



# TECHNICAL ASSISTANCE REPORT

## TONGA

### Improving Financial Reporting: Establishing a Policy and Framework on Fixed Assets

**MAY 2019**

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## Glossary

AMD	Aid Management Division
COA	Chart of Accounts
FAF	Fixed Asset Framework
FFD	Financial Frameworks Division (Of the Ministry of Finance)
FMIS	Financial Management Information System
GAC	Government Asset Committee
GADC	Government Asset Disposal Committee
GoT	Government of Tonga
IPSAS	International Public Sector Accounting Standards
MOF	Ministry of Finance
OAG	Office of the Auditor General
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Center

## Preface

At the request of the Ministry of Finance, a technical assistance mission from the Pacific Technical Assistance Center (PFTAC) visited the Kingdom of Tonga Ministry of Finance (MOF) during May 6-10, 2019 to provide technical assistance on financial reporting, with an emphasis on establishing a draft fixed asset policy and outline for a fiscal asset framework. The mission was conducted by Celeste Kubasta, PFTAC Public Financial Management expert, and Gloria Espera, an attachment from Government of Samoa who was part of the local staff involved in fixed asset policy and framework.

The mission wishes to extend its appreciation to the MOF officials for the excellent cooperation received and the courtesy extended throughout its stay. The mission benefitted from support from the Chief Executive Officer MOF Ms. Pilimilose Balwyn Fa'otusia. Discussions were conducted with the Deputy CEO of Financial Framework Division (FFD) 'Ana Fakaola 'I Fanga Lemani, and the staff of the fixed asset division of the FFD. Additional meetings in the MOF were held with the Chief Budget Officer and Project Division. The mission met with representatives from the Ministry of Infrastructure and Tonga Office of the Auditor General. The mission also appreciates the work performed by the staff who worked with the mission writing the framework, Falakiko Asisi Puhila Senior Accounting Officer; Lepolo Taufatofua, Accounting System Administrator; and Nanise Tuineau, Principal Accountant.

As part of the exit conference, the fixed asset framework and ongoing financial management reforms were discussed with Head of Treasury Operations Makaleta Siliva, Chief Accountant of Treasury Operations Ailine Taumohaapai and included the staff responsible for preparing the fixed asset framework.

The mission is grateful to the Ministry of Finance for guidance and support on the mission with a special thanks to Ms. Fakaola'I Fanga Lemani for guiding ministry officials, establishing meetings, and to implement reform recommendations, preparing for the mission, and providing the logistical support to the mission.

## Executive Summary

**The Ministry of Finance has been pursuing financial management reforms for many years.**

The existing Public Financial Management (PFM) Roadmap has been in place since 2013/14 with many reforms implemented or in progress. This plan includes the establishment of an asset management framework. The need for the framework is further supported by the Auditor General noting the limitations in the data and qualifying the audit opinion on the financial statements.

**The mission worked with a MOF team assigned to prepare the draft fixed asset policy and framework.**

The MOF team reviewed properties for a fixed asset framework, identified existing structure, documents, and related activities. The MOF team, with the mission, prepared the framework based on the asset management cycle of Tonga financial management practices. Coordination with related activities was reviewed with applicable staff, if available, during the week of the mission.

**Based on meetings with the team and discussions with related entities, a series of recommendations were identified for the proper implementation of the policy and framework.** These are included below.

- Approval of the framework is a critical first step for improving the recording and reporting of fixed assets. The process for approval of the policy and framework can be facilitated by involving other key players involved in the activities. This should be implemented as soon as possible.
- An implementation plan to facilitate the policy and framework should be prepared. The implementation plan can identify key communications, documentation to support the process, timelines, and milestones for implementation.
- Preparation of a manual will facilitate implementation and compliance with the framework and related reporting. The manual should be updated as new processes are added, technology (IFMIS) is updated, and similar situations. The manual can address both manual and IT processes, include templates for ease of compliance, and provide linkages with related activities.
- Improvement on the notes to the financial statements should provide a more comprehensive picture on the assets recorded, purchased, and disposed of. While depreciation is not charged against the assets currently, the note can include the annual amount that would be applied, accumulated depreciation and depreciated value, for informational purposes. The notes should also provide details on other changes in fixed assets, including revaluation.
- Investigate the functionality of the Fixed Asset Module in the IFMIS and implement, if possible. If the implementation will be delayed or is not feasible, the data can be consolidated to calculate the amount government wide and could be later interfaced with the automated system. The changes in the amounts can be verified against documentation,

such as procurement records, expenditures for assets, approvals for disposal of assets and annual stock take.

- On-going reforms on the chart of accounts should continue and enable recording, reporting, and depreciation of fixed assets in the future.
- A single committee to oversee the management of asset management functions for government, including the disposal of assets, should exist with roles and responsibilities to facilitate the processes.
- For proper life cycle management of fixed assets, government should ensure adequate maintenance funding is available. Proper maintenance can enable the best value for money from the purchase.

## Recommendations

Summary of Recommendations	Short-term	Medium-term
Fixed Asset Framework		
Approval of the Fixed Asset Framework and Policy	x	
Preparation of Implementation Plan	x	
Preparation of a Fixed Asset Manual	x	
Recognition and support for a committee to provide for oversight of Government Assets and implementation of the framework.	x	
Improve the data provided on fixed assets in the notes to the financial statements.	x	
Continue implementing chart of accounts reform, including improvement for recording and reporting on fixed assets		x
Implement the fixed asset module within the IFMIS or consolidate records to prepare a consolidated report of fixed assets details. The fixed asset registry and Ministry of Finance records should be reconciled at least annually, after stocktaking.		x
Provide adequate fund for the maintenance of government assets		x



## I. BACKGROUND

**1. The Ministry of Finance (MOF) has been actively pursuing public financial management reforms for many years.** In 2014, a Public Expenditure and Financial Accountability (PEFA) self-assessment was performed and the government officials prepared a PFM Reform Roadmap for 2013/14 to 2018/19 based upon the results. This roadmap has been the basis of reform activities since.

