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INTRODUCTION

We have completed our audit of The Consolidated Fund for East Timor (CFET) for the financial year ended 30 June 2006 and have issued our audit report with qualifications relating to the events that effected the operations of the Treasury as a result of the civil disturbance during the year.

Scope and responsibilities

We conducted an independent audit of the financial report in order to express an opinion on it to the President and Honourable Members of the National Parliament of Timor-Leste. Our audit was conducted in accordance with International Standards on Auditing in order to provide reasonable assurance as to whether the financial report is free of material misstatement.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements. Our audit also included assessment of the accounting principles used and the significant accounting estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

The Ministry of Planning and Finance, Office of the Treasury is responsible for preparing a financial report that presents fairly the financial position and performance of the government and the consolidated entity. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Independence

We are independent of the Ministry of Planning and Finance, Office of the Treasury, and we have met the independence requirements of the International Federation of Accountants ("IFAC") Code of Ethics for Professional Accountants.



EXECUTIVE SUMMARY

Key Financials

The Government of the Democratic Republic of Timor-Leste's Consolidated Fund of East Timor ("CFET") recorded total revenues of US \$63.30 million for 2006 compared to revenue of US \$288.48 million in the 2005 financial year, representing a decrease of US \$224.35 million. The main reason for this decrease in revenue is the establishment of the Petroleum Fund of East Timor ("PFET") on the 4 August 2005 and the diversion of all Timor Gap tax revenue from the CFET into this fund. There has also been a substantial reduction in the donor funding from US \$34.20 million last year to US \$0.97 million during the current financial year.

Total expenditure incurred during the year amounted to US \$115.97 million compared to the previous year of US \$80.26 million, representing an increase of approximately 44.5% over 2005. As indicated in the table below, the increase relates to all areas of expenditure with the capital expenditure increase most significant at 162.1% in the 2006 year.

In total, the Government's CFET recorded a deficit of US \$52.67 million in 2006, in comparison to a surplus of US \$208.22 million in 2005.

Summary of financial performance, for the Whole of Government (in millions of US\$):

Item	2006	2005	%Change
Revenue	63.30	288.48	-78%
Less expenditure:			
Salaries	26.29	25.57	3%
Goods and Services	57.93	42.58	36%
Capital	31.75	12.11	162%
Total expenditure	115.97	80.26	44.5%
Surplus (deficit)	(52.67)	208.22	

As at 30 June 2006, the CFET held cash and cash equivalents totalling US \$116.62 million (30 June 2005 US \$348.10 million). Of these funds an amount of US \$94.58 million was held with the Banking and Payment Authority ("BPA") of the Democratic Republic of Timor-Leste while an amount of US \$21.26 million was held with other local commercial banks. It is our understanding that the BPA has the responsibility for the control and investment of the funds held with the bank. Outstanding commitments recognized by the Government at 30 June 2006 totalled US \$46.32 million (30 June 2005 US \$19.51 million).

Audit report modifications

Our audit report is qualified with respect to the impact of the civil disturbance on the domestic revenue collection and the unauthorised removal of unallocated stores from the government warehouse. We have also clarified the scope section of the report to reflect that our audit was directed at verifying the amounts deposited to and paid from the relevant bank accounts of the Consolidated Fund of East Timor. In addition, further explanation was included regarding our audit not covering off on completeness of electricity charges revenue.



EXECUTIVE SUMMARY (CONT'D)

Key audit findings

Our audit for the year ended 30 June 2006 disclosed a number of other matters, which are appropriate to be brought to your attention, and are included in the accompanying report.

Some of the more important items highlighted during our audit are as follows:

- As from the 4 August 2005, with the establishment of the Petroleum Fund of East Timor, all revenue from the Timor Gap Tax revenue monies is being diverted into the fund. The Timor Gap revenue for the month of July 2005 was however received into the CFET;
- There has been a substantial increase in the amount of carry forward liabilities compared to the previous year;
- There appears to be accelerated expenditure in the last month of the financial year;
- Instances were noted where the procurement for fuel was not in accordance with the procurement manual;
- The review of the bank reconciliations noted a number of long outstanding unreconciled items;
- Monies collected and recorded as revenue by Treasury are not reconciled with the revenue recorded in many of the various individual Agencies including between the ETRS Domestic Tax revenue system and Treasury records;
- It is of concern that the revenue function in Treasury is understaffed with a limited number of trained individuals who could provide adequate back up for the revenue officer;
- We noted during the financial year the deficiencies in the invoicing system in use by the Power Service, remained as in previous years although the a new invoicing system was implemented in July 2006;
- In the area of payroll, we noted there was no reconciliation between the payroll system ("CHRIS") and the general ledger records;

Please refer to the attached schedules for further details regarding our most important audit findings.

