

CIRCULAR SAVINGRAM

GOVERNMENT OF TONGA

TO : All Heads of Ministries
FROM : Secretary for Finance & National Planning
SAVING NO.: 15/23/745
DATE : 9 July 09

TREASURY CIRCULAR NO.1/09-10

IMPORTANT FINANCIAL MANAGEMENT ISSUES

I shall thank you all for the assistance, support and co-operation we had during the 2008-09 financial year. It was indeed a challenging year for us all given the global economic crisis whose impact has somewhat been felt in our economy and partially reflected in our less than budgeted revenue collection performance during the year. However, your collective hard works and determinations to live up to what was expected of us by the public had managed to successfully provided services to all government stakeholders and the public at large, during the 2008-09 fiscal year. We thank you all for that achievement.

Welcome to the new financial year 2009-10. We will certainly have many challenges ahead, but I am confident that through our collective efforts we should be able to steer our boat safely through those challenges. In preparing to accomplish our mission for this new financial year the Ministry of Finance and National Planning (MOFNP) believes that this Circular will bring to your attention some important financial management issues that should be recognized in order to take appropriate actions to address them at the beginning of the financial year 2009-10. These financial management issues require certain tasks to be performed, financial reports to be provided to MOFNP, and making appropriate action to be taken by line ministries. These matters are important in ensuring that government has an effective and efficient public financial management system in place. We wish to mark this new financial year with a better standard of compliance with the financial legislation and policies as well as successful in achieving the outcomes that we have set out in our respective corporate plans and Estimate for 2009/10.

Specifically, the following are requirements to attend to:

Cash flow Forecast

1. The Public Finance Management (PFM) Act 2002, section 14(3) requires that :

"The Minister (of Finance) shall, upon an Appropriation Act coming into force, make funds available to the respective Votes according to the cash flow forecasts agreed between the Minister responsible for the Vote and Minister (of Finance), or if agreement cannot be reached, as directed by Cabinet."

2. The **2009-10 Appropriation Act 2009** (Act No.1 of 2009) has come into force on 1 July, 2009.
3. All Heads of Ministries, in order to ensure compliance with the above statutory requirement, shall prepare the following cash flow information and shall be provided to the Ministry of Finance –
 - (a) to Budget Division –
 - (i) an annual forecast of expenditure (by SEG (Standard Expenditure Group)) and of revenue, for each month; and

- (ii) a monthly update of forecast expenditure (SEG) and of revenue for each remaining month – three (3) working days before start of each month.

Ministries are being advised to prepare the respective Cash flow Forecasts from approved budget by Programme/Sub-Programme/Activities. Then determine the forecast by SEG and provide to MOFNP. The Budget Division of MOFNP can provide line ministries with soft copy of respective vote for ease of preparation of the cash flow forecast.

(b) to Treasury Division – in addition to the above document submitted to Budget division

- (i) a rolling forecast of total daily expenditure and total daily revenue for the next four weeks period and by SEG and major revenue source category – two (2) working days before the start of each week; and
 - (ii) updated forecasts of variations in the timing of cash flows of \$1,000 or more – on the day the variation becomes known.
4. The Cash flow forecast should reflect the plan for spending of line ministries from their available approved budget votes, including the capital budgeting plan. Ministries are therefore expected that the forecast information provided is reliable and properly done. There should be no more rush for expenditure towards the end of the financial year, as had been unfortunately experienced in previous years.
 5. Financial Managers of respective ministries shall prepare the cash flow forecast on the details budget of the ministry by programme/sub-programme/activity to determine the forecast by SEG. Please contact the Budget division of MOFNP and request a soft copy of ministry's budget to assist on the preparation of the detail cash flow forecast for 2009-10.
 6. Heads of Ministries are kindly requested to please prepare the above cash flow information upon receiving your approved budget for 2009-10, and agree with your respective Minister for further conveyance to Minister of Finance. Once agreed and approved by your Minister, please submit a copy to MOFNP (both Budget and Treasury divisions) no later than **4:00 pm, Friday 17 July, 2009**, but would prefer to submit much earlier. MOFNP had already advised the suggested format of the Cash Flow Forecasts to the Ministries' Financial Managers/Supervisor of Accounts.
 7. The MOFNP will review and monitor all submitted Ministries' Cash flow Forecasts and determine the amount that should be available to vote depending on revenue projections and actual revenue collection, thus therefore **subject the amount available to votes on cash position** at the time. This may adversely result in reduction to *amounts available* to Ministries' Votes for particular period.

