



Solomon Islands Government
Office of the Auditor-General

Special Investigation Audit Report

On the Accounts and Records of

Honiara City Council

National Parliament Paper No. 18 of 2020

Reported by:

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1 Overview

1.1 Background

The Section 4 of the Honiara City Act 1999 established the Honiara City Council (the Council). The Council is responsible for delivering quality goods and services to its community by carrying out its mandatory functions under the Schedules 4 and 5 of the Honiara City Council Act 1999.

On 18th June 2020, the Office of the Auditor-General received a request from the Minister of Home Affairs to do an urgent spot check on the Council finances and dealings. This is due to media allegations on the Council administration mismanagement. An audit pursuant to s.108 (3) of the Constitution, s.35 (1) of the Public Finance and Audit Act Cap 120 was conducted on the Council accounts and records on specific matters of concern.

1.2 Purpose of the audit

The objective of the special audit is to obtain limited assurance whether the practices of Honiara City Council are in line with the applicable legislation, regulations, policies and good practice. The special audit matters comprise of specific areas that been identified, assessed and respond to, and not limiting to extend to relating areas of scope, at time of request, and a summary of significant key findings and recommendations.

The scope of the special audit will seek to understand and investigate the following audit subject matters:

1. Are good practices in place for the procurement of goods? We will assess this by considering the procurement of fire extinguishers through Jiangshan Anbao Firefighting Company; Market lockups and vehicles from Ela Motors and other vehicle suppliers. Have conflicts of interest been appropriately declared and managed?
2. Has the Council entered into any loan arrangements?
3. Has the Council spent Ward Development Grants in line with the purposes intended?
4. Has the Council set a budget for receipts and payments for 2020 and is it managing funds and monitoring appropriately against this?

1.3 Audit Approach

We conducted our audit in accordance with the International Standards of Supreme Audit Institutions for Compliance Auditing (ISSAI 4000).

Criteria were identified for each subject matter to assess compliance with the relevant financial regulations/ ordinances. These are detailed in Appendix 4 and summarised as:

- For procurement activity that payments are in compliance with the requirements set out in the procurement and contract administration manual and Interim Financial Instructions 2014.
- Honiara City Council Act (the Act), 1999
- Public Financial Management Act (the PFM Act), 2013
- Standing Committees policies

Procedures performed to gather evidence in answering the audit questions are as follows:

- Interview and Inquiry – we have made enquiries of finance officers, management, third parties to gather information and explanation concerning specific subject matters.
- Review processes – We review current processes for those specific subjects to identify controls that should mitigate risk of misstatement.
- Inspection – We have inspected invoices and receipts of payments and reimbursement of Ward Development Grants.

Our audit was conducted using a risk based approach with audit tests focusing on the risk areas leading to our findings.

1.4 Key findings

1.4.1 Procurement

We have found poor procurement practices are in place at the Council. This stems from a lack of Council policy, procedure or guidance on procurement.

We found there was insufficient planning undertaken to ensure specifications of the goods/services sought and the financial viability of the procurement.

We found a lack of documentation retained to support the processes and a lack of consideration of conflicts of interest. This is particularly concerning as there was evidence that people involved in the processes did have interests and therefore there is a lack of evidence that these interests have been appropriately managed.

We also found that approaches to the market are not being designed in such a way to ensure that value for money is achieved through Council procurement.

With the poor practices observed and the discrepancies identified, we recommend these procurements should be referred to the appropriate authorities for further investigation.

We found some evidence that there is confusion between the role of governance and management.

1.4.2 Loans

We found that the Council has received assistance from Appointed Councillor directly and via Golden Pacific Motors to enable the Council to make payments for goods associated with two procurements. We have not identified any contract or agreement to support either of these

arrangements with the Councillor. The Council has commenced repayments for both arrangements and therefore it is our view that the Council is treating these arrangements as loans despite the lack of a formal contract.

Documentation was found in support of some of the repayments which appears to have been falsified to justify the payments. This is a very serious matter and we recommend that this be referred to the relevant authorities for further investigation.

The Council's serious cash flow position is leading to the need for such arrangements. The Council must therefore review its budgeting processes to ensure it sets a budget that is affordable and that it undertakes appropriate monitoring and controls to enforce compliance with the budget.