**2. Pacific Financial Technical Assistance Centre (PFTAC) has been supporting Tonga in the planning and implementation of the reforms.** The support has included missions related to FMIS needs (2014), financial reporting (2015 and 2016) and chart of accounts (2017 and 2018), and a review of financial reporting reforms and improving internal audit (November 2018). Implementation of the roadmap has been further supported by technical assistance from several other donors, including Asian Development Bank, World Bank, and Pacific Association of Supreme Audit Institutions.

**3. Within the PFM Roadmap, there is a reform to establish an asset management framework.** This mission is part of the process to prepare the asset management framework and include capacity development for staff as they commence with the implementation of the framework. These are detailed within the following section.

## II. FIXED ASSET FRAMEWORK

**4. The reporting on fixed assets is noted as an area of concern in the audit report for 2017/18 and several previous years.** The Minister of Finance, in the Statement of Responsibility for the financial statements, identifies that the cash basis of accounting has been modified to enable the accounting and reporting of assets and liabilities of Government at the balance sheet date. This modified cash basis of accounting for assets and liabilities is consistent with previous years and includes adjustments to the cash basis value of the assets and liabilities to report at fair value for the balance sheet date. In the notes to the financial statements, an explanation on the adjustments and the effect of the adjustments is explained.

**5. The Auditor General, as noted in the audit opinion, supports these reforms.** The Auditor General recognizes that until this exercise is complete, and assets and liabilities are completely accounted for using full accrual basis of accounting, the existing scope of the audit is limited to the recorded and reported assets and liabilities. This is resulting in a qualified opinion. In the November 2018 technical assistance report, it was noted that until government transitions to accruals, the staff should seek to comply with IPSAS cash and provide additional details within the notes to the financials.

**6. While the November 2018 PFTAC technical assistance mission performed the background work and provided a workshop on the framework for fixed assets, the PFM Roadmap includes the development of an Asset Management Framework for Cabinet approval.** The Financial Framework Division (FFD) is responsible for reforms within MOF. Within the FFD there is a Fixed Asset Framework (FAF) team who implement the reforms. The mission

worked together with the Principal Accountant and two individuals from the Fixed Asset Framework (FAF) team.

### III. FIXED ASSET REFORMS

#### Adoption of Fixed Asset Framework and Plan for Implementation

**7. As noted in the November 2018 mission, the existing work on fixed asset reporting has been focusing on the recording and reporting of furniture, fixtures, and equipment.**

In the PFM Reform Roadmap, a reform exists to establish a framework. The proposed Fixed Assessment Management Framework and Policy, attached in Appendix 1, was prepared by staff (guided by the mission) and reflects current related activities in Tonga, such as budget, projects, and procurement. Approval of this framework by Cabinet is a critical first step for improving the recording and reporting of fixed assets. Current plans by the MOF are for approval before December 31, 2019.

**8. The implementation of the policy and framework can be facilitated by involving other key players in the activities.**

Ministry of Finance should review the attached draft policy and framework, making any needed changes for approval by Cabinet. Prior to approval, key entities involved in the process can establish a working group to facilitate implementation. This includes Ministry of Finance Procurement Division, Budget Division, Treasury, Project Division, Lands and Survey, and Ministry of Infrastructure.

**9. While the approval of the policy and framework is critical for initiating the improvements in recording and reporting on fixed assets, related activities need to be underway as soon as possible.**

An implementation plan should be prepared to facilitate the processes. The implementation plan can identify key communications, implementation timelines, milestones, documentation to be prepared supporting the process, and additional GoT personnel that can be involved in the implementation to facilitate the other reforms that will need to be underway. Monitoring of the plan against the milestones can identify if the implementation is proceeding as planned.

#### Documentation for Fixed Asset Reporting and Recording

**10. To facilitate compliance with key provisions of fixed asset recording and reporting, employees of government should have access to documentation on the processes.**

A single source of documentation eases the capacity of staff of Ministries to comply and enables managers to understand the process. Preparation of a manual on the framework and related reporting and recording should begin immediately so it can be shared when the framework is approved. The manual can be updated as new processes are added, technology (IFMIS) is updated, and similar situations. The manual can be used to address both manual and IT processes, include templates for ease of compliance, and provide linkages with related activities.

**11. Currently, the notes to the financial statements report the net change in fixed assets only.**

It would be beneficial for Treasury to comply with IPSAS 17, IPSAS 1, IPSAS 26, and other related standards to prepare the notes to the financial statements. Treasury can request

this information from Ministries. To prepare the note to be consistent with IPSAS<sup>1</sup> standards, a reconciliation of the beginning balance, additions, acquisitions, reclassifications, depreciation, changes in value, other changes, and ending balance should be shown for each class of property, plan, and equipment.

**12. As noted by the Auditor General, the value of fixed assets in financial reporting is currently distorted since government is not reflecting depreciation.** Although the government of Tonga is not on accrual basis of reporting, the modified accrual noted by government in the financial statements does not exist in the existing common recognized standards. The government financial statements currently reflect an amount for fixed assets in the notes to the financial statements which can include a memorandum statement on the amount of depreciation that would be recorded that year, under an accrual basis and the depreciated value, reflecting accumulated depreciation. Additional adjustments can be made to reflect any revaluations or other changes that may occur, in accordance with IPSAS 17.

**13. Government fixed asset records are currently not recorded within the government integrated financial management information system, SunSystem.** The use of the SunSystem Fixed Asset Module in the IFMIS should be investigated and implemented, if possible. If the implementation will be delayed or is not feasible, a database can be created to consolidate the information into a government wide fixed asset registry and could be later interfaced with the automated system.

**14. The amounts in the consolidated fixed asset registry should be reconciled and verified with the Ministry fixed asset registries.** Ministries should be responsible to update their fixed asset registries and provide details to the government registry on purchases, disposals, and other changes in fixed assets. This should be done annually, at a minimum, and preferably, quarterly. The fixed asset registers should also be updated after the annual stock take and the variances explained within the next report to the Ministry of Finance. The data in the registry data should be verifiable through invoices, fixed asset procurements, approvals for disposal, and other information obtained through the Ministry of Finance and the applicable ministry. Ministry fixed asset registers should be consolidated into the consolidated registry and the data should be used to prepare the note to the financial statements. The fixed asset reporting by ministries should be provided in sufficient detail to allow the Ministry of Finance to prepare a comprehensive note in the annual financial statements. These responsibilities should be recognized within the framework and supported by promulgated requirements, preferable through Treasury Instructions<sup>2</sup> or Circulars from Ministry of Finance.