Ministries/Government entity with separate bank account

8. This important control over cash flows also applies to any ministry/entity in government that operates its own approved bank account, which may result in not transferring the full amount requested to be transferred to your office bank account. The amount transfer to bank account will very much depend on revenue collection and also on overall consideration of whole government ministries.

Arrears of Revenue

9. All ministries are kindly requested to please submit to MOFNP the aged list of the ministry's ***arrears of revenue as at 30th June, 2009***. Such details are to be submitted ***no later than 4:30 pm, Wednesday 15th July, 2009***.

Outstanding Debts from previous financial year(s)

10. All ministries are requested to submit to the MOFNP the list of all their ***outstanding debts (commitments) as at 30th June, 2009***. Such details are to be submitted ***no later than 4:30 pm, Wednesday 15th July, 2009***.

11. There were vouchers submitted from line ministries during the period of late May and June 2009 but were on hold by MOFNP, especially for procurement of assets, due to low cash position at the time and the high overall level of government expenditure already incurred during the 2008-09 financial year. **Regrettably, some of these vouchers are being returned to line ministries for re-order and to charge to the current financial year, 2009-10 allocations.**
12. Therefore, any outstanding debts from the previous financial year(s) are to be paid from the current year financial allocations. Ministries are therefore kindly requested to please submit these outstanding debts for payments.
13. After *Wednesday 15th July, 2009*, the MOFNP will assume that all ministries have submitted all their outstanding debts and therefore would not expect any further vouchers of other long outstanding debts from ministries except for the current dues.

Journal Vouchers

14. Any ministry that still not yet completely prepared nor submitted to MOFNP the appropriate journal vouchers for any order made by another government ministry in the 2008-09 financial year, is required to submit those journal vouchers to MOFNP *as soon as possible and no later than 4:30pm Wednesday 15th July, 2009*. This is to ensure complete account for of revenue and also the related charge to the other ministry's vote.

Reconciliation of Vote Book

15. All ministries that keep a manual vote book are still required to *reconcile your ministry's vote book to Treasury's vote book on a monthly basis*. Please ensure that the assigned officer is carried out this important control procedure, and regularly review by financial managers/supervisor of accounts.
16. For those ministries that already connected and access to Sun system, the reconciliation may not be required as the balance in the sun system is the balance at MOFNP. However, it is still important to review expenditure recorded in your respective votes on a regular basis to ensure only authorized and valid expenditure are being recorded.

Processing of ministries vouchers and payments at Treasury – compliance issue

17. There have been complaints by ministries and suppliers on the delay in processing and payments of vouchers by Treasury. The Treasury is currently reviewing its internal processes to address the issues raised in those complaints and ensure improved efficiencies. However, all ministries are hereby kindly reminded of the following requirements that should be please adhered to and complied with in the preparation of any vouchers and before submitting vouchers to Treasury for payments. These are:
 - a. Vouchers are properly **certified** and **authorized** by the appropriate officers/authority, and **stamp**;
 - b. There is **sufficient funds** in the related vote being charged with the expenditure;
 - c. Any **applicable government policies** (travel, procurement, wages, etc) are fully **observed and complied with** at all times. *Any deviation from any existing established policies shall be justified in writing to MOFNP by ministry stating the:*
 - i. Reason for the deviation.
 - ii. Authorization for the deviation
 - iii. Availability of alternatives/options.
 - iv. Future similar cases
 - v. etc
 - d. **Complete and proper supporting documents** (originals) are attached to the vouchers and ensure details agreed to vouchers.

18. If ministries are able to provide the above information completely and accurately when submitting vouchers to Treasury, there should be no problems with payments and it will always be made on a timely manner. Otherwise, the payment of vouchers will certainly be returned or deferred until the complete information is provided.
19. All staff of ministries shall be refrained from carrying out, and/or from providing advice suppliers to take, action that result in deviating from government established policies especially on procurement. They are expected to comply and adhere to such policies.
20. Ministries are again reminded that there is **no Supplier payment in the Government Pay week**. All suppliers are aware of this arrangement and also the day in the *Supplier's pay week* that they supposed to pick their cheques from Treasury cashiers, which are already allocated in alphabetical orders. However, in some exceptional cases and upon request, we consider processing payment of some suppliers' invoice in the government pay week but still subject to cash flow availability.

