with the exception of only advertising to certain parties first approved by the Tender Committee Consent requirement as per section 6.2 below.

6.2 Tender Committee Consent

6.2.1 A closed tender process cannot be undertaken without the prior approval of the tender committee. In making the request to conduct a closed tender, information on the following must be provided to the Tender Committee:

a) Why an open tender cannot take place.

b) Budget/funding allocation; and

c) List of suppliers which will be invited to tender.

6.2.2 Acceptable circumstances for undertaking a closed tender must include either one or more of the following:

a) Emergency situations that may adversely and unduly affect life, health or property.

b) Restricted supplier market locally or specialist or single service provider on island e.g. Bluesky Cook Islands – only one supplier for telephone systems when supplying telecommunication services.

c) Restricted number of organisations who provide support, engineering or maintenance services.

d) A list of reputable suppliers with established working relationships with government exists (updated as required) and has been lodged with the tender committee.

6.2.3 The maximum number of suppliers to be approached during a closed tender depends on the technical nature of the product/project.

6.2.4 The tender committee will report on their findings as soon as practicable after the receipt of all the required documentation depending on the technical nature of the product or project.

7 RELEASE OF INFORMATION

7.1 General

7.1.1 Tenderers are entitled to the release of their tender evaluation report on request.

7.1.2 Request for evaluation report of other tenderers must be processed under the Official Information Act 2009.

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SALE OF GOODS

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8 SALE REQUIREMENTS

8.1 Recording

8.1.1 Details and all related documentation for the process of all sales must be labelled and filed clearly, and made available for inspection, review and audit.

8.1.2 All related documentation for the process of sales will be made available to the Office of the Ombudsman for investigation purposes if requested. All documentation is subject to review by the Audit Office under the provisions of the Public Expenditure and Review Committee Act 1995-96.

8.2 Confidentiality

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

a) Disclose to any person any official information that has come to the knowledge of the employee in the course of the sale process;

b) 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.

9 SALE BY TENDER

9.1.1 The following are the steps which should be undertaken when conducting a sale by tender of any agency assets.

Step 1: Ensure you have delegated authority to conduct the sale tender.

Step 2: Prepare asset for sale

Step 3: Obtain a valuation of the asset.

Step 4: Decide a reserve price.

Step 5: Advertise.

Step 6: Open tender box and evaluate tenders.

Step 7: Proceed to award.

9.2 Step 1-Delegated Authority

9.2.1 Prior to issuing any tender process all staff should ensure that they have the appropriate delegated authority in order to do so and also that they act within the limits of that authority.

9.3 Step 2 - Prepare Asset for Sale

9.3.1 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).

9.4 Step 3 –Valuation

9.4.1 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.

9.5 Step 4 – Reserve Price

9.5.1 After obtaining the valuation a decision on any reserve price (or any other conditions) should be confirmed and recorded in writing

9.6 Step 5 - Advertising

9.6.1 Advertising will depend on the original purchase value of the items being sold as defined in section 1.4 of this policy.

9.6.2 The advertisement must include: the name of the agency offering the tender, the contact person and 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.

9.6.3 All goods being sold must be advertised for a minimum of 10 working days.

9.6.4 The advertisement must include the wording "highest or any tender not necessarily accepted" so that all tenders can be refused if none meet the reserve decided in section 9.5 above.

9.6.5 Tender box requirements are the same as for the purchase of goods, refer section 5.8.4.

9.7 Step 6 - Opening of Tender Proposals

9.7.1 All tenders should be listed as opened with the tenderers name and the amount offered.

9.7.2 The selection of the successful tenderer decided upon by agency will be able to withstand scrutiny if the evaluation process is conducted effectively.

9.8 Step 7 – Award of sale

9.8.1 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).

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

9.8.3 Should the highest tender be less than 70% of the market value of the asset being disposed of, the agency should re-advertise the asset and all efforts must be made to ensure a sale price of not less than 70% of the market value of the asset.