**15. To enable future recording, reporting, and depreciating of fixed assets, reforms on the chart of accounts should be properly planned for these changes.** The current

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<sup>1</sup> International Public Sector Accounting Standards IPSAS

<sup>2</sup> While these are now in Treasury Instructions, the requirements need to be updated to ensure adequate information is available on all changes in fixed assets.

treasury instructions detail the classes of assets, each with a range of useful lives. The use of sub-classes can provide further detail into asset type and similar range of life.

**16. A committee to oversee the asset management functions can provide a comprehensive view for the government.** A Government Asset Advisory Committee exists in the Treasury Instructions but is not currently operational. No central oversight exists at this time. There is a Government Asset Disposal Committee (GADC) in place. The use of a single committee can facilitate the implementation of the framework and policy. Government should consider implementing a single committee, and, overtime, formalize the members and role/responsibilities to cover all aspects of fixed assets.

**17. For proper life cycle management of fixed assets, government should ensure adequate maintenance funding is available.** From discussions, in the past there was a separate fund but after the fund was discontinued, budget allocations for maintenance may not be adequate or used for other purposes. As a result, limited maintenance occurs, and assets are replaced more often. Proper maintenance can enable the best value for money from the purchase. The maintenance funding procedures should be reviewed and, if possible, implemented at an adequate level to provide for the maintenance of government assets.

## IV. Conclusion

**18. Following this mission, Government of Tonga should review the recommendations and implement as soon as possible to establish a proper framework.** Additional technical assistance may be required as they proceed to implement and improve reporting on fixed assets. Several other technical assistance missions are scheduled for the upcoming year and, pending requests from government, those missions may be changed or adjusted to assist in the implementation of improved reporting.

Summary of Recommendations	Section III PPG	Short-term	Medium-term
Approval of the Fixed Asset Framework and Policy	7	x	
Preparation of Implementation Plan	9	x	
Preparation of a Fixed Asset Manual	10	x	
Recognition and support for a committee to provide for oversight of Government Assets and implementation of the framework.	16	x	
Improve the data provided on fixed assets in the notes to the financial statements.	11-12	x	

Continue implementing chart of accounts reform, including improvement for recording and reporting on fixed assets	15		x
Implement the fixed asset module within the IFMIS or consolidate records to prepare a consolidated report of fixed assets details. The fixed asset registry and Ministry of Finance records should be reconciled at least annually, after stocktaking.	13-14		x
Provide adequate fund for the maintenance of government assets	17		x

# GOVERNMENT OF TONGA

# FIXED ASSET MANAGEMENT

# FRAMEWORK AND POLICY

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# 1. PURPOSE

The purpose of this document is to formalize the concept of asset management. It is designed to highlighting the principles and mandated requirement for undertaking asset management, outlining the strategies and plans which addresses the Government of Tonga (GOT) Assets Management Responsibilities. The aspects of asset management are within Treasury Circulars, Financial Management manual and other applicable manuals. .

The Ministry of Infrastructure (MOI) issued the "Tongan National Infrastructure Investment Plan 2013-2023 (NIIP 2)" which presents one of the investment projects and complementary measures of "developing a national policy for Strategic Asset Management as a core function of agencies and incorporates a longer-term view of infrastructure needs and asset management". The Fixed Asset Management Framework and Policy will cover infrastructure assets that are subject to the MOI mandates in respect of all infrastructure needs of Ministries, Departments and Agencies (MDAs). The Ministry of Finance and Policy issued the "Treasury Instructions 2010" which covers financial assets, inventories, vehicles and property, plant and equipment.

# 2. SCOPE

The extent of this framework will be limited to property, plants and equipment (PPE) owned or controlled by the Government of Tonga (GOT). This document excludes inventories, investments, financial and intangible assets. This framework acknowledges that the "Strategic Asset Management" proposed in the National Infrastructure Investment Plan 2013-2023 will cover the management of infrastructure assets and policies and procedures issued by MOI will be in force for infrastructure assets. However, infrastructure assets will be disclosed together with PPE in the Public Accounts that is annually compiled by the Ministry of Finance (MOF). This document will enable a link to implement the two strategic documents together under the "Assets and Financial Statements" section.

The Property, Plant and Equipment will be either named as "Asset or Assets" or "Fixed Asset/Assets" in this document.

# 3. BACKGROUND

The Public Finance Management Act (PFMA) 2002 provides governance structure for the planning, acquisition, operation, maintenance and disposal of public resources that is controlled and owned by the Government of Tonga (GOT). GOT encounters challenges in managing its