Checks and Controls over goods ordered

21. Heads of Ministries shall ensure that any goods, services, or works procured are for valid purpose and for the use of the Ministry. Proper controls should be in place to ensure that any goods, services, or works procured are checked by an officer separate from the officer who placed and received the order. That is, the checking officer should check the purchase order to ensure the actual goods ordered are actually received and for the use of the ministry.

Payments for Public Utilities (Electricity, Water, Telecommunications)

22. MOFNP has noted some ministries being disconnected occasionally during the financial year due to non- or late payment of electricity, water, and/or telecommunications expenses. Such action has resulted in additional cost to government in paying the re-connection fees. MOFNP had already advised all Ministries of the timing of payment of these utilities to be on 20th of each month, through *Treasury Circular No.8/06-07 issued on 18 April, 2007*. Some ministries, especially those with divisions/branches seem to hold on to the related bills and not submitted for payment unless it is being disconnected.
23. Ministries are kindly requested to please comply with the abovementioned Treasury Circular in processing payment of utilities to ensure timely payment and avoid incurring of further cost to government through re-connection fees.

Controls over Transfer of funds between/within Programmes

24. There shall be no transfer of funds within or between programmes from the following items of expenditure during the financial year, without due consultation with, and approval of, MOFNP. These expenditure items include:
 - a. Salaries, Wages and Allowances (SEG 10., 11...)
 - b. Contributions and Subscriptions
 - c. Electricity, Water, Telecommunications, and Rentals
 - d. Technical Equipments and Supplies (1417)
 - e. Grants of any form (Schools, Towns & Villages, Sports, etc)
 - f. Training
 - g. Medical Supplies and Medical Referrals
 - h. Capital Expenditure (SEG 20.)
 - i. Statutory Expenditure
25. The MOFNP may advice other vote items that could not be transferred fund from during the financial year.

Change of Government Staff Salaries pay days in 2009-10

26. As advised through *Treasury Circular No. 8/08-09* issued on 12 June, 2009, the Government Staff salaries pay days for 2009-10 will be on every second Mondays and Tuesdays rather than Thursdays and Fridays. This change is to be commencing from the first staff salaries pay on Monday 13th and Tuesday 14th of July, 2009. MOFNP has made the appropriate arrangement with the banks and advised them of this change of pay days to ensure no extra fees charges on staff bank accounts especially in relation to loan deductions.
27. Staff is to contact MOFNP if they are being charged with extra fees relating to their loan deductions due to the change in government pay days for further follow up with respective banks.

Ministries to keep proper and updated Staff Salary Register

28. All Heads of Ministries shall ensure that the Ministry's Staff Salary Register is properly maintained and updated. This salary register is a vital record for frequent checking of the completeness and accuracy of the ministry's fortnight payroll reports being send from MOFNP prior to every pay period.
29. The assigned payroll staff in respective ministries **MUST CHECK AND CONFIRM** the details of the Payroll reports send from MOFNP to the Ministry's Salary Register and related adjustments advice to ensure that salary is being paid to bona fide employee for that particular period.
30. All Ministries Salary Registers shall be reconciled to Treasury Payroll Micro pay database on a monthly basis. Please ensure that the assigned payroll officer in your ministry carries out this important control procedure monthly.

Request for Encashment of staff leave

31. MOFNP has received requests from line ministries for encashment of leave to staff. Please be advised that due to the very tight cash flow situation the encashment of leave is currently not considered a feasible option in lieu of staff leave. Hence, all applications for encashment of leave that had already been submitted to MOFNP are not approved for payment.
32. All Heads of Ministries are therefore kindly requested to please consider and make appropriate arrangement to allow staff to take their leave.

Fixed Assets as at 30th June 2009

33. All ministries are submit to MOFNP the complete list of fixed assets with value of all assets held **as at 30 June, 2009** and as per direction requested by *Treasury Circular No.8/08-09*.

Cessation of Revolving Funds operation

34. Please be again reminded that there is **no more Revolving Funds** exist in the **2009-10** financial year. All revolving fund balances (if any) have already been incorporated into the Recurrent Budget of respective ministries, therefore, collection and spending on the usual revolving fund items are to be incurred as with other normal revenue and expenditure items.
35. All Heads of Ministries shall ensure that your respective ministries' staffs properly and correctly account for any funds that used to be collected and disbursed to and from the Revolving Funds in the past years, into the correct account in this financial year.

