

# AUDITED PROJECT FINANCIAL STATEMENTS

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Loan number: 2000001933

Grant number: 2000001932

Period covered: 01 July 2019 to 30 Jun 2020

## Tonga Rural Innovation Project II (TRIP II)

Received on 12 February 2021

The Audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those IFAD's Board of Directors, Management or Staff. These documents are made publicly available in accordance with the "IFAD Handbook for Financial Reporting and Auditing of IFAD-Financed Projects (2018)".

# PROJECT AUDIT REPORT

For the Period 01 July 2019 to 30 June  
2020

Report No.: TRIPII\_AUDIT\_Y2-300620

TONGA REPORT

# 2

Document Date: 30-Jun 2020  
Project Grant No.: 2000001932  
Project Loan No.: 2000001933  
Report No: TRIPII\_AUDIT\_Y2-300620

*Mainstreaming of Rural Development Innovation (MORDI) Tonga Trust  
Project Management*

**Mainstreaming of Rural Development Innovation  
Tonga Trust**

**IFAD Grant No.: 2000001932**

**IFAD Loan No.: 2000001933**

**TRIP II**

*Tonga Rural Innovation Project II*





# Mainstreaming of Rural Development Innovation Tonga Trust

## Project Audit Report

TRIP II\_AUDIT\_Y1-300620

For the period 01 July 2019 to 30 June 2020

Prepared by;

**Mainstreaming of Rural Development Innovation  
Tonga Trust,**  
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## TRIP II

*Tonga Rural Innovation Project II*



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## Abbreviations and acronyms

<b>AWPB</b>	Annual Working Plan and Budget
<b>CDP</b>	Community Development Plan
<b>CEIG</b>	Community Economic Infrastructure Grant
<b>CELG</b>	Community Economic Livelihood Grant
<b>DA</b>	Designated Account
<b>FAO</b>	Finance and Administration Officer
<b>FIFO</b>	First in First out
<b>GoT</b>	Government of Tonga
<b>IFAC</b>	International Federation of Accountants
<b>IFAD</b>	Internal Fund for Agricultural Development
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>IPSAS</b>	International Public-Sector Accounting Standards
<b>ISAs</b>	International Standards on Auditing
<b>JKCA</b>	Jennifer and Kisione Chartered Accountants
<b>KPMG</b>	Klynveld Peat Marwick Goerdeler Fiji
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MFNP</b>	Ministry of Finance and National Planning
<b>MORDI TT</b>	Mainstreaming of Rural Development Innovation Tonga Trust
<b>MOU</b>	Memorandum of Understanding
<b>NGO</b>	Non-Government Organisation
<b>NZAP</b>	New Zealand Aid Programme
<b>OPM</b>	Operation Manager
<b>PBAS</b>	Performance Base Allocation
<b>PFS</b>	Project Financial Statements
<b>PRM</b>	Project Manager
<b>PRO</b>	Programme Officer
<b>SA</b>	Special Account
<b>SDR</b>	Special Drawing Rights
<b>SOE</b>	Statement of Expenditure
<b>SPRO</b>	Senior Programme Officer
<b>TOP</b>	Tongan Pa'anga
<b>TRIP</b>	Tonga Rural Innovation Project
<b>USD</b>	United States Dollar
<b>WA</b>	Withdraw Application

## I. PROJECT INFORMATION AND PERFORMANCE

### A. Institutional Details/Information

1. Mainstreaming of Rural Development Innovation (MORDI TT) Tonga Trust began in 2007 as the MORDI Tonga Programme, initially funded by the International Fund for Agricultural Development (IFAD), with additional funding from the New Zealand Aid Programme (NZAP) in 2010, Australia Department of Foreign Affairs and Trade (DFAT) and Food and Agriculture Organization of the United Nations (FAO).
2. Its goals are to strengthen the ability of target communities to sustainably improve livelihoods and income (community empowerment) and to address rural communities' lack of access to employment opportunities, financial services, markets and related technologies and information (economic empowerment). In its first phase, MORDI Tonga reached 22 remote rural island communities, expanding to 29 communities by 2011, 60 communities by 2012 and 122 communities by 2018.
3. As a non-governmental organization (NGO), it is now committed to working with 122 Tongan communities comprising 7,300 households and 39,300 people (19,677 males 19,623 females). MORDI TT has assisted its 106 communities in developing 106 viable community development plans (CDPs) and 47 community agricultural development plans (CADPs) from which the communities will identify specific projects.

#### 4. **MORDI TT Board of Trustees**

A. Chairperson	–	Dr. Seu'ula J. FUA
B. Trustee	–	Mr. Anthony Joseph RYAN
C. Trustee	–	Dr. Vili A. FUAVAO
D. Trustee	–	Ms. Jennifer TUPOU
E. Chief Executive Officer	–	Mr. Soane PATOLO

#### 5. **Project Address: Tonga Rural Innovation Project II (TRIP II)**

MORDI Tonga Trust Office,  
Vaha'akolo-Road, Haveluloto.  
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#### 6. **Bankers;**

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**SWIFT Code: BOSTONU**

#### 7. **Auditors;**

**KPMG**

Jetpoint Complex,  
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**FIJI**

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## B. Member of the Project Coordinating Unit

8. MORDI TT through partnership with the Government of Tonga represented by the Ministry of Finance and National Planning (MNFP) has been the implementation body of the Project. MORDI TT has established a Project Office in Haveluloto since 2018 and its current staff is listed below.