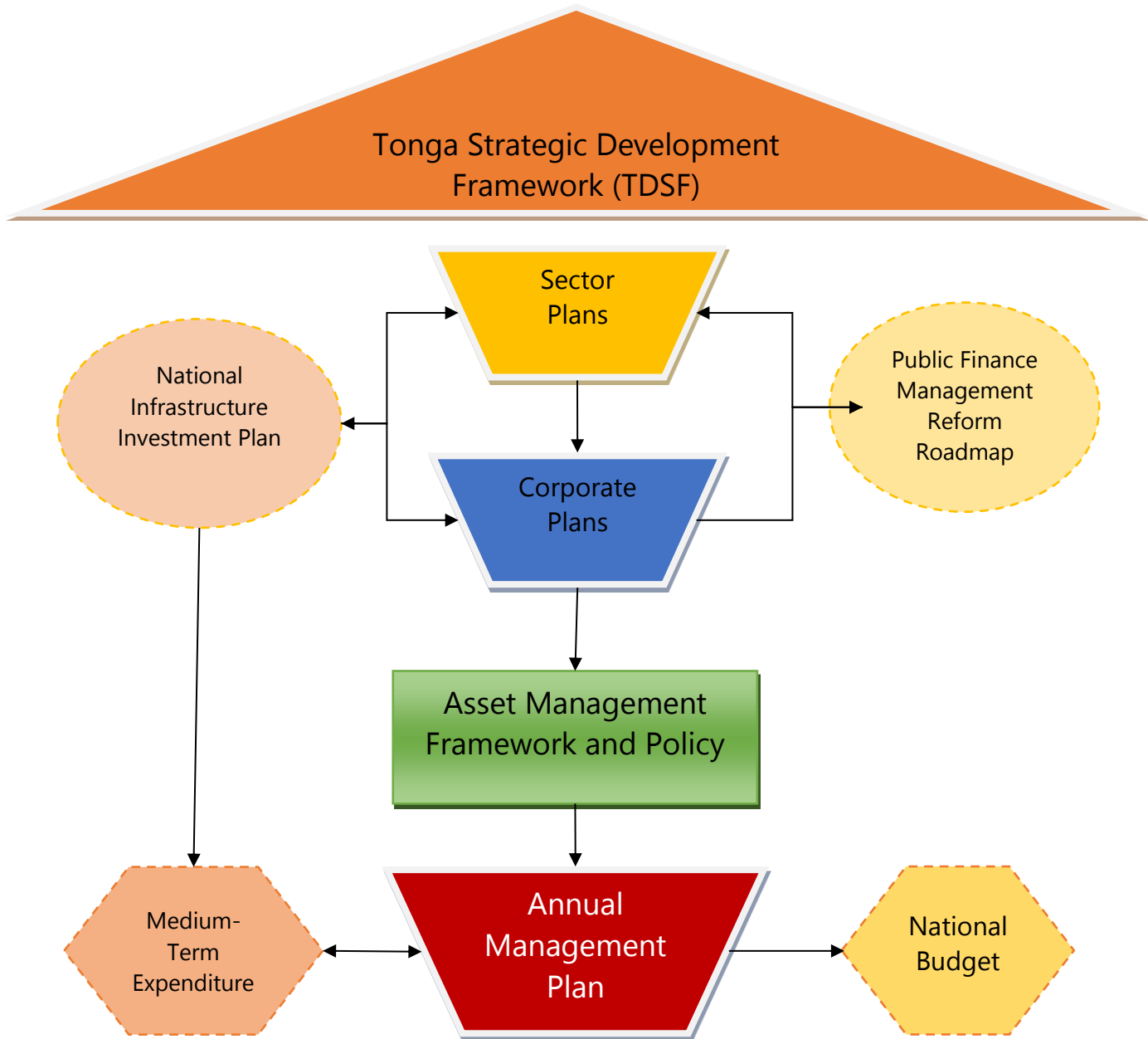
assets as reflected in the Minister of Finance (MOF) statement of responsibility in the Public Accounts The Auditor's Report issued a "Qualified Opinion" for Public Account 2016/2017 on the basis that "until all assets and liabilities of Government are completely accounted for with fair valuation as in full accrual basis of accounting, the scope of the audit is continued to be limited to the recorded and reported assets and liabilities". As part of the continuous efforts to improve the accounting and reporting of assets, the GOT will maintain an asset management framework, provide a Financial Management Information System (FMIS) to enhance processing, and establish procedures for managing fixed assets.

4. The Asset Management Framework (AM), including the Policy, enhances the Treasury Instructions and support the development of a "Tongan Infrastructure Management Framework" which will be administered by the Ministry of Infrastructure. The AM Framework and Policy will align existing activities for the management of assets to the Tongan Strategic Development Framework 2015-2025", Corporate Plan and other Strategic Plan documents that are required to the

## planning of assets. **ASSET MANAGEMENT STRATEGY**

### **4.1 Linking Strategic Planning Documents for the Government of Tonga to the Asset Management Framework**





#### 4.2 Tongan Strategic Development Framework (TSDF)

The Tongan Strategic Development Framework (TSDF) is the central planning document for the long term development of Tonga. At the time of this writing, the TDSF 2015-2025 overarching vision for development is "A more progressive Tonga: Enhancing our Inheritance". This vision is supported by National Outcomes and Organizational Outcomes. The organizational outcomes are grouped into the pillars or priority areas for development. The development of the Asset Management Framework and Policy will not only support Organizational Outcomes for Pillar 1 (Economic Institutions), also the Organizational Outcomes for Pillar 4 (Infrastructure and Technology).

### **4.3 Tonga National Infrastructure Investment Plan (NIIP)**

The Government of Tonga (GOT) approved the first Tonga National Infrastructure Investment Plan (NIIP1) in October and a NIIP2 (phase 1) update in July 2013. This document is included as infrastructure sector plan in the Tonga Strategic Development Framework within the Ministry of Infrastructure (MOI). The Tonga National Infrastructure Investment Plan (NIIP) was developed as a separate planning, programming and developing document to manage and lead the economic infrastructure planning framework for Tonga. The NIIP covers the follow sectors:

1. economic infrastructure sectors such as energy;
2. information, communication and technology (ICT);
3. water and waste; and transport (roads, marine, and aviation).

### **4.4 Public Finance Management Reform Roadmap**

The Public Finance Management (PFM) Reform Roadmap provides a guidance and pathway in reforming and improving Tonga's Public Financial Management (PFM) Systems. The Government of Tonga (GOT) approved its existing PFM Reform Roadmap for implementation on October 2014. The GOT stated its commitment in implementing the PFM Reform Roadmap as it is part of its overall public sector reform and development strategy, namely Tonga Strategic Development Framework (TDSF). Some of the actions proposed in this Reform Roadmap were results of the completed public financial management system reviews using the Public Expenditure Finance and Accountability (PEFA) Assessment.

The development of an Asset Management (AM) Framework is proposed to address and improve the management of assets owned and/or controlled by the GOT. The AM Framework is crucial in ensuring that Government:

- Maintains effective internal controls to manage its physical assets;
- Maintain proper records regarding the use and disposition of those assets;
- Properly account for those assets in the Government Financial Statements.

It should also be noted that the AM Framework takes into account work done on the National Infrastructure Investment Policy (NIIP).