Ministries to keep proper financial books and records

36. Heads of Ministries and respective Financial Managers shall ensure that the ministry keeps proper financial books and records of all the financial transactions of the ministry. This is important to ensure that the Financial Management Team in each ministry are able to advise and provide Heads of Ministries with timely information on level of expenditure and revenue, and status of assets in each ministry. The MOFNP may assist to confirm these figures but **the primarily responsibility for keeping financial books and records rest with the Head of Ministry, Financial Manager and related staff within the ministry.**

Government Financial Managers Forum

37. The Government Financial Managers (GFM) Forum has been established and now in operation. The first meeting was held in the 2nd week of June 2009. There will be regular meetings (quarterly) of this forum. The aim is to share and exchange ideas on financial managements, clarify applications of certain government policies; issue Treasury instructions with regard to certain financial management issues, etc. These are done to equip financial managers with appropriate knowledge and skills on government financial management issues in order that they could provide good timely advice to respective Heads of Ministries on financial management matters.
38. The member of the GFM forum should be the most senior person in line ministries that responsible for supervising the financial management division/section. Staff of ministries should first contact their respective Financial Manager for advice and clarifications on any related financial matters rather than contacting MOFNP. The respective Financial Manager shall contact MOFNP if he/she needs further assistance or advice on any financial management issues.

Decentralization of financial management to line ministries

39. The MOFNP is currently working on a plan to decentralize certain financial management responsibilities to line ministries. This is a very important exercise that must be done with realistic assessment and thoughtful approach and could be for a long duration. First and foremost line ministries should be adequately resourced in terms of appropriate skills and trained staff and also capital to be able to carry out this financial management task effectively.
40. There have been number of ministries who have been requesting to operate a separate bank account in order to allow the timely process of payments that alleged to be far to slow from processing from Treasury. As stated in item no.17 above there are factors that contributed to the defer payment from Treasury. If ministries purpose of requesting a separate bank account is to avoid those factors, the request would not be entertained nor supported for it would put public funds into a risky and dangerous position from probable misused and non-compliance with established government policies.
41. MOFNP will therefore perform an assessment of all financial management team in line ministries to determine whether their existing capacity can handle the decentralization of financial management in terms of:
- a. Adequate training in government financial management issues and applications;
 - b. Keeping proper accounting books and records completely and accurately;
 - c. Performing bank reconciliations on timely basis;
 - d. Complete and accurate recording of financial transactions;
 - e. Ensure compliance with applicable government established policies with regard to disbursements of public funds, especially procurement, travel, etc.;
 - f. Adequate management support from Head of Ministries and Senior Management to adhere and comply with related established government policies;
 - g. Adequate capital equipments in place;
 - h. Ability to properly use of sun system;
 - i. Manage and control level of expenditure to be within the available funding in bank account;
 - j. Preparation of complete and accurate financial reports to Treasury on monthly basis;
 - k. Adequate filing system of accounting records and documents;

1. Compile and prepare financial records and reports of audit purpose.
42. It is important that any ministry requesting decentralization should also ensure that the staff assigned to carry the financial management tasks are well trained and have the appropriate knowledge and skills to perform such tasks. Equally important, the support of management in issues that may result in non-compliance with policies and procedures should always be in place.

Roll-Out of Sun system

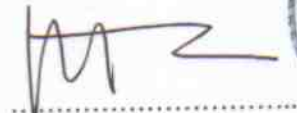
43. Ministries should be aware that MOFNP has programmed the roll out of the sun system to line ministries. Since 1 July, 2009, three (3) new ministries are now access the sun system for purchase order processing and checking of votes in addition to those that were already had access. Other ministries will follow but in accordance to the set schedule. The related officer in your ministry should have advised Head of Ministry of such plan.
44. The roll-out of sun system to line ministries should greatly help in monitoring disbursements and ensure that they are stay within budget.

Once again, I thank you all for the assistance and co-operation. The 2009-10 fiscal year will surely provide greater challenges in terms of funding and increase demand for government services. The key is to spend wisely and ensure proper accountability for receipt and disbursements of public funds at all times.

Please if any of ministries need assistance or clarifications on any issues raised above, please contact MOFNP to provide the appropriate assistance or advice.

I wish you all well in your various ministries activities during the 2009-10 fiscal year.

Malo 'Aupito



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'Aisake.V Eke

SECRETARY FOR FINANCE & PLANNING