We acknowledge that the Democratic Republic of Timor-Leste has had some difficulties in maintaining its operations as a result of the civil disturbances that occurred during the financial year. We further understand that the government is continuing to develop its financial policies and procedures which is a significant task for a new government, particularly with the declining level of international staff assistance provided during the period.

We are also pleased to note that a number of significant improvements have recently been made to the Government's accounting processes. In particular, we note the following issues arising out of the 2005 audit which have been addressed by the Government in the intervening period:

- Despite the civil disturbances during the financial year, the Treasury payroll section has continued to maintain their system of internal controls with respect to ensuring that payroll transactions are appropriately authorised;
- The Power Services has addressed the problems identified with their invoicing system by the increased use of prepaid meters and the installation of a new invoicing system in July 2006.



MATTERS ARISING

The following schedules set out further details of issues arising from our audit. A number of the issues identified were also raised in the prior year. We have colour coded our priority ratings to enable major weaknesses to be easily identifiable. The key to the colour ratings is listed below the matters arising.

Schedule	Audit Issue	Rating	Issue Raised in Prior Year
1	Commitments and carry forward liabilities		
	1.1. Review the policy on carry forward liabilities	A	
	1.2. Unexpended carry forward liabilities from previous financial years	A	
2	Budget execution		
	2.1 Budget execution not consistent throughout the financial year	C	
3	Procurement for fuel		
	3.1 Procurement of fuel for generators	B	
	3.2 Payments to employees for fuel for vehicles	B	
4	Bank Reconciliations		
	4.1 Long outstanding reconciling items	B	✓
	4.2 Cheque signatories to be updated	B	
5	Payroll		
	5.1 No reconciliation between Freebalance and payroll system	B	
	5.2 Time sheets not being utilised appropriately	C	
6	Revenue		
	6.1 Treasury revenue reports not reconciled to Agencies revenue records	A	✓
	6.2 Treasury revenue function understaffed	B	
7	Asset Register		
	7.1 Asset Register not maintained adequately	B	✓
8	Power Authority		
	8.1 Integrity of PIMS Invoicing System	B	✓
	8.2 Power revenue records not reconciled with Treasury reports	B	
9	Payments		
	9.1 Supporting documentation not available	B	

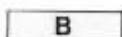


10	Procurement		
	10.1 Procurement not in accordance with the procurement manual	B	√
	10.2 Filing system for procurement	C	
11	Unallocated Stores inventory		
	11.1 Unallocated stores inventory not updated	A	

Ratings



A major weakness that you must address soon.



An important matter that will significantly improve the control environment, the accounting system or the operations of the business.



A minor weakness that you should nevertheless address to improve the control environment, the accounting system or the operations of the business.



GENERAL

The comments made above do not imply any lack of integrity or honesty on the part of the management committee and employees of the government. We have received comments on our management letter from the management and they are incorporated in this report.

As part of our audit procedures, we considered the Treasury's system of internal control to establish the level of our reliance on the system in determining the nature, timing and extent of other auditing procedures necessary to enable us to express our audit opinion. This work is not primarily directed towards the discovery of weaknesses or the detection of fraud or other irregularities and should not, therefore, be taken to assure that no other weaknesses exist. Accordingly, the comments in this letter refer only to those matters, which have come to our attention during the course of our normal audit work and do not attempt to indicate all possible improvements, which a special review might identify.

We wish to take this opportunity to thank you and your staff for the assistance given to us during the course of our audit.



DETAIL SCHEDULES

1 Commitments and carry forward liabilities

1.1 Review the policy on carry forward liabilities

Issue: There is a need to review the policy on the carry forward liabilities as it appears that the majority of the commitments do not have any identified vendors at the end of the financial year.