### **4.5 Asset Management Policy**

#### **4.5.1 PURPOSE**

The Government of Tonga (Government) acknowledges that assets support its core business to deliver citizen services. Government is committed to ensuring that services are provided in a sustainable manner, at appropriate levels to residents and visitors and taking due regard of the environment.

Safe, secure and sustainable assets are the cornerstones of public health and safety and are necessary to meet the social, economic and recreational needs of the community.

Therefore, Government is committed to the adopted of sound asset management practices and

processes which will significantly contribute to the achievement of Government's vision.

This policy:

- Specifies Government's overarching intentions and guiding principles for fixed assets management.
- Provides a governance framework for Government to undertake the management of its fixed assets.
- Promotes sustainable development and accountability for prudent whole of life management and maintenance of fixed assets.
- Includes commitments to funding maintenance, legal compliance and continuous improvement in performance.

#### **4.5.2 EXTENT OF COVERAGE UNDER THIS POLICY**

This policy is a whole of government policy and applies to all Ministries, Agencies and Departments (MDAs).

This policy applies to property, plant and equipment (PPE) owned or controlled by Government, however, the policy recognizes the Tonga National Infrastructure Investment Plan (NIIP) which covers infrastructure asset management and provides that such infrastructure assets will be governed by that policy.

This policy is intended to address fixed assets.

The scope of fixed assets to be included or excluded shall be at the direction of Cabinet and as recommended to Cabinet via the Ministry of Finance or the Government Assets Advisory Committee as per Part I, Section 6 of the Treasury Instructions 2010.

#### **4.5.3 LEGISLATIVE AUTHORITY AND GUIDANCE**

This policy is developed in accordance with the legislative mandate in the Public Finance Management Act of 2002.

#### **4.5.4 LINKAGES TO OTHER GOVERNMENT POLICY AND PLANNING INSTRUMENTS**

It is intended that the development and implementation of any policies on fixed assets consider the principles outlined herein to ensure safe, secure and sustainable asset management philosophies are embedded throughout Government.

This may include but are not limited to Agency Corporate Plans, Asset Management and Financial Management Plans.

#### **4.5.5 KEY DEFINITIONS**

**Fixed Assets.** Fixed assets include properties, plants, equipment and infrastructure which deliver critical services to our communities supporting quality of life and economic development. Encompasses all assets outlined in Section 4.5.2 of this Policy.

**Asset Management.** Asset management is taking a systematic approach to managing fixed assets. This involves applying a combination of financial and other technical practices to the management of fixed assets; costs; opportunities; risks; and performance.

**Asset Management Plan.** An asset management plan defines the implementation of activities necessary to realize an organization's asset management objectives which translate the strategic intent of that organization.

**Asset Maintenance.** Maintaining an asset refers to all operational actions necessary for retaining an asset as near as practicable to its original condition but excluding rehabilitation or renewal. Maintenance does not increase the service potential of the asset or keep it in its original condition, it slows down deterioration and delays when rehabilitation or replacement is necessary.

**Asset Renewal.** Restores, rehabilitates, or refurbishes an existing asset to its original capacity. Returns service capability of the asset up to that which it had originally.

**Asset Improvement.** Enhancements to an existing fixed asset or creation of a new asset to provide higher service levels, or new service level/output that did not exist beforehand. Also includes the extension/expansion of an existing asset to provide benefits to a new user group. May also increase the life of the asset beyond that which it had originally.

**Asset Funding Gap.** The difference between the investment required for the renewal of an asset over the life of that asset class, and the amount of funds currently being spent on renewing that asset class annually. Underinvestment in maintenance and renewal of infrastructure increases this gap.

#### **4.5.6 FIXED ASSETS MANAGEMENT PRINCIPLES**

Under this Policy, Government is committed to achieving sustainable performance, risk and funding of its fixed assets. All applicable entities shall adhere to core fixed asset management principles:

- Service delivery drives fixed asset management practices and decisions;
- Asset management decisions shall be based on service delivery needs and the benefits and risks of assets, with an evaluation of alternatives option that consider account lifecycle costs and intended use;
- A strong safety culture and capability to deliver a safe, zero-harm service and workplace,

shall be a cornerstone of fixed asset management decisions and practices;

- Asset Planning and management has a direct link with Governments corporate and business plans, budgets and reporting process;
- Medium and long term financial planning shall consider asset planning and management;
- Asset depreciation may be used to fund asset renewal or rehabilitation;
- An asset priority evaluation process shall be used for all new or upgrade projects involving fixed assets. A business case shall be prepared as part of the initial formulation of fixed assets over a nominated threshold as outlined in the asset management framework;
- New or upgrade fixed assets (regardless of funding source) are to include full lifecycle costs as part of priority evaluation;
- Asset Management plans must link the compliance of MDA's respective assets with the principles and guidelines of this fixed asset management framework. These plans shall be informed by needs, and integrated with government financial reporting frameworks;
- Financial and Asset Management reporting shall be categorized consistent with the government chart of accounts to reflect operations, maintenance, renewal, upgrade and new expenditure classification to enable sound Asset Management decisions;
- 'Maintenance before Renewal' and 'Renewal before New or Upgrade' philosophy shall generally be applied (where it is cost effective to do so);
- Staff with fixed asset and financial responsibilities shall be appropriately briefed in relevant asset and financial management principles, practices and processes;
- After establishment, the condition or structural integrity of fixed assets will be managed by application of appropriate lifecycle activity i.e. operations, maintenance, renewal or upgrade and disposal.

#### **4.5.7 ROLES AND RESPONSIBILITIES**

##### **i. Ministry of Finance**

The Government through Ministry of Finance will develop and operate a framework with objectives aligned with this Policy. A monitoring, evaluation and reporting system with suitable performance indicators shall also be developed to measure and monitor achievements and progress against the framework and provide adequate coverage for recording and reporting on fixed assets. This reporting will be an integral component in the Government financial reporting.

The feedback from monitoring will be used to update the register of fixed assets. It will also provide updates on the use and availability of fixed assets for Government operations.

Ministry of Finance, through the budget and financial reporting, will engage to provide support for ministries to ensure fixed assets are available, recorded within the appropriate registers, and managed within Corporate Plans.