### 9. Project Staff

1. Chief Executive Officer	Soane Patolo
2. Chief Operation Officer - Finance & Administration	Lorfan Pomana
3. Administrative Assistant 1	Lilio Vaitaki Kalapa
4. Administrative Assistant 2	'Alisi Fotukava
5. Procurement Officer	Lata Faiva'ilo
6. Finance Officer	Mele Longani
7. Knowledge Management Coordinator	Todd Henry
8. Knowledge Manager Officer 1	Mafilate Taufu
9. Knowledge Manager Officer 2	Apikotoa Sitaleki
10. Safeguard Officer 1	Kaufaki Havili
11. Safeguard Officer 2	Ilisapesi Tai
12. Safeguard Officer 3	Siaosi Pohiva
13. Chief Operation Officer - Community Development	Ikenasio Taulangovaka
14. Community Development Administrator	'Amelia Havea
15. Senior Community Facilitator & Planner	Lopeti Tofa Masiu
16. Community Facilitator & Planner 1	Fonovai Manu
17. Community Facilitator & Planner 2	Uinise Hoponoa
18. Community Facilitator & Planner 3	Tominiko Tongotea
19. Chief Operation Officer - Agriculture Development	Tevita Tukia
20. Agricultural Planner & Research Officer 1	Louina Laulaupea'alu
21. Farming Systems & Farmer Field School Officer	Viliami Soakai
22. Home-Garden Officer	Malakai Moala
23. Agricultural Value Chain Officer	Sanualio Samita
24. Handicraft Officer	Mo'ui Vailea
25. Micro-Finance Officer	Kampeli Latu
26. Senior Agricultural Officer	Sitiveni 'Ofanoa
27. Agricultural Planner	'Ilaiasi Filiai
28. Agricultural Development Officer	Sione Tohotoa
29. Senior Finance Officer	Kalo Lainea Lolomana'ia
30. Knowledge Manager Officer 2	Salote Filimoe'ulie
31. Senior Construction Supervisor	Veimau Toke
32. Construction Site Supervisor 1	Ofa Mo'unga
33. Construction Site Supervisor 2	Afui Tangimana
34. Chief Operation Officer - Agriculture Development	Vili Laula
35. Agriculture Administrator	Filimoe'unga 'Aholelei
36. Agricultural Extension Officer	Kerry Lepa
37. Agricultural Extension & Home Gardening Officer	Taniela Latu
38. Agricultural Officer 1	Lynwood Fosita
39. Agricultural Officer 3	Vikita Vanila
40. Agricultural Officer 4	Keio Fonua
41. Agricultural Officer 5	'Oliveti Lu'au
42. Nightguard	Talikavili Tuita

### C. Background Information on the Project

10. The Tonga Rural Innovation Project II (TRIP II) builds on the success of a first-phase project was implemented between 2012 to 2016. The first phase of TRIP achieved significant results in engaging with remote outer island communities and supporting improvement in their livelihoods through enhanced community planning and delivery of improved public and private goods and services.
11. In February 23, 2018, a Grant Financing Agreement was signed between the Government of Tonga and IFAD for the financing of the Tonga Rural Innovation Project II (TRIP II). The Project Entry into force date on the same date of signing the Grant Financing Agreement. The Project Completion Date will be March 31, 2023 and the Financing Closing Date will be September 30, 2023 (six months after the Project Completion Date).
12. The *theory of change* for TRIP II is that enhanced community capacity for sustainable infrastructure planning and development, when linked with investment in resilient agriculture production systems, will contribute to improved and sustainable livelihoods for vulnerable households. Building resilience to climatic extremes and change is implicit in this approach, in line with the Tonga Strategic Development Framework (TSDf), the current Climate Change Policy, and the Tonga Agriculture Sector Plan (TASP).

### D. Project Objectives

13. The **goal** is to “contribute to the improved sustainable livelihoods for Tonga’s rural population”. The **development objective** is “*communities are enabled to plan and manage resilient infrastructure and livelihood activities*”.

### E. Project Costs

14. The total Project cost over five years is estimated to be US\$ 10.98 million. Almost 60 per cent of total costs will be for community development activities (four percent for Community Development Plans and Community Agricultural Development Plans; and 53 per cent for resilient community infrastructure and sustainable economic livelihood grants). Project management costs are estimated to be 44 per cent of total costs, noting that this includes the direct cost of all PMU staff and Government’s contribution in terms of officer salaries. Government will finance the tax and duty element plus a share of the salary costs of Government officials. Community beneficiaries will be required to make a 25 per cent contribution (about 12 per cent cash and 13 per cent in kind) towards resilient community infrastructure under Component 1; and a 40 per cent contribution (about 15 per cent cash and 25 per cent in kind) towards sustainable economic livelihoods under Component 2. These cash contributions will be paid directly to the suppliers/contractors by the communities. In terms of sources of funding, IFAD will fund US\$ 6.75 million (61 per cent), beneficiaries US\$ 1.43 million (13 per cent) and Government US\$ 2.80 million (26 per cent).

15. **Table 1: Project Cost by Category**

Category	Loan Allocated		Grant Allocated		Percentages
	SDR	USD	SDR	USD	
<b>I Works</b>	380,000	522,192	380,000	522,192	100% net of taxes
<b>II Equipment &amp; Materials</b>	30,000	41,226	30,000	41,226	100% net of taxes
<b>III Training &amp; Workshops</b>	130,000	178,645	130,000	178,645	100% net of taxes
<b>IV Goods Services &amp; Inputs</b>	80,000	109,935	80,000	109,935	100% net of taxes <sup>1</sup>
<b>V Consultancies</b>	80,000	109,935	80,000	109,935	100% net of taxes <sup>2</sup>
<b>VI Recurrent Costs</b>					
<i>Salaries</i>	230,420	316,641	230,420	316,641	100% net of taxes
<i>Operation Costs</i>	49,580	68,132	49,580	68,132	
<b>VII Unallocated</b>	110,000	151,161	110,000	151,161	
<b>TOTAL</b>	<b>1,090,000</b>	<b>1,497,867</b>	<b>1,090,000</b>	<b>1,497,867</b>	