Observation / Effect: The assessment of the carry forward liabilities indicated that as at the 30 June 2006, of the total carry forward liability balance of US \$46.3 million, an amount of US \$29 million represented commitments for which there were no contracts or vendors recorded. It also appears that many of these commitments have not been executed through the financial year.

Where majority of commitments are taken up and there are no identified vendors or contracts against the commitments, there is a concern that these commitments are being rushed through just to ensure that the funds are allocated prior the end of the financial period.

This will also have an effect on the budgetary control over expenditure as once they are taken up as commitments, there is no longer the Freebalance controls relating to budgetary funding allotments.

Recommendation: We recommend that the process of taking up commitments and carry forward liabilities is reassessed to determine whether or not these uncommitted funds at the end of the year should be reallocated in the new budget.

Management Response: We do agree with the recommendation and can look into stage budgeting in multiple fiscal years.

Audit Conclusion: We are satisfied that Treasury recognises the need to review procedures relating to commitments and carry forward liabilities and we will review it again at the next audit.



1.2 Unexpended carry forward liabilities from previous financial years

Issue: It was noted that the carry forward liabilities includes outstanding liabilities from the 2003, 2004 and the 2005 financial years that have not been expended as at the 30 June 2006.

Observation / Effect: There is a question as to whether these amounts should be reassessed for validity as commitments if they have been outstanding for such lengthy periods.

Furthermore, including outstanding liabilities from previous years in 'carry forward liabilities' could become confusing if they are not clearly identified against the specific expenditure projects.

Recommendation: It is recommended that where the outstanding commitments have been outstanding for lengthy periods, the commitments should be reviewed to assess whether they are still valid and where they are no longer valid commitments, they should be written back.

Management Response: The obligations were done against specific projects. We acknowledge that in some cases implementation was not accomplished and took long time and some were even cancelled. We are looking at the case to write back those obligations which are inactive.

Audit Conclusion: We are satisfied that Treasury is taking the appropriate action.



2 Budget execution

2.1 Budget execution not consistent throughout the financial year

Issue: It was noted that the budget execution was not consistent throughout the financial year with substantial accelerated expenditure in the last month of the financial year.

Observation / Effect: It was noted that there was a substantial increase in the expenditure in the last month of the financial year. In some categories, up to 50% of the expenditure for the whole year occurred in the last month.

Accelerated expenditure usually is caused by a need to expend the funds urgently before the end of the financial year in order to avoid losing the budget allocation.

This pattern of financial expenditure increases the general risk of a break down in controls over the expenditure and also increases the risk of inappropriate expenditure in the urgency to expend the funds within the specified time frame.

Recommendation: We recommend that the budget execution process be reviewed and that a more consistent pattern of expenditure be encouraged.

Management Response: The budget execution process was affected in the month of April 2006 due to the crises situation. There was large increase in submission of CPVs in the month of May 06 which resulted in higher percentage of execution.

Audit Conclusion: We acknowledge that difficulties were caused by the crises during the financial year and we will review the issue again at the next audit.



3 Procurement for fuel

3.1 Procurement of fuel for generators

Issue: It was noted in the procurement testing that the procedures for the procurement of fuel for generators did not follow the procurement procedures set out in the procedures manual.

Observation / Effect: The procedures manual sets out the steps in the procurement which require the raising of a CPV, purchase orders and contracts with suppliers. We noted that in the purchase of fuel for generators there was delivery of fuel prior to the raising of CPV's, the issuing of purchase orders or contracts with the suppliers.

These procedures for the purchase of the fuel for generators appeared to be the reverse to the procurements procedures manual which specify delivery should occur only after all the procurement procedures have been completed. The procurement procedures in the procedures manual have not been followed accordingly.

Recommendation: We acknowledge that the procurement division is not following the procedures set out in the procurement manual in order to ensure that the Government of Timor-Leste obtains the best value for money in the purchase of fuel.

We therefore recommend that the procurement department document the procedures for the purchasing of the fuel, specifying that the exception is occurring to ensure that the government is obtaining the best value for money in the purchase of fuel.

Management Response: It is noted. The government is having a policy actually not to have permanent contract with specific supplier of fuel. The government is dealing with three suppliers, in order to avoid monopoly. Meanwhile the government is establishing a formula so the price will be based on Singapore MOPS. We do acknowledge your recommendation, in which we will request EDTL in order to prepare the commitments in advance in order to cover all expenditures on fuel for generators.