Ministry of Finance shall seek input from ministries to promote the successful implementation of their Corporate Plans, and to ensure compliance with this Policy.

ii. Ministries, Departments, and Agencies

Ministries are responsible for their fixed assets. This includes assets purchased, donated, transferred, or otherwise provided to enable the ministries fulfill their responsibilities. Ministries are responsible for properly acquiring the assets, including complying with applicable government purchase and other directives for the acquisition. Upon receipt of the assets, ministries should include the fixed assets within their fixed asset registry using proper accounting principles and providing all applicable information required. Similarly, when fixed assets are disposed of, the registry shall be updated.

Annually and quarterly, Ministries shall update Ministry of Finance on changes in their fixed asset registry. This includes additions, deletions, revaluations, depreciations (if applicable), and other changes in valuation.

Upon annual stock taking, Ministries shall also update their fixed asset registry and note variances, providing applicable information to Ministry of Finance on their next scheduled reporting.

iii. Government Assets Committee (GAC)

There shall be a Government Assets Committee (GAC) to provide and advise, support coordination, and facilitate the oversight of Fixed Asset Policy and other key components comprising to Government's Fixed Asset Management Framework. Members of the GAC shall include Chief Executive Officers of key ministries, agencies, government public enterprises, and others, as approved by the Ministry of Finance.

iv. Public Enterprises

Further to corporate and financial reporting mandated by legislation, Public Enterprises Entities are required to submit to the MOF and MOI and must consider the policy principles outlined in Section 4.5.6 (for review, inspection and report to the AMSC), 3 months before the end of each financial year:

- Asset Management Plan;
- Maintenance and Capital Investment Plan (MIP/CIP);
- Asset Evaluation Assessment Report (EAR)

Any amendment made to a Public Enterprise Entity's MIP/CIP as a result of funding confirmations (local budget or development partner supported) must be made and relayed no more than 1 month after the relevant negotiations are finalized.

All information provided by in relation to this Policy shall be in templated formats determined by MOF, MWTI and GAC.

#### **4.5.8 POLICY REVIEW**

Ministry of Finance shall review this policy bi-annually and as required. Any review and recommendations shall be tabled for endorsement by the Government Assets Committee (GAC) for Cabinet approval.

## 5. ASSET AND FINANCIAL STATEMENTS

### 5.1 Responsibility for Financial Statement

The responsibility for the preparation and presentation of financial statements is laid out in Part VI, Section 38 of the Public Finance Management Act 2002 and Part XIV, Section 116 of the Treasury Instructions 2010.

## 6. ASSET LIFE-CYCLE MANAGEMENT

### 6.1 Planning Phase

#### *Introduction*

The Fixed Asset Management Framework will address the challenges that the government has on its current PFM systems, particularly on the “Policy Formulation, Planning and Budget Formulation” area. This document will recommend Ministries, Agencies and Departments (MDAs) to link the following relevant costs to the budget document:

- Estimates recurring costs (including all operating costs;
- Estimated future repair/replacement costs based on depreciation factors) of all new investment projects (including development projects); and
- Estimated repair/replacement costs of existing capital assets for all sectors.
- Estimated maintenance costs

#### *Role, Characteristics and Recognition of Assets*

- Role of an Asset

The role of assets is to support the delivery of a government service to the public. Assets should only exist to support programme delivery. The key starting point is to establish a link between programme delivery and assets. Corporate objectives are translated into programme objectives, delivery strategies, outputs and outcomes. Assets within a programme are one of the inputs utilized to enable programme outputs. If an asset does not contribute effectively to such a government service, it should not be held or used and must be disposed of.

- Characteristics of an Asset

For the purpose of this framework, an asset is an item consists of the following characteristics;

- a) It is a physical item of **value**;
- b) It possesses service potential or **future economic benefit** that will flow to the entity;
- c) The service potential or future economic benefit is **controlled** by an entity;
- d) The service potential or future economic benefit arose from **past transactions or events** (that is, 'future' assets cannot be recognised in the financial statements);
- f) The asset has a cost or value that can be **measured** reliably.

- Recognition of Assets in Financial Statements

All items that meet the definition and recognition criteria to be considered assets are to be incorporated in the Statement of Financial Position.

### ***Evaluating Existing Assets***

The Asset Unit of the Ministry of Finance in collaboration with Ministries, Departments and Agencies (MDA) must carry out evaluation assessments of government's existing assets in every two years for assets of \$5000 or more. This evaluation determines whether their performance is adequate to support the objectives of the government.

### ***Evaluation of Asset Performance***

All assets that are currently being used to deliver the service under consideration need to be identified and registered. If assets are not operating effectively or there is a need for replacement, a government ministry should follow instructions for disposal and/or write off.

### ***Developing Assets Strategy***

The Ministry of Finance, with the support of the line ministries, should establish an Asset Strategy for the whole of government and it should be part of ministries corporate plans. It should indicate the relationship between the fixed assets performance and service delivery. This strategy should be prepared consistent with the Fixed Asset Management Framework and Policy document.

### ***Classification of Assets***

Fixed Assets owned and controlled by government, funded by local budget or development partners, are to be classified in accordance with directives provided by the Ministry of Finance.

### ***Asset Register***

Asset Register is a list of the assets that is owned and controlled by government. It should contain pertinent details about each fixed asset to track their value and physical location. For any given Asset System, one or more Asset Registers can be created. The Asset Register controls the assets created within it by:



- Defining a unique code number or reference for the asset that is planned and budgeted to be acquired (funded under the local budget or by development partners);
- Describing of the details pertaining to the acquisition of the asset;
- Updating information pertaining to the operations and maintenance of the asset;
- Explaining the details pertaining to the disposal of the asset.

The Government of Tonga may set up an asset register for each MDAs or choose to set up one (1) asset register for the whole of government. The template for this asset register will be prepared, planned and rolled out by the Ministry of Finance. Additionally, this register must include selection codes used to identify MDAs and other information necessary to the recording, maintenance and disposal of the asset. Each MDA will be responsible for inputting or providing the information within the asset register for the assets identified as part of their organization.