16. **Project Cost by Component**

**A. Component 1: Community development (US\$ 2.07 million<sup>3</sup>)** The outcome will be increased resilience of community infrastructure built to required standards<sup>3</sup>. This is a continuation of TRIP I's Component 1 (also Community Development) with the objective of covering the whole Kingdom by the end of TRIP II. Component 1.1s will support development of Community Development Plans (CDPs) in target communities; for example, health, education and agriculture; and from which target communities select and develop (with Project support) priority economic infrastructure such as wharves and access roads. Component 1.2s will support development of resilient community infrastructure based on CDPs, with activities focused on the construction, operation and maintenance of priority small-scale economic infrastructure - as was the case for TRIP I.

**B. Component 2: Sustainable Economic Livelihood (US\$ 3.64 million<sup>3</sup>)** The outcome will be "increased resilience of economic livelihoods based on climate smart nutrition-sensitive agriculture production systems". The Component is aligned with the TASP and contributes directly to Programme 1 (climate resilient environment) and Programme 3 (sustainable livelihoods). The Component also draws on IFAD's "Adaptation for Resilient Agriculture in the Pacific Programme" (ARAP) Component.

2.1s will support the development of Community Agriculture Development Plans (CADPs), which reflect embedded activities to address climate change and natural disasters and communities' expressed wishes for support to improve their economic livelihoods, particularly when they have "graduated" from TRIP I's Component 1 and are therefore ready to address fundamental constraints to improved standards of living. Component 2.2's will support farmers engaged in sustainable economic livelihoods through improved and climate resilient practices to: (i) improve agro-forestry based food production systems on tax allotments and demonstration farms; (ii) manage more productive homestead gardens; (iii) support agro-forestry production for handicraft raw material production; and (iv) construction of weaving halls for women.

**C. Component 3: Project management (US\$ 4.46 million<sup>3</sup>)** The outcome is "enhanced Project management capacity for implementation and monitoring of project activities". This will be achieved through Component 3.1's output which is "an effective Project management team". MORDI TT will be appointed by the Ministry of Finance and National Planning on a sole source basis to implement the Project. MORDI TT will establish a Project Management Unit in Nuku'alofa and recruit staff. The Project Manager will have overall responsibility for implementing TRIP II and, importantly, for building and maintaining strategic partnerships, including proactively working to further institutionalize the TRIP II approach and processes into formal Government procedures. He/she will be assisted by five senior staff: (i) an Administrator; (ii) a Finance and Procurement Manager; (iii) an M&E and Knowledge Management Coordinator; and (iv) two Component Coordinators. These senior staff will manage smaller teams with the specific skills and experience required to implement TRIP II.

<sup>1</sup>and net beneficiaries' contribution

<sup>2</sup>and beneficiary contribution

<sup>3</sup> Total costs by component excluding physical and price contingencies and including government and beneficiary contributions.

## II. STATEMENT OF PROJECT MANAGEMENT


1. Pursuant to Memorandum of Understanding signed between the Government of Tonga and MORDI TT dated May 29, 2018 and the Finance Agreement between the Government of Tonga and the International Fund for Agricultural Development (IFAD) dated February 23, 2018, we have the honour to submit the financial statements of the Tonga Rural Innovation Project II (TRIP II) for the period 01 July 2019 to 30 June 2020 which we hereby approve.
2. Copies of these financial statements are also being transmitted to the Ministry of Finance and National Planning and the Project Advisory Committee (PAC) on Administrative and Budgetary Questions.
3. We, the undersigned, acknowledge that:
  - i. The Project Manager is responsible for the integrity and objectivity of the financial information included in these financial statements.
  - ii. The financial statements have been prepared in accordance with the International Standards on Auditing (ISA).
  - iii. Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties.
  - iv. IFAD Supervision Mission has reviewed the accounting and control systems during the Financial Year. Further improvements are being implemented in specific areas.
  - v. The management provided the MORDI TT Board of Trustees with full and free access to all accounting and financial records.
  - vi. The recommendations of IFAD, MORDI TT Board of Trustees, Project Advisory Committee and the Ministry of Finance and National Planning are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.



Mr. Soane Patolo  
Project Manager

Tonga Rural Innovation Project II

Mainstreaming of Rural Development Innovation (MORDI) Tonga Trust



Dr. Seu'ula J. FUA  
Chairlady  
Board of Trustees

Mainstreaming of Rural Development Innovation (MORDI) Tonga Trust



## Independent Auditors' Report

To the readers of the Tonga Rural Innovation Project II as implemented by Mainstreaming of Rural Development Innovation Tonga Trust (MORDI Tonga) for the year ended 30 June 2020

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements for the Tonga Rural Innovation Project II, which comprise the sources and uses of funds statement by category and component, the statement of cash receipts, payments and comparison of budget and actual amounts, special account / designated account reconciliation statement, withdrawal application statement for the year ended 30 June 2020, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 8.

The financial statements have been prepared by Management using the basis of accounting described in Note 1.

In our opinion, the accompanying financial statements for the year ended 30 June 2020 referred to above, present fairly in all material respects, the cash flows, the state of affairs and results of operations, in accordance with the cash basis of accounting and the International Fund for Agriculture Development (IFAD) guidelines as described in Note 1.

With respect to the withdrawal application statement, in our opinion, adequate supporting documentation has been maintained in all material respects, to support claims for reimbursements of expenditures incurred and such expenditures are eligible under the IFAD guidelines.