Audit Conclusion: Satisfactory and we will review it again at the next audit.



3.2 Payments to employees for fuel for vehicles

Issue: We noted that payments were made to employees for the cost of fuel for vehicles without any supporting documentation provided to Treasury.

Observation / Effect: There were a number of instances where payments were being made to employees for fuel for vehicles which did not have any supporting documentation for the payments.

Not having supporting documentation for payments increase the risk that the payments may not have been bona fide payments for fuel for vehicles used for government purposes.

Recommendation: We acknowledge that it is difficult to obtain supporting documents for the purchase of fuel in the districts. We do however recommend that some form of acquittal of the payment to the employees be conducted that indicate how the money was expended, including the date of the payment and the details of the vehicle for which the fuel was purchased.

Management Response: During the crises period, the fuel stations in Dili and even in districts were not operating. Meanwhile we have to meet the demand for humanitarian assistance and supporting the movement of officials who were continuously on duty. We had to release cash in advance in order to enable those operations. We acknowledge that during the crises there are fuel sellers on the streets who are not used to give receipts.

Audit Conclusion: We note the difficulties during the crisis and will review the issue again at the next audit.



4 Bank Reconciliations

4.1 Long outstanding reconciling items

Issue: There are a number of unreconciled items that have been long outstanding in the bank reconciliations.

Observation / Effect: Our review of the monthly bank reconciliations performed during the financial year noted a large number of unreconciled items with some items having remained unreconciled by the Treasury for more than 6 months.

Recommendation: We recommend that all the reconciling items be reviewed and if they have been outstanding from previous periods they should be reassessed and if appropriate written back into cash at bank.

We also recommend that reviews of the bank reconciliations are conducted on a regular basis by senior staff to ensure that unreconciled items do not remain outstanding for long periods.

Management Response: Treasury conducts regular bank reconciliations and are periodically reviewed by senior staff. Most of the reconciling items have been cleared in July, August and September 2006 reconciliations. The remaining items have been reviewed and Banking and Payments Authority has been requested to provide Non Payment Certificate, so that remaining previous period unpresented payments could be cleared.

Audit Conclusion: We will review the issue again at the next audit.



4.2 Cheque signatories to be updated

Issue:	The list of bank signatories for the ANZ bank account required updating.
Observation / Effect:	Our review of the bank account details noted that the bank signatory on the ANZ bank account was the previous director of Treasury.
Recommendation:	We recommend that the ANZ bank be provided with the updated list of bank signatories and that the previous director is removed from the banks records.
Management Response:	The ANZ bank has been sent a letter from Treasury letter dated 8 March 2007 and has been provided with the updated list of bank signatories and names of previous officials have been removed.
Audit Conclusion:	Satisfactory.



5. Payroll

5.1 No reconciliation between Freebalance and payroll system

Issue: There is no reconciliation undertaken for the payroll in Treasury's general ledger system "Freebalance" and the payroll system (CHRIS).

Observation / Effect: At the time of the audit in November 2006, there was no reconciliation undertaken between the payroll expenditure in the general ledger system and the payroll as per the CHRIS payroll system. It was also noted that there were some discrepancies in the payroll expenditure between the two systems.

Recommendation: We strongly recommend that procedures be implemented for the regular reconciliation of the balances between the Freebalance system and the CHRIS payroll system.

Management Response: We accept that the reconciliation between two different types of Software is not done in electronic process but normally this job was completed by separate Division for Bank Reconciliation and Revenues Reconciliation in manual process.

From now on, we have already started to reconciliation on regular basis according with audit recommendation. We are examining the possibility that there is electronic process for and is performed by system itself. We had consulted with the owner of Free Balance in order to find the possibility for integrating the payroll module in the Free balance system.

Audit Conclusion: We accept that action is being taken to address the issue and will review at the next audit.