1.4.3 Ward Development Grants

We found the *Honiara Town Council (Ward Development Fund) Regulation 1997* is in need of review to ensure that the allocation of ward development grants remains appropriate. However we also found that the processes in place to monitor the issue and retirement of grant funding is not robust. Better documentation should be provided to support grant applications and then subsequently to support the retirement process.

1.4.4 Budget management

Our testing confirmed that the 2020 budget was approved by the Minister of Home Affairs. The Budget was set at a level which was intended to bring the council to a balanced position. However to achieve this, many of the line items were not realistically set and there is no evidence that actions were in hand to manage the budget position.

The lack of control noted within the Council is significant and immediate action is required to rectify this. We have found poor budget control measures in place and evidence of overspending. It is also apparent that good financial controls around the financial system are also in need of improvement. At the time of our audit, the financial system did not reconcile with the Council's bank statements with millions of dollars not yet input to the system.

1.5 Conclusion

Based on the work performed we conclude there are areas of poor and non-performance within the Council. Some of these matters highlight serious failings and we recommend should be referred to the appropriate authorities for investigation and necessary action.

The Council has not ensured that Ordinances and Regulations are updated as required and that policy, procedure and guidance are implemented for the management of the Council. In turn key controls we expect to see in place are not implemented and monitored.

There is little evidence that spending decisions are made with reference to the financial position of the organisation and to ensure value for money in the use of Council funds.

If the Council administration and those charge with governance do not act quickly to resolve these problems, the Council will face huge going concern issues.

Given the significance of the issues raised we will undertake a review in 2021 to confirm HCC planned actions have been undertaken.