In addition, in our opinion, the accompanying special account / designated account reconciliation statement presents fairly, in all material respects, the funds received and disbursements made from the special account / designated account for the Project for the year ended 30 June 2020, in accordance with the cash basis of accounting and the IFAD guidelines.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Mainstreaming of Rural Development Innovation Tonga Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Independent Auditors' Report

To the readers of the Tonga Rural Innovation Project II as implemented by Mainstreaming of Rural Development Innovation Tonga Trust (MORDI Tonga) for the year ended 30 June 2020

### Report on the Audit of the Financial Statements (continued)

#### Emphasis of Matter – Basis and Restriction of Use and Distribution

We draw attention to Note 1 of the financial statements which describes the basis of accounting. The financial statements are prepared to assist the Project comply with the financial reporting provisions of the Financing Agreement. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Mainstreaming of Rural Development Innovation Tonga Trust and the International Fund for Agricultural Development and should not be used by parties other than Mainstreaming of Rural Development Innovation Tonga Trust and the International Fund for Agricultural Development. Our opinion is not modified in respect of this matter.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the Project Information and Performance and Statement of Project Management, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting as described in Note 1 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

#### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



## Independent Auditors' Report

To the readers of the Tonga Rural Innovation Project II as implemented by Mainstreaming of Rural Development Innovation Tonga Trust (MORDI Tonga) for the year ended 30 June 2020

### Report on the Audit of the Financial Statements (continued)

#### Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

11<sup>th</sup> February, 2021  
Nadi, Fiji

KPMG  
Chartered Accountants

## IV. PROJECT FINANCIAL STATEMENTS FOR THE PERIOD 01 JULY 2019 TO 30 JUNE 2020

### A. SOURCES AND USES OF FUNDS STATEMENT BY CATEGORY

Borrower/Recipient: The Kingdom of Tonga  
Loan Number: 2000001933  
DSF Grant Number: 2000001932  
Name of Project: Tonga Rural Innovation Project - Phase II (TRIP II)  
Reporting Period: 01 July 2019 to 30 June 2020

<i>Presentation Currency</i>	<b>Reporting Period</b>	<b>Previous Period</b>	<b>Cumulative</b>
	TOP\$	TOP\$	TOP\$
<b>SOURCES OF FUNDS</b>			
<b>IFAD Funds</b>			
- Loan: Replenishments	618,143	1,346,653	1,964,796
- Grant: Replenishments	618,143	1,346,653	1,964,796
<b>Government Funds</b>			
- Consumption Tax	68,661	-	68,661
- Government Staff Salaries	364,337	-	364,337
<b>Beneficiaries Funds</b>			
- Beneficiaries Contributions - Cash	-	-	-
- Borrower Contributions - In kind	-	-	-
<b>Total Sources of Funds</b>	<b>1,669,284</b>	<b>2,693,306</b>	<b>4,362,590</b>
<b>USES OF FUNDS</b>			
<b>BY CATEGORY OF EXPENDITURE</b>			
<b>Category</b>	<b>IFAD Funds</b>		
Cat-1	Works	36,888	83,088
Cat-2	Equipment & Materials	-	282,110
Cat-3	Training & Workshops	128,878	153,914
Cat-4	Goods Services & Inputs	134,859	90,487
Cat-5	Consultancies	53,477	121,706
Cat-6a	Salaries	603,427	532,661
Cat-6b	Operation Costs	217,371	207,362
		<b>1,174,900</b>	<b>1,471,328</b>
<b>Category</b>	<b>Government Funds</b>		
Cat-1	Works	4,276	1,558
Cat-2	Equipment & Materials	-	46,354
Cat-3	Training & Workshops	8,997	16,869
Cat-4	Goods Services & Inputs	2,561	4,704
Cat-5	Consultancies	1,368	8,053
Cat-6a	Salaries	364,337	-
Cat-6b	Operation Costs	9,106	11,220
		<b>390,645</b>	<b>88,758</b>
<b>Category</b>	<b>Beneficiaries Funds</b>		
Cat-1	Works	-	-
Cat-2	Equipment & Materials	-	-
Cat-3	Training & Workshops	-	-
Cat-4	Goods Services & Inputs	-	-
Cat-5	Consultancies	-	-
Cat-6a	Salaries	-	-
Cat-6b	Operation Costs	-	-
		<b>-</b>	<b>-</b>
<b>Total Uses of Funds</b>	<b>1,565,545</b>	<b>1,560,086</b>	<b>3,125,631</b>
<b>SURPLUS / DEFICIT</b>	<b>103,739</b>	<b>1,133,220</b>	<b>1,236,959</b>

The Sources and Uses of Funds Statement by Category is to be read in conjunction with the accompanying notes.



## B. SOURCES AND USES OF FUNDS STATEMENT BY COMPONENT

Borrower/Recipient: The Kingdom of Tonga  
Loan Number: 2000001933  
DSF Grant Number: 2000001932  
Name of Project: Tonga Rural Innovation Project - Phase II (TRIP II)  
Reporting Period: 01 July 2019 to 30 June 2020