9.8.4 Please note Part B of the CIG Financial Policies and Procedures Manual with regards to the treatment of sale proceeds applies.

10 SALE BY AUCTION

10.1 Mandatory Requirements

10.1.1 Cook Islands Government may run an auction of goods for sale only if requested by the Financial Secretary.

10.1.2 Information required for Financial Secretary approval:

a) Description (including age, condition and book value) of items being sold

b) Proposed auction process

c) Proposed reserve prices

10.1.3 General principals outlined in this policy must be followed in any auction process.

PROCUREMENT COMPLAINTS

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11 COMPLAINT PROCESS

11.1 General

11.1.1 This policy is designed to ensure accountability and transparency across all Governments purchases and sales by providing guidance on how to manage complaints.

11.1.2 Government suppliers and potential suppliers have the right to approach the tendering agencies directly to have their concerns about a procurement process considered and investigated. All efforts to resolve a concern with an agency should be made before a formal complaint is made.

11.1.3 Agencies must allow this right and investigate complaints fairly, impartially and promptly. Agencies must not allow complaints to affect any other current or future opportunities with any government agency.

11.2 Documentation

11.2.1 Template documentation is available for complaints and should be used. These documents are:

a) Complaints Form

b) Complaints Register

11.3 Mandatory Requirements

11.3.1 All complaints regarding tenders must be dealt with in the manner set out in this policy. The process must be conducted in a manner that is honest, ethical and fair to all the stakeholders involved.

11.3.2 The Complaints Form as provided in the templates must be completed correctly before a complaint can be acknowledged. All complaints should first be lodged with the agency and if a complainant is not satisfied with the process or handling of their complaint, then they can refer the matter on to the Tender Committee and then to the Ombudsman if required.

11.3.3 Where the complainant is also an unsuccessful bidder then the response should include a summary report on issues and possible improvements that could be made to their respective tender submission.

11.3.4 A Complaints Register should be maintained and published. The register should be in the form of the template provided.

11.3.5 All documentation of the complaints process must be kept on file for inspection or review and audit verification purposes.

11.4 Formal Complaints Process

11.4.1 The following are the steps which must be undertaken when lodging a complaint.

Step 1: Lodging a complaint with the Agency

Step 2: Lodging a complaint with the Tender Committee

Step 3: Lodging a complaint with the Office of the Ombudsman

11.5 Step 1 - Lodging a Complaint with the Agency

11.5.1 Complaints must be lodged using the Complaints Form (refer to templates) and should be sent to the agency who issued the tender.

11.5.2 Upon receiving a complaint the agency in charge must issue a confirmation of receipt to contact details provided in the form.

11.5.3 Within two (2) working days the agency must issue an acknowledgement on behalf of the agency which will include a reference number and information on the proposed review action.

11.5.4 Should an extended period of time be required to address issues raised, the complainant will be advised in writing about this requirement.

11.5.5 The agency's final decisions and outcome will be provided to the complainant in writing and will incorporate details of the assessments undertaken and conclusions reached. The agency must advise the complainant that if they are not satisfied with the outcome or handling of the complaint they can refer this matter to the tender committee. The case will then be closed.

11.5.6 A Complaints Register should be kept by the agency (refer to templates).

11.5.7 De-brief meetings with unsuccessful tenderers are encouraged to minimise and eliminate complaints.

11.6 Step 2 - Lodging a Complaint with the Tender Committee

11.6.1 Complaints must be lodged using the Complaints Form (refer to templates) and should be sent to the tender committee.

11.6.2 Complaints should include copies of correspondence to show compliance with the process in clause 11.5 above as the Tender Committee will not consider complaints until they have been first determined by the agency.

11.6.3 Upon receiving a complaint the tender committee secretariat is required to issue a confirmation of receipt to contact details provided in the form.

11.6.4 Within three (3) working days the tender committee secretariat is required to issue an acknowledgement letter of response on behalf of the tender committee which will include a reference number and information on the proposed review action.

11.6.5 Should an extended period of time be required to address issues raised, the complainant will be advised in writing about this requirement.