5.2 Time sheets not being utilised appropriately

Issue:	The timesheets are not being utilised appropriately.
Observation / Effect:	<p>It was noted that in many instances the staff time sheets of the various Agencies and Ministries are not being completed properly or correctly authorised. As an example, instances were noted where time sheets are being completed and signed off by both the employees and the supervisor even though the employee did not work on those days.</p> <p>It was also noted that in some instances the time sheets hours were incorrect and did not agree to the wage payments.</p>
Recommendation:	<p>It is recommended that the Treasury reassess the use of timesheets for all employees particularly if they are not being utilised appropriately.</p> <p>The administrative time involved in preparing the timesheets may be wasted if they are not serving the function of providing the supervisory control over the employees hours worked and evidence of the hours worked.</p> <p>It may be appropriate to use an exception report for full time employees where any changes to the employee hours or condition is recorded in the timesheet.</p>
Management Response:	We are advising line Ministries to issue sustainable instruction to their offices and agencies for improvements in preparation and authorization of timesheets. We are also separately advising the Ministries to submit exception reports regarding the employee time sheets.
Audit Conclusion:	We will review at the next audit.



6 Revenue

6.1 Treasury revenue reports not reconciled to Agencies revenue records

Issue: The monthly revenue reports that are sent out by Treasury to the individual Agencies are not being reconciled by all the Agencies to their individual revenue records.

Observation / Effect: Treasury produces monthly revenue statements that are sent to the Agencies for them to reconcile to their revenue records. We noted from our visits to a number of Agencies, there was no evidence that these reconciliations were performed in many of the Agencies.

It was also noted that there was no evidence that the reconciliations were performed between the ETRS Domestic Tax revenue system and Treasury records and as a result there were instances where the domestic tax was classified incorrectly.

This is a major weakness in the control system and has the following effects:

- Treasury does not know the exact amount of revenue collected and recorded by the Agencies;
- It gives rise to difficulties in ensuring that all monies collected have been properly recorded and banked;
- It gives rise to difficulties in ensuring that there is completeness in revenue collected;
- The Agencies will be unable to follow up on outstanding revenue that is owed to the government.

Recommendation: We recommend that reconciliations should be carried out by all the Agencies regularly, and preferably at least monthly. A report on the reconciliation performed by the Agencies should then be provided to Treasury. This will enhance the ability of management to detect error or fraud, and decrease the possibility of discrepancies occurring between the general ledger and the bank account. It will also ensure that all money collected by the Agencies is banked.

Management Response Treasury has a process for reconciling revenues with the Agencies. It issues revenue statements to Agencies for reconciliation every three months. The reconciliation process is however hindered by lack of staff. During the Fiscal Year 2005-06, there was only one staff available for the



entire revenue function. However, for the next fiscal year, it is proposed to add one or two more additional staff. The management expects that there would be improvement in revenue reconciliation process in the coming year.

Audit Conclusion: We are please to note that Treasury recognises the importance of the reconciliations and we will review the issue at the next audit.



6.2 Treasury revenue function understaffed

Issue: The revenue function within Treasury appears to be seriously understaffed with only one individual undertaking the overall revenue function.

Observation / Effect: The understaffing in the revenue function area makes it difficult for financial controls over revenue to operate effectively. It also increases the risk of inadequate backup of the revenue officer function.

The understaffing in the revenue function can also result in the delays in the Treasury revenue reports being prepared and forwarded to the various Agencies and Ministries. This in turn will affect the ability of the Agency to perform reconciliations of the individual Agency reports to the Treasury revenue.

Adequate staffing of the revenue function would also assist in the Treasury revenue officer following up on the reconciliation of the Treasury revenue reports with those of the individual Agencies or Ministries.

Recommendation: It is recommended that the revenue function be adequately resourced to ensure that the function is carried out effectively and that there are adequate controls over the revenue.

As a risk management issue, it is also important that there is adequate and suitably qualified backup staff to undertake the revenue function.

Management Response: As explained in the previous response it is proposed to add one or two more additional staff during the next fiscal year.

Audit Conclusion: Satisfactory.



7 Asset Register

7.1 Asset register not maintained adequately

Issue: The full listing of assets of the Government of Timor-Leste is yet to be completed and again this year no complete physical verification of the assets of the Government was undertaken. No asset register was made available our audit staff again this year.

Observation / Effect: This issue was identified in the previous year and continues to be an issue this year. In particular the following issues are outlined in regards to assets held by the Government:

- The detailed listing of assets has not been completed to include all assets donated to the Government;
- All Land and Buildings and infrastructure assets have not been recorded or valued;
- The detailed listing of assets is maintained on an Excel spreadsheet, without adequate backup or procedures to maintain the security of the register;
- In some cases new assets are not being assigned asset identification numbers;
- Our audit of the available listing highlighted a number of errors in either the description, serial number, cost or location of the assets;
- No regular check/count of assets had occurred; and
- The condition of the asset should be reassessed and the register updated to reflect the current condition.