## **6.2 Acquisition Phase**

The acquisition of assets is a significant asset management activity therefore, it is vital that the acquisition decisions are taken within an integrated planning framework that takes account to service delivery needs, corporate objectives, financial and budgetary constraints, and the Government's overall resource allocation objectives. To review the conclusions drawn in the planning phase, property, plant and equipment should be recognized using estimated value or fair value in the financial statements.

### ***6.2.1. Measurement of the Elements of Financial Statements***

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the statement of position and statement of financial performance. As noted earlier, a standard for the recognition of an item is that it possesses a cost or value that can be measured with reliability. Before an item is recognized as property, plant and equipment for financial reporting purposes, it must satisfy the definition of property, plant and equipment and meet the recognition criteria for assets.

This involves the selection of the particular basis of measurement. A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

- **Historical cost:** Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition.
- **Realizable (settlement) value:** Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal.

Property plant and equipment shall be valued initially at either cost or fair value. GOT may issue instructions regulating the carrying value or changing the method of valuation.

The GOT Public Accounts includes several categories of assets, including the cash on hand, inventories, receivables, investments and property, plant and equipment, in the statement of financial position. This framework currently focuses on the property, plant and equipment.

Tonga financial statement should be presented consistent with applicable accounting standards. International Public Sector Accounting Standards provide guidance on the initial and subsequent measurement of property, plant and equipment.

### **6.2.2. Methods of Acquisition**

Fixed assets for the GOT can be acquired through the following methods:

- **Buying:** The purchasing of government assets is explained in detail in Part IV Section 24(4) of the Treasury Instruction 2010.
- **Leasing:** Propose incorporate acquiring of fixed assets through lease agreement in the Treasury Instruction 2010 to address such method;
- **Gifts:** Propose to incorporate the acquisition of fixed asset through donations and grants from Development Partners in the Treasury Instructions 2010.

As part of the acquisition process, MDAs needs to consider;

- The nature of the assets to be acquired
- The capacity of the industry (supplying the assets)
- The suitability of contractors or suppliers in accordance with the Public Procurement Regulation

### **6.2.3. Asset Valuation**

IPSAS 17 requires items of property, plant and equipment to be valued at cost (as at the date the assets are acquired). Whereas Section 80 of Treasury Instruction indicates that Property, plant and equipment shall be valued at either cost or fair value. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing partings in a transaction. Where an asset is acquired at no or nominal cost, its cost is its fair value. Fair value Asset values are generally recorded at the estimated value and they may later be revalued on a number of purposes. There are various methods used for valuation of the property, plant and equipment as listed below:

- *Market value*
- *Depreciated replacement cost*

An asset may not have a determinable cost because of inadequate or non-existent records. For example, a historic building of national significance may have been acquired 10 years ago and no record of its acquisition cost may be available. The initial recognition of an asset at its fair value, in the absence of a determinable or reliable cost, does not constitute a revaluation in terms of IPSAS. Accounting standards generally (both internationally and nationally) require the initial recording of an asset to be at historical cost. 'Cost' includes necessary, additional expenditure such as transport of the asset to the site. For items where there is no cost to the entity (e.g. gifts or transfers without cost) the standard requires that they be recorded at their fair value (i.e. the amount that a willing buyer and willing seller would agree on).

#### ***6.2.4. Asset Transfers between Departments and Entities***

Pertaining to Section 88 of the Treasury Instructions 2010 dictates the procedure of transferring GOT assets between MDAs. This process highlights that by agreement in writing with another Accountable officers, transfer assets under the control of the first MDA to the control of the second MDA. It will only take place upon approval of the GADC in writing. So as the Assets Registers of both MDAs shall be adjusted accordingly.

For transfers between departments, assets would initially be recorded at the carrying value in the books of the receiving department and taken out of its books at the carrying value by the transferring department; however, the receiving department should also record both the gross book value and accumulated depreciation. (i.e. not just the net figure) and both the above values should be reversed out by the transferring department. Where the asset was transferred at 'no value' or 'donated' to the receiving department, this treatment does not differ.

#### ***6.2.5. Exchanges of Assets***

Exchange of assets may occur. A typical situation is done due to restructuring of MDAs in the GOT. For example, moving the Planning division from the Ministry of Finance to Prime Minister's office incurred the exchange of assets.

### **6.3 Operations & Maintenance Phase**

#### ***6.3.1 Expenditure of Assets during its useful life***

Assets are modified during their useful life. There are two main types of modification:

- Refurbishment/Renovation – capital expenditure;
- Maintenance - current expenditure

##### a) Enhancement/Rehabilitation:

This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service of the potential of the asset, and or may extend an asset's useful life, thus increase the asset's value.

##### b) Maintenance/Refurbishment:

Expenditure related to repairs or maintenance of property, plant and equipment to restore or maintain the future economic benefits or service potential of the asset.

#### ***6.3.2. Depreciation Expense***

Depreciation is defined as the systematic allocation of the depreciable amount of an asset over its useful life.

All depreciable assets recorded in the assets register shall be depreciated<sup>3</sup>. If no specific guidance is given, assets depreciation should be calculated using the straight-line method over the estimated useful life. The estimated useful life shall be:

- a) Appropriate type, sub-class, use and location of the assets
- b) Determined by the respective MDA with consultation and agreement with the MOF and the Audit Office ranges:

Unless other guidance is provided, sub-class of the asset classifications and categories shall be in accordance with an approved classification scheme. Examples are in Government Finance Statistics Manual 2014 or applicable IPSAS standard. The class, type, sub-class, and other information should be approved and promoted by the Ministry of Finance. Additional details or structures can be used if established and approved by Government of Tonga.<sup>4</sup> For each class or sub-class, revaluations (if performed) is to be done across the grouping. Providing for a class or subclass to be consistent and with a similar useful life can ease reporting, recording, and depreciations.

The Treasury Instruction should be updated to include all classes and sub-classes with adequate narrative description to ease recording and reporting.