	Reporting Period	Previous Period	Cumulative
Presentation currency	TOP\$	TOP\$	TOP\$
<b>SOURCES OF FUNDS</b>			
<b>IFAD Funds</b>			
- Loan: Replenishments	618,143	1,346,653	1,964,796
- Grant: Replenishments	618,143	1,346,653	1,964,796
<b>Government Funds</b>			
- Consumption Tax	68,661	-	68,661
- Government Staff Salaries	364,337	-	364,337
<b>Beneficiaries Funds</b>			
- Beneficiaries Contributions - Cash	-	-	-
- Borrower Contributions - In kind	-	-	-
<b>Total Sources of Funds</b>	<b>1,669,284</b>	<b>2,693,306</b>	<b>4,362,590</b>
<b>USES OF FUNDS</b>			
<b>BY COMPONENT OF EXPENDITURE</b>			
<b>Component IFAD Funds</b>			
Comp-1 Community Development	97,303	136,650	233,953
Comp-2 Sustainable Economic Livelihoods	208,807	192,970	401,777
Comp-3 Project Management	868,790	1,141,708	2,010,498
	<b>1,174,900</b>	<b>1,471,328</b>	<b>2,646,228</b>
<b>Component Government Funds</b>			
Comp-1 Community Development	6,491	12,935	19,426
Comp-2 Sustainable Economic Livelihoods	11,030	9,758	20,788
Comp-3 Project Management	373,124	66,065	439,189
	<b>390,645</b>	<b>88,758</b>	<b>479,403</b>
<b>Component Beneficiaries Funds</b>			
Comp-1 Community Development	-	-	-
Comp-2 Sustainable Economic Livelihoods	-	-	-
Comp-3 Project Management	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Uses of Funds</b>	<b>1,565,545</b>	<b>1,560,086</b>	<b>3,125,631</b>
<b>SURPLUS / DEFICIT</b>	<b>103,739</b>	<b>1,133,220</b>	<b>1,236,959</b>

The Sources and Uses of Funds Statement by Component is to be read in conjunction with the accompanying notes.

## C. STATEMENT OF CASH RECEIPTS, PAYMENTS AND COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Borrower/Recipient: The Kingdom of Tonga  
Loan Number: 2000001933  
DSF Grant Number: 2000001932  
Name of Project: Tonga Rural Innovation Project - Phase II (TRIP II)  
Reporting Period: 01 July 2019 to 30 June 2020

DESCRIPTION	Notes	YEAR TO DATE			CUMULATIVE TO DATE		
		BUDGET	ACTUAL	VARIANCE %	BUDGET	ACTUAL	VARIANCE %
<b>RECEIPTS</b>							
IFAD Loan	11a	3,250,677	618,143	81%	7,428,450	1,964,795	74%
IFAD Grant	11b	3,250,677	618,143	81%	7,428,450	1,964,796	74%
Government Funds	11c	1,712,856	432,998	75%	6,005,106	426,298	93%
Beneficiaries Funds	11d	1,700,162	-	100%	3,141,576	0	100%
<b>Total Receipts</b>		<b>9,914,372</b>	<b>1,669,284</b>	<b>83%</b>	<b>24,003,582</b>	<b>4,355,889</b>	<b>82%</b>
<b>PAYMENTS</b>							
<b>By Component</b>							
<b>Component 1 - Community Development</b>		<b>2,371,571</b>	<b>103,794</b>	<b>96%</b>	<b>5,034,445</b>	<b>253,379</b>	<b>95%</b>
Subcomponent 1.1 - CDPs	11e	131,150	103,794	21%	597,297	253,379	58%
Subcomponent 1.2 - CEIGs	11f	2,240,421	0	100%	4,437,148	0	100%
<b>Component 2 - Sustainable Economic Livelihood</b>		<b>5,443,967</b>	<b>219,838</b>	<b>96%</b>	<b>8,624,060</b>	<b>422,566</b>	<b>95%</b>
Subcomponent 2.1 - CADPs	11g	299,916	165,914	45%	299,916	279,452	7%
Subcomponent 2.2 - Farmer Field School	11h	1,406,670	12,760	99%	1,643,761	17,304	99%
Subcomponent 2.3 - CELGs	11i	3,354,461	0	100%	6,155,094	84,546	99%
Subcomponent - Plots	11j	382,920	41,164	89%	525,289	41,264	92%
<b>Component 3 - Project Management</b>		<b>2,098,834</b>	<b>1,241,915</b>	<b>41%</b>	<b>10,345,077</b>	<b>2,449,688</b>	<b>76%</b>
Subcomponent 3.1 - Investment Costs	11k	258,625	47,673	82%	1,444,935	504,204	65%
Subcomponent 3.2 - Salaries & Operation Costs	11l	1,840,209	1,194,240	35%	8,900,142	1,945,484	78%
<b>Total Payments by Component</b>		<b>9,914,372</b>	<b>1,565,545</b>	<b>84%</b>	<b>24,003,583</b>	<b>3,125,634</b>	<b>87%</b>
<b>By Category of Expenditure</b>							
Category 1 - Works		5,977,802	41,164	99%	11,117,530	125,810	99%
Category 2 - Equipment & Materials		0	0	0%	262,382	328,465	-25%
Category 3 - Training & Workshops		1,203,463	137,875	89%	1,482,257	308,658	79%
Category 4 - Goods, Services & Inputs		490,507	137,420	72%	1,019,470	232,612	77%
Category 5 - Consultancies		402,391	54,846	86%	1,221,801	184,604	85%
Category 6a - Salaries		1,551,765	967,764	38%	7,880,792	1,500,425	81%
Category 6b - Operation Costs		288,444	226,475	21%	1,019,350	445,060	56%
<b>Total Payments by Category</b>		<b>9,914,372</b>	<b>1,565,545</b>	<b>84%</b>	<b>24,003,582</b>	<b>3,125,634</b>	<b>87%</b>

The Statement of Cash Receipts, Payments and Comparison of Budget and Actual Amounts is to be read in conjunction with the accompanying notes.