2 Detailed findings

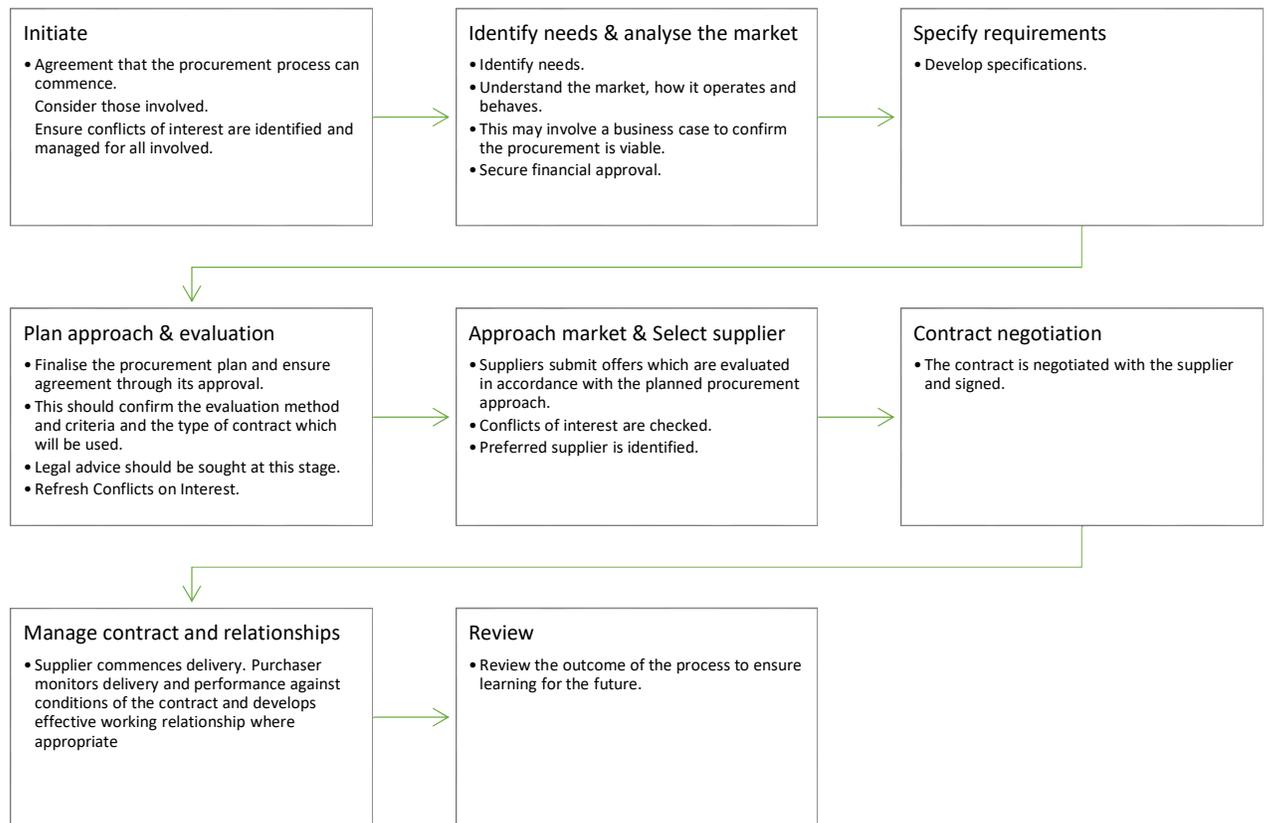
2.1 Good procurement practices

Good procurement practices cover the lifecycle of a procurement process. Traditionally when people think of procurement they focus on the stage which approaches the market. But a good procurement lifecycle will consider each stage. This includes from the decision to initiate the procurement, through procurement planning, defining the requirements, approaching the market, selecting a supplier, awarding the contract, managing the contract and then finally before reviewing the process to learn for future procurements.

At each of these stages we expect to see certain processes occurring which are often tailored to reflect the size of the procurement. For example the decision to initiate a procurement for a small product will occur much quicker than for a large, complex, critical and expensive item.

In the case of the fire extinguishers and motor vehicles, both items are not highly complex but are expensive and therefore we would generally expect a robust process to have been undertaken. The market lock-ups are smaller in value and therefore might be expected to follow a lighter touch process.

The chart below captures some of the key processes which should be occurring at each stage of the procurement.



Our enquiries has found that the Council does not have any procurement guidelines.

In the absence of guidelines specific to the Council, we have made reference in assessing the processes to international good practice as noted above and the Solomon Islands Government Interim Financial Instructions (FI). FI Chapter 7 section 6 Permanent Secretary Financial Instructions addresses the processes for Buying Goods and Services. Within this there are examples of the types of procurement approaches, when they might be relevant and how Tender Boards should operate.

Risk Rating	Recommendation	Council Response	OAG Response
High	The Council should develop procedures and guidance for the purchase of goods and services. This should address good practice procurement elements including planning,	<i>As part of transparent procurement and sound financial management system, the Council is developing and strengthening procedures and guidelines for the purchase of goods and services.</i>	<i>OAG acknowledge response and will do a follow-up audit to assess the effectiveness of the interim procurement process. Use Provincial Government Procurement and</i>

	<p>sourcing and managing the contract.</p> <p>Guidance should include thresholds which set out the expected approach for procurement.</p> <p>Interim arrangements should be adopted by the Council to ensure that whilst these guidelines are produced, there is an effective framework the Council can apply.</p>	<p><i>The Council would develop City Fund Finance Management Ordinance that would specify thresholds for procurements.</i></p> <p><i>On the interim Management has issued Nine (9) Steps of the Procurement Process/Plan to control expenditure whilst guidelines are produced to enhance effective management of procurements (see Appendix 5 (1)).</i></p>	<p><i>Contract Administration Manual as the base line.</i></p>
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In the absence of Council defined processes for procurement, we have referenced the Solomon Islands Government Interim Financial Instructions and international good practice as our benchmark for assessing the Council’s procurement practices. Our testing sought to confirm whether:

- Appropriate processes were in place for the size of procurement undertaken;
- To ensure payment of fire extinguishers and motor vehicles were budgeted for; and
- The payments are accurately recorded in the financial system.

2.1.1 Summary of the Fire extinguisher procurement

The procurement for the fire extinguishers resulted in a contract with Jiangshan Anbao Firefighting Company in China for \$1,925,215.45.

Our audit has not found any evidence that a business case (or similar) was developed to justify the need for the procurement; to confirm financial viability of the procurement; or establish the need for a trial and the appropriate size of such a trial. We understand that following the news of a local fire the matter was initially raised at a corporate event attended by members of the Council and executives. The matter appears to have got traction and led to the forming of the Core Council Coordinating Committee.

We note that the Core Council Coordinating Committee met on 13 November 2019. The Committee endorsed that Council approved fire extinguishers be used to supplement city supply; approved that a suitably qualified private sector provider provide Council approved fire extinguishers and training for after sales support; and agreed that the Council secure support for a trial project. These resolutions were forwarded to the City Mayor and City Clerk for implementation.

We have found no evidence that the Council defined what was required for a fire extinguisher to be “Council approved” and thereby