11.6.6 The Tender Committee's final decision will be provided to the complainant in writing and will incorporate details of assessments undertaken and conclusions reached. The Tender Committee must advise the complainant that if they are not satisfied with the outcome or handling of the complaint they can refer it to the Office of the Ombudsman. The case will then be closed.

11.6.7 A Complaints Register should be kept by the Tender Committee (refer to templates) and published quarterly on the procurement website.

11.7 Step 3 - Lodging a Complaint with the Office of the Ombudsman

11.7.1 Upon receiving a complaint the Office of the Ombudsman must issue a confirmation of receipt.

11.7.2 Within two (2) working days the Office of the Ombudsman must issue a formal response to the complainant which will include a reference number and information on the proposed review action.

11.7.3 Should an extended period of time be required to address issues raised, the complainant will be advised in writing about this requirement.

11.7.4 The Ombudsman's final decisions and outcome will be provided to the complainant in writing and will incorporate details of assessments undertaken and conclusions reached.

11.7.5 A Complaints Register should be kept by the office of the Office of the Ombudsman (refer to templates) and published via the procurement website. The case will then be closed.

SCHEDULE ONE

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12 MANDATORY TENDER REQUIREMENTS FOR PURCHASES

12.1 Mandatory Terms and Conditions

12.1.1 There are terms and conditions that must be contained in all tender documents. These terms are all contained in the template documentation which you should use when preparing a tender.

a) Cover sheet containing basic information – tender title, tender reference number, name of tendering agency, date release.

b) The name of the agency responsible for the tender must be clearly stated.

c) The venue for lodgement, date and time for closure of acceptance of Tenders.

d) It is the tenderer's responsibility to ensure that their proposal reaches the designated venue by the specified date and time.

e) Tenders must be completed in the format contained in "Attachment #". If offers do not comply with the format contained in Attachment #, they will be deemed non-compliant and may not be accepted.

f) It must be clearly stated that all tenders and related documentation may be presented in the English or Maori language. Tenders in Maori must be translated into English.

g) It is the tenderer's responsibility to carry out any site visits in order to assess the true costs to complete the project where necessary.

h) It must be clearly stated whether tenders will be accepted for all or part of the specifications listed for the tender. The specifications may include statements such as: 'The Tenderer must tender to provide services or supply materials for the whole 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.'

i) Notes the need for compliance with Business Trade and Investment Board (BTIB) requirements. "In order for foreign companies to carry on business in the Cook Islands, an application must be made to the Business Trade and Investment Board for registration as a foreign enterprise. Any fees associated with the registration are to be covered by the tenderer."

j) A template for costing and other details should be prepared for tenderers to complete and submit. This will ensure that the tenderer submits the required information and that all tenders are consistent for the purposes of evaluating the tenders.

k) Whether electronic and hard copy, or electronic only or hard copy only tenders are permitted.

l) Negotiations will not be permitted between the tender/evaluation team and any prospective suppliers during the advertising period.

m) Information on how the tender will be assessed and how the successful tenderer will be chosen must be included.

n) The tender documents must include, if applicable, a request for details of financial or contractual requirements that the tenderer will apply if awarded the tender.

o) If there is likely to be a short listing of tenderers, then terms and conditions for this process must be clearly stated.

p) The process for informing the successful tenderer must be clearly stated.

q) The process for informing unsuccessful tenderers, if applicable, and a statement that they have the right to make a complaint under the complaints process must be stated.

r) There must be a statement of the agency's intentions to contact referees, competitors or customers to enquire about the performance of the tenderer.

s) Tenderers are entitled to the release of their evaluation report on request. Any requests for evaluation reports of other tenders must be processed under the Official Information Act 2009.

t) 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 Agency, or any other member or organisation that may have an involvement with any aspect of the tender process.

u) Tenders must be inclusive of freight landed in Rarotonga (or the relevant island) for ease of comparing local and overseas tenders.

v) At the conclusion of the tender process the outcome must be published on the procurement website showing the names of the successful tenderer.