## D. SPECIAL ACCOUNT/DESIGNATED ACCOUNT RECONCILIATION STATEMENT

Borrower/Recipient: **Government of Tonga**  
 Loan Number: **2000001933**  
 Grant Number: **2000001932**  
 Name of project: **Tonga Rural Innovation Project II**  
 Reporting Period: **From 01 July 2019 To 30 June 2020**

		Denomination Currency	Local Currency TOP
<b>SECTION 1</b>			
1	Total Advanced by IFAD	A	1,520,955
2	<u>Less</u> Total Amount Recovered by IFAD	-B	-
3	Outstanding amount advanced by IFAD	<b>C</b>	<b>1,520,955</b>
<b>SECTION 2</b>			
4	Balance of Designated Account according to the bank statement (30/06/2020)	D	-
5	<u>Plus</u> , Balance of Operating Accounts (30/06/2020)	E	1,236,956
	<u>Plus</u> , Cash on Hand	F	-
	Total Bank Balances as at 30/06/2020	<u>G=D+E+F</u>	<u>1,236,956</u>
6	<u>Plus</u> , Amount Claimed in this Application	H	218,318
7	<u>Plus</u> , amounts withdrawn and not yet claimed WA3 - Awaiting reallocation of funds	I	23,901
8	<u>Plus</u> , amounts claimed in previous applications and not yet credited at the bank statement date, or claimed after the bank statement date	J	-
9	<u>Less</u> , Interest Earned	K	-
10	Total Advance Accounted for (Line 5 * through Line 9)	<b>L=G+H+I+J-K</b>	<b>1,479,175</b>
11	Explanation of any difference between the total appearing on line 3 and 10	<b>M=C-L</b>	<b>41,780</b>
a.	<i>CT to be refunded by GoT</i>		(46,406)
b.	<i>Gain in Exchange Rate when receiving funds</i>		4,626
			<u>-</u>

## E. WITHDRAWAL APPLICATION STATEMENT

Borrower/Recipient: **Government of Tonga**  
 Loan Number: **2000001933**  
 Grant Number: **2000001932**  
 Name of project: **Tonga Rural Innovation Project II**  
 Reporting Period: **From 23 February 2018 To 30 June 2020**

WA N°	Date	Payment Method	Category	Total in Local Currency (if applicable)	TOTAL in USD	Rejected by IFAD	Disbursed by IFAD
1	25/06/2018	Advance Payment	Category 1	265,994	118,048	0	118,048
			Category 2	233,682	103,708	0	103,708
			Category 3	344,563	152,917	0	152,917
			Category 4	135,748	60,245	0	60,245
			Category 5	96,940	43,022	0	43,022
			Category 6a	320,020	142,025	0	142,025
			Category 6b	124,009	55,035	0	55,035
2	25/06/2018	Replenishment	Category 1	85,438	37,917	0	37,917
			Category 2	258,209	114,593	0	114,593
			Category 3	86,943	38,585	0	38,585
			Category 4	21,832	9,689	0	9,689
			Category 5	70,247	31,175	0	31,175
			Category 6a	218,317	96,889	0	96,889
			Category 6b	162,411	72,078	0	72,078

WA N°	Date	Payment Method	Category	Total in Local Currency (if applicable)	TOTAL in USD	Rejected by IFAD	Disbursed by IFAD
3	25/06/2018	Replenishment	Category 1	0	0	0	0
			Category 2	23,901	10,607	10,607	0
			Category 3	25,521	11,326	0	11,326
			Category 4	48,174	21,380	0	21,380
			Category 5	29,370	13,034	0	13,034
			Category 6a	134,919	59,877	0	59,877
			Category 6b	24,522	10,883	0	10,883
4	24/04/2020	Replenishment	Category 1	18,903	8,389	0	8,389
			Category 2	0	0	0	0
			Category 3	158,822	70,485	0	70,485
			Category 4	145,255	64,464	0	64,464
			Category 5	59,145	26,106	0	26,106
			Category 6a	647,259	285,441	0	285,441
			Category 6b	208,724	92,047	0	92,047
<b>TOTALS</b>				<b>3,948,867</b>	<b>1,749,968</b>	<b>10,607</b>	<b>1,739,360</b>

*The withdrawal application statement is to be read in conjunction with the accompanying notes.*

## V. NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 01 JULY 2019 TO 30 JUNE 2020

### 1. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

#### **A Basis of Preparation**

The financial statements of the Project have been prepared on historical cost basis and does not take into account changing money values or current valuations of non-current assets. Particular emphasis has been placed on Cash Basis Financial Reporting under the Cash Basis of Accounting.

#### **B Cash Basis of Accounting**

The cash basis of accounting recognizes transactions and events only when cash is received or paid by the entity.

#### **C Foreign Currency Transactions**

Foreign currency translation for the income and expenditure account items are converted using the actual historic exchange rate at the conversion from special to local account. All local expenditures paid from the local accounts/currency are translated back to the USD at the actual rate used for the transfer from special to local account. Cash balances held in foreign currency are reported using the closing rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

### 2. BUDGET

The budgeted figures in the statement of cash receipts, payments and comparison of budget and actual amounts for the period 01 July 2019 to 30 June 2020 consists of the approved budget for quarters three and four of year 2019 (July – December 2019) and quarters one and two of year 2020 (January – June 2020).