### **6.3.3 Private Use of MDAs Assets**

i) Accountable officers shall ensure that proper system of control is established, and clear guidance provided to identify what, if any, private use of entity assets is acceptable, the level of use (defined in terms of quantity), and the circumstances under which costs will be recovered. This include the use of photocopiers, telephones, cell-phones, means of accessing the internet, vehicles and stationeries.

### **6.3.4 Internal Control**

1) The MDA shall have an internal policy on the use of communication technology – cell phones, telephones, e-mail and other access to the Internet – and Accountable Officers shall ensure that staffs are well informed of such policy. Such policy should consider the risk of abusing the use of such communication technology and the resulting cost to the government.

2) Any costs of private use of assets should be recovered, unless it is impractical or uneconomic to separately identify those costs, and where it is administratively possible and cost- effective require reimbursement of personal use of communications technology.

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<sup>3</sup> At a minimum, the depreciation should be noted in the notes to the financial statements. Depreciation of fixed assets should be implemented as a step on the roadmap to accruals.

3) The use of the MDA's assets for any private business that any employee may operate is prohibited. Accountable Officers shall report any such abuses to the Chief Executive Officer and to the Auditor General.

## **6.4 Disposal Phase**

### **6.4.1 Disposals of Properties, Plant and Equipment**

#### ***Contra to Section 84 of Treasury Instruction 2010 at the time of drafting this Framework;***

An item of property, plant and equipment should be eliminated from the statement of Financial position on disposal or when assets is permanently withdrawn from use and no future economic benefits or service potential is expected from it. That all items of property, plant and equipment (Government Assets) required to be dispose-off, should be reported by the MDAs accountable officers concerned to the authorized Government Committee (Government Assets Committee (GAC)).

That all assets required to be dispose-off by MDAs, should be detect and identify by the accountable officers and request in writing to the Secretary of the Government Asset Committee (GAC) for the approval of the Exact MDAs assets.

Before submit of MDAs request, Accountable Officers should include updated details of that particular assets from their respective MDA's Asset Register on their submission which include the following information's: -

- Type of Assets;
- Date of purchase;
- Estimated economical useful life;
- Cost price and relevant invoice;
- Book value at date of proposed disposal;
- Recommended disposal value; and
- Recommended method of disposal

#### **List of Public Stores Recommended for Disposal:**

In reference to Public Finance Administration (Public Stores) Regulations Section 9 which is in place during the time this Framework was draft, in which the Head of Department shall submit to the Standing Board of Survey a list of the Public Stores recommended for disposal.

The submission from the Head of Departments shall include the following information: -

- Type of Public Stores;
- Date of purchase or acquisition;
- Estimated economic life;
- Cost price and relevant invoice;
- Recommended disposal value; and
- Recommended method of disposal

## **Disposal and Destruction of Public Stores**

- In accordance to Public Finance Administration (Public Stores) Regulation Section 10; which was currently in place at the time this Framework was developed. The Standing Board of Survey shall inspect deteriorating, obsolete and surplus public stores. A report by the Standing Board of shall be made to the Minister of the Department concerned, on the disposal or destruction of such public stores.
- Such public stores shall be disposed of by public tender or auction or trade-in- or if unsuitable for sale shall be destroyed in the presence of at least one member or nominee of the Board.

**6.4.1.4** All assets requested by MDAs for disposal must sight and inspect before dispose-off. The GADC Board of Survey Team must conduct or perform a physical inspection of the related assets to be dispose and make recommendations for the disposal of assets through: -

- Sales;
- Transfer to another entity or another MDA;
- Transfer as a gift to a non-government organization which contributes to government outcomes;
- Retain for spare parts; or
- Discarding as scrap

**6.4.1.5** The disposal of MDAs assets requested for dispose-off must be approved by the GADC. Therefore, the approval of the GADC, required before disposing of any Government Assets. MDAs do not move or removed any assets requested for dispose unless they received the approval.

**6.4.1.6** Sales of the disposal assets shall be carried out in a transparent and competitive way to ensure that maximum value for money is obtained.

**6.4.1.7** The Accountable Officers shall ensure that all assets identified and approved by GADC to disposed to its staff are valued and subject to a tender or other process that is appropriate to the value of the asset; no parts shall be taken out of the assets by anyone prior to the disposal

## **6.4.2 Unused Serviceable Government Assets**

*In reference to Treasury Instruction 2010 Section 85; which was in place at the time this Framework was drafted.*

**6.4.2.1** Unused serviceable Government assets shall not be sold to any person. In special circumstances, and only with the prior approval of the GADC, unused serviceable Government assets may be sold

**6.4.2.2** Any Accountable Officers who seeks the GAC approval under Treasury Instruction section 85(1) above shall certify that the sale of such unused serviceable Government assets will not result in any cost being incurred by the Government in excess of the sale price in purchasing replacement for such assets

**6.4.2.3** Unused serviceable Government assets which are surplus to the requirements of the Government, or which have become obsolete, underperforming, or unserviceable shall be sold by direct sale to a tendered after tenders have been called for by public advertisement.

### **6.4.3 Trade-in of Government Assets**

In accordance to Treasury Instruction Section 87; *which was in place at the time this Framework was established.***6.4.3.1** Accountable Officers may, with the approval of GAC, dispose of Government Assets (referred to here as used assets), in transacting the purchase of replacement assets, in return for a value officered by the supplier of such replacement assets.

**6.4.3.2** If the value of the replacement assets to be charged by a supplier is greater than the value is being offered by that supplier for the used assets, then the Government shall pay the different to the supplier, but if the value of the replacement assets to be charged by a supplier is less than the value that is being offered by that supplier for the used assets then the supplier shall pay the difference to the Government.

**6.4.3.3** For the purpose of recording transactions of the type referred to in this Instruction, the used assets shall be regarded as being disposed of and the replacement assets shall be regarded as being purchased.

### **6.4.4 Write-off of Government Assets**

In accordance to Treasury Instruction Section 89; *which was in place at the time this Framework was developed.*

**6.4.4.1** Upon recommendation from the Accountable Officers, any assets may be written-off subject to written approval from the GADC

**6.4.4.2** All assets that are written-off shall be properly recorded and such record shall contain:

- Detail description and value of the asset written-off; and the estimated replacement value of the asset.