If assets are not recorded on a detailed asset register and identified by way of an asset number the risk of assets disappearing increases. Furthermore if the Government adopts accrual accounting it will prove to be a very time consuming task to compile a detailed listing of all assets. We understand that the asset register is being updated and that when the register is completed the details will be downloaded into Freebalance asset module.

Recommendation: We refer to the management letter issue raised in the previous year and recommend that a full physical verification of all assets is undertaken prior to the listing being downloaded into Freebalance. Asset registers should be maintained for all Agencies and regular counts of assets should be undertaken to ensure that the asset still exists and is in good working order.



**Management
Response:**

Detailed listing of assets to include all assets donated to the government as there was limited time to finalise the physical check programs due to the crises. However full listing of the donated assets is likely to be delivered in Fiscal Year 2006-07. Ministry of Justice has the land building and infrastructure assets records. While it is true that Department of National Asset Management is using Excel Database, use of FREEBALANCE could not be finalised as it requires procedures to be set up and financial availability. The directorate is now planning to store database in CD to provide backup and security. The directorate has identified the weakness in identification number stickers which are being removed by unauthorised persons. The Directorate is preparing a training program for all Logistic Officers in the departments and districts. A consolidated list of government assets was not provided at end of June 2006 due to the crises situation. The list has now been sent on 14 December 2006. Regular check will also be done in 2006-07 through proper planning and arrangements. To address the above issues, the directorate requires assistance for setting up procedures, asset management policies and developing managerial capacities for which support from AUSAID and other agencies is being sought.

Audit Conclusion: This will be reviewed at the next audit.



8 Power Authority

8.1 Integrity of PIMS Invoicing System

Issue: We noted that as with the previous year audit, the Electricity Service of Timor Leste (Power) had not addressed the issue with its billing and invoicing system (PIMS) during the financial year. The PIMS system also cannot be relied upon to determine the amount of outstanding debtors.

Observation / Effect: The billing reports generated from the PIMS did not appear to be reliable, due to apparent inaccuracies in the PIMS system and the level of accounts receivable cannot be estimated with any confidence, nor are we able to quantify the errors. We were unable to verify the balance of outstanding power invoices. Also, it is not possible to determine whether the government is collecting all the power revenue that it is entitled to.

Recommendation: We acknowledge that Power has implemented a new invoicing system in the 2006/07 financial year however we have not since tested the integrity of this new system.

We recommend that the integrity of the new invoicing system is assessed to ensure that that it provides accurate and reliable information of outstanding power invoices and accounts receivable.

Management Response: With reference to the date referred to by the Auditors (30 June 2006) the new system was under preparation and has started functioning from 1 July 2006. This system already can supply the intended reports.

Audit Conclusion: This will be reviewed at the next audit.



8.2 Power revenue records not reconciled with Treasury reports

Issue: The Electricidade de Timor Leste ("EDTL") revenue reports relating to power do not reconcile with the Treasury revenue reports.

Observation / Effect: As with previous years we were again unable to reconcile the EDTL revenue reports to the Treasury reports. In the previous year this was believed to be due to the deficiencies in the Power's billing and invoicing system.

We have also been advised that the discrepancy has been due to the direct government payments for power usage that is not being picked up in the EDTL revenue reports.

Recommendation: We acknowledge that both the Treasury and EDTL are aware of the problems associated with the Power revenue system and reconciliation. We are also aware that the new invoicing system was implemented in July 2006 and that this should address some of the issues.

We recommend that the Treasury reports should be reconciled to the EDTL reports on a monthly basis to ensure the WDTL revenue reporting is accurate and that any discrepancies are identified and resolved in a timely manner.

Management Response: With the implementation of new billing and invoicing system by EDTL and by appointment of more staff in treasury for revenue accounting, the management expects that there would be improvements in the revenue reconciliation between the Treasury and the EDTL.

Audit Conclusion: This issue will be reviewed at the next audit.