The budget is developed on the same accounting basis (cash basis), same classification and for the same period as the financial statements. Material variances have been explained as notes to the financial statements

### 3. CASH / FUND BALANCES

#### **Cash Accounts Details:**

Project Operating Account	TOP	<b>1,236,956</b>
IFAD Special Account	USD	<b>Nil</b>

#### 4. DIRECT DISBURSEMENTS

These disbursements were made directly by IFAD from the Grant account to the Project Special Account in accordance with the terms and conditions of the grant financing agreement:

WA	Date	Amount disburse from IFAD	Amount Deposited to Designated Account USD	Amount Transferred to Project Account USD	Transfer Rate	TOP Equivalent of the fund available Special Account
1	13/08/2018	675,000	675,000	675,000	0.4438	1,520,955
2	28/05/2019	400,927	400,927	400,927	0.4410	909,132
3	04/06/2019	116,500	116,500	116,500	0.4426	263,218
4	25/06/2020	546,933	546,933	546,933	0.4424	1,236,286
				<b>1,739,360</b>		<b>3,929,591</b>

#### 5. GOVERNMENT COUNTERPART FUNDS

Government Counterpart funds was first received during this period. For Consumption tax claim, first claim was received with amount TOP\$68,661. For salaries of Government staff, we were able to work together with the Ministry of Internal to claim salaries of District and Town Officers that have worked together with the project since 2018 with amount equal to TOP\$357,637. This process will be ongoing and will be captured on a monthly basis.

#### 6. OTHER RECEIPTS

No other receipts were received during this financial year.

#### 7. BENEFICIARIES FUNDS

There were no beneficiary's funds in this period.

## 8. FIXED ASSET SCHEDULE

Borrower/Recipient: **Government of Tonga**  
 Loan Number: **2000001933**  
 Grant Number: **2000001932**  
 Name of project: **Tonga Rural Innovation Project II**  
 Reporting Period: **From February 23 2018 To June 30 2020**

Nº	Asset	Description	Quantity	Purchase date	Total Acquisition Cost TOP	Location	Supplier
1	Vehicles	Toyota Hiace 16seater 2.5L Turbo Diesel LWB MNL Bus Model Number: KDH212R-JEMDY-2B	1	November 15, 2018	73,850	MORDI TT HQ	Asco Motors
2	Vehicles	Toyota Dyna150 MID 3.0L Diesel 5 Speed Manual Truck Model No.: LY235R-TBMFS-1B	1	November 15, 2018	54,973	MORDI TT HQ	Asco Motors
3	Vehicles	Mazda BT50 Pro 2.2 SDZZ Auto 4x4 Double Cap Pickup Truck Diesel 2.2L Turbo 5seater	1	November 15, 2018	87,850	MORDI TT HQ	Spare Parts Zone
4	Equipment	Supermicro 7049PTRT, 2x LGA3647, 16 DIMM, 8x 3.5" Hot-Swap, 2x 10G RJ-45, 2x 1280W Redundant Power Supplies, x2 Intel Xeon Silver 4112 Processor, 2.6GHz, 8.25MB Cache, 4Core/8Thread, x8 Crucial 16GB DDR4 2666 MT/s (PC4-21300) CL19 SR x4 ECC Registered DIMM 288pin, x1 (1TB HDD) Seagate 3.5" 1TB Enterprise Capacity Constellation) SATA 6Gb/s, 7.2K RPM, 128M, 512N, x4 (16TB HDD) Seagate 3.5" 4TB Enterprise Capacity (Constellation) SATA 6Gb/s, 7.2K RPM, 128M, 512N, Microsemi Adaptec 8805E v2 RAID, SAS/SATA, RAID 0/1/1E/10, 512MB Cache, Win Server 2012 R2 Standard OS, x50 CAL - Win Server 2012 User RDP, x50 CAL - Win 7 RDP, x50 User - MS Office 2016 Pro Plus RDP	1	November 02, 2018	49,253	MORDI TT HQ	Vavatau Technology Ltd
5	Equipment	HP 15-bs087cl Everyday Laptop 15.6" Intel i7-7500U 8GB 2TB DVDRW Win10Pro 64bit, MS Office 2016 Pro Plus full license, Avast Anti-virus (5 years license), Malwarebytes (5 years license)	2	November 02, 2018	6,173	MORDI TT HQ	Vavatau Technology Ltd
6	Equipment	HP 15-BS115DX i5-8250U 2.8Ghz, 8GB, 1TB, IntelUHD Graphics 620, Webcam, BT, DVDRW 15.6" Touchscreen Windows 10 Pro, MS Office 2016 Pro Plus full license, Avast Anti-virus (5 years license), Malwarebytes (5 years license)	4	November 02, 2018	11,489	MORDI TT HQ	Vavatau Technology Ltd
7	Equipment	HP T630 ThinClient w/WiFi AMD GX-420GI Quad-core 4GB DDR4 RAM 8GB FlashDrive Radeon R6E Graphics HP ThinPro OS	20	November 02, 2018	28,957	MORDI TT HQ	Vavatau Technology Ltd
8	Equipment	LG 22M38D-B 21.5" FHD LED Monitor 1920x1080 DVI+VGA	20	November 02, 2018	8,076	MORDI TT HQ	Vavatau Technology Ltd
9	Equipment	Logitech MK120 Desktop Corded Keyboard and Mouse Combo	20	November 02, 2018	1,346	MORDI TT HQ	Vavatau Technology Ltd



## 8. FIXED ASSET SCHEDULE (continue)

Borrower/Recipient: **Government of Tonga**  
Loan Number: **2000001933**  
Grant Number: **2000001932**  
Name of project: **Tonga Rural Innovation Project II**  
Reporting Period: **From February 23 2018 To June 30 2020**

Nº	Asset	Description	Quantity	Purchase date	Total Acquisition Cost TOP	Location	Supplier
10	Equipment	Dynamix UPSG750 SafeGuard 750 VA (450W) Line Interactive UPS, 3x NZ Power Sockets with Surge+Battery Backup, 3xNZ Power Sockets with Surge 936J	20	November 02, 2018	8,892	MORDI TT HQ	Vavatau Technology Ltd
11	Equipment	CyberPower PR1500 ERT2U 1500VA / 1500W Single Phase 2U Line-active UPS (Rackmount and Tower)	1	November 02, 2018	1,877	MORDI TT HQ	Vavatau Technology Ltd
12	Equipment	NETGEAR ProSAFE JGS524PE 24Port Gigabit Web Managed PoE Switch with 12 x PoE (Max 100W)	2	November 02, 2018	2,048	MORDI TT HQ	Vavatau Technology Ltd
13	Equipment	Samsung Galaxy Tab A 7.0 LTE + WiFi - Black	10	November 02, 2018	6,346	MORDI TT HQ	Vavatau Technology Ltd
14	Equipment	GGPC Shaman GTX 1050 3GB Gaming PC, Intel Core i3 Quad Core 3.6Ghz, 8GB RAM, 1TB HDD, Nvidia GTX 1050 3GB , WiFi, Windows 10 Pro 64bit, Philips 28" 1920 x 1080 LED Monitor with Speakers - HDMI+VGA	1	November 02, 2018	4,149	MORDI TT HQ	Vavatau Technology Ltd
15	Equipment	Multi Plug Power	40	November 02, 2018	874	MORDI TT HQ	Vavatau Technology Ltd
16	Equipment	LG 22M38D-B 24" FHD LED Monitor DVI+VGA	10	December 20, 2018	4,038	MORDI TT HQ	Vavatau Technology Ltd
17	Equipment	HDMI Cable 1.5m	5	December 20, 2019	109	MORDI TT HQ	Vavatau Technology Ltd
18	Equipment	Philips Computer Screen 28"	1	December 20, 2019	483	MORDI TT HQ	Vavatau Technology Ltd
19	Equipment	iPhone 7plus 128GB	2	November 21, 2018	1,418	MORDI TT HQ	Think Project management

*This schedule includes all assets acquired from the commencement of the Project. These assets are stated at cost.*

## 9. ALLOCATION AND USE OF THE FUNDS OF THE GRANT

No.	Category Description	Original Allocation		Disbursement		Balance	
		SDR	USD	SDR	USD	SDR	USD
	<b>Advance of the Designated Account</b>			480,362	675,000	(480,362)	(675,000)
I	<b>Works</b>	760,000	1,044,384	33,449	46,307	726,551	998,078
II	<b>Equipment &amp; Materials</b>	60,000	82,451	82,751	114,593	(22,751)	(32,142)
III	<b>Training &amp; Workshops</b>	260,000	357,289	87,054	120,396	172,946	236,893
IV	<b>Goods Services, Inputs</b>	160,000	219,870	69,118	95,533	90,882	124,338
V	<b>Consultancies</b>	160,000	219,870	50,841	70,316	109,159	149,555
VI	<b>Recurrent Costs</b>	560,000	769,546	446,335	617,216	113,665	152,331
VII	<b>Unallocated</b>	220,000	302,322	-	-	220,000	302,322
	<b>Total</b>	<b>2,180,000</b>	<b>2,995,732</b>	<b>1,249,910</b>	<b>1,739,361</b>	<b>930,090</b>	<b>1,256,375</b>

## 10. RECONCILIATION OF FUNDS DISBURSED BY IFAD AND FUNDS RECEIVED BY THE PROJECT

Date	Disbursed IFAD (USD)	Received MORDI TT (USD)	Received MORDI TT(TOP\$)
	1,739,360	1,739,360	3,929,890.99

## 11. VARIATION TO BUDGET EXPLANATION

Prior to the variation to Budget Explanation, it is important to note that even though Tonga is still COVID-19 free, the impact of the pandemic was still felt throughout the whole country. In March 2020, the Government of Tonga declared state of emergency and the whole country went on lockdown. This meant that access to target communities and implementing of activities was all put on hold due to the lockdown. Access to outer island communities was also affected as no public transportation (ferry and air) was in service during the lockdown. This had a major impact on the deliverables of the project for the financial year.

- a. The budgeted amount for IFAD Loan Contribution was overstated due to underspend of expenditure by the Project.
- b. The budgeted amount for IFAD Grant Contribution was overstated due to underspend of expenditure by the Project.
- c. The Budgeted amount for Government Contribution was overstated due to underspend of expenditure by the Project.
- d. Project targeted to mobilise 31 CEIG sub-projects and 32 CELG sub-projects during the Financial Year, however, the Project did not manage to mobilise any sub-projects due to communities still not yet ready to mobilise sub-projects. Trainings and empowerment still ongoing for these communities.
- e. Budget for formulation of CDPs was underspent due to most communities in Tongatapu and 'Eua have completed the formulation of CDPs in early 2019 and while a lot of trainings have been conducted during the year, the cost for these training activities was still within the budget.
- f. Project targeted to mobilise 31 CEIG sub-projects during the Financial Year, however, the Project did not manage to mobilise any sub-projects due to communities still not yet ready to mobilise sub-projects. Trainings and empowerment still ongoing for these communities.
- g. Budget for formulation of CADPs was underspent due to most communities in Tongatapu and 'Eua have completed the formulation of CADPs in early 2019 and while a lot of trainings have been conducted during the year, the cost for these training activities was still within the budget.
- h. Farmer Field School development of materials and trainings was overstated due to assistance from VSA New Zealand in developing the material and no trainings was conducted;
- i. Project targeted to mobilise 32 CELG sub-projects during the Financial Year, however, the Project did not manage to mobilise any sub-projects due to communities still not yet ready to mobilise sub-projects. Trainings and empowerment still ongoing for these communities.
- j. Budget for Demonstration plots was overstated due to most of the communities are still on the planning phase;

- k. Budget was overstated; however, all asset has been procured and staff training is ongoing; and
- l. The Project overstated the budget for Salaries due to staff turnover was high during this period and we only able to reflect salary contribution from District and Town Officers but not MAFF staff.