9. Payments

9.1 Supporting documentation not available

Issue:	Insufficient supporting documentation for advance payments.
Observation / Effect:	<p>Our sample testing of payments noted instances where there was no acquittal report or other relevant documentation supporting advance payments.</p> <p>These included:</p> <ul style="list-style-type: none">• No supporting acquittals relating to the retirement of a US \$30,000 advance payment on 18 November 2005 for East Timor independence celebrations.• No acquittal for an advance payment of US \$57,000 on 31 March 2006 relating to rehabilitation projects in Bobonaro districts.
Recommendation:	It is recommended that all advance payments are supported by adequate documentation. Where it is not reasonable to obtain supporting invoices, there should be an appropriate acquittal statement provided supporting the payment.
Management Response:	The acquittal documents for the advance payments mentioned are available in Treasury and may be examined by the auditors during their next audit.
Audit Conclusion:	Noted



10. Procurement

10.1 Procurement not in accordance with the procurement manual

Issue: Instances were noted where the procurement procedures were not in accordance with the procurement manual.

Observation / Effect: During our review of procurements, we noted instances where the procurement procedures followed were inconsistent with the procurement manual. These included the following instances:

- A "request for quotation" method used although the amount was more than US \$50,000;
- Instances where the time to lodge the tender was less than the 30 days specified in the manual;
- An instance where a restricted tender method was used although quotes from only two bidders were obtained;
- An instance where there was no written justification for "single source" procurement.

The absence of strict adherence to procurement manual procedures could increase the risk of unauthorised expenditure and loss to the Government.

Recommendation: We recommend that there is strict adherence to the procurement manual and where there is any exception to the procedures, there is written justification on file for the reason for the exception.

Management Response: We acknowledge that in some cases we had to apply restricted tendering. Sometimes due to urgent requirements we have to accept even less than three bids. We have also taken note of your recommendation follow the format of sole source justification.

Audit Conclusion: This issue will be reviewed again at the next audit.



10.2 Filing system for procurement

- Issue:** It was observed that the filing system for procurement documents could be improved.
- Observation / Effect:** During our review of procurement, there were instances where it was a difficult and time consuming task to try to locate and retrieve all the procurement documents relating to the audit samples selected.
- We also noted instances where all tender and quote documents from the bidders for an engagement were not located on the same file. It was further noted that these related files were not being filed together.
- This made it a time consuming task for procurement staff to find all the supporting procurement documents relating to our audit samples.
- Recommendation:** We recommend that a standard and consistent method of filing is implemented for all procurement documents.
- Management Response:** This is also affected by structural organisation itself and a secure location to store the file. During the crisis of April to September 2006, we have lost totally all our files in container in Bebora. We are handling to improve the management.
- Audit Conclusion:** We are satisfied that Treasury recognises the importance of maintaining a sound filing system.



11 Unallocated stores inventory

11.1 Unallocated stores inventory not updated

Issue: The "unallocated stores" inventory has not been updated to reflect the unauthorised removal of items from the government warehouses during the civil disturbance events.

Observation / Effect: From our visit to the warehouse it was noted that as a result of the looting during the civil disturbance, the majority of the inventory of unallocated stores was removed. It was also noted that there was a large discrepancy between the report of stolen stock and the inventory value in Freebalance.

It appears that a large number of items of unallocated stores are not included on the unallocated stores inventory on Freebalance. Many of these items relate to in-kind contributions of goods and equipment received from donor organisations.

Although we recognise that because the government operates under the cash basis accounting, "in-kind" contributions are not recognised, however there should be a record of all inventory belonging to the government.

Recommendation: It is recommended that the "unallocated stores" inventory is adjusted to reflect the loss in the value of the assets. It is also recommended that procedures are introduced for recognising and valuing donated stock and "in-kind" contributions so that there is a current inventory list of "unallocated stores" that agrees to the general ledger in Freebalance.

Management Response: The unallocated stores item are not contributions from donor organizations. It is government procured based on un-allocated stores fund. Donated items are listed on a separate catalogue from the un-allocated stores catalogue. Currently their issuance is based on request for donated items, certified by Head of Supply and Inventory Division, and authorised by the Minister of Planning and Finance. In cases the donating organisations have not disclosed the values of donated items, it was referenced by listing of all inventory belonging to the government.

Audit Conclusion The issue will be reviewed at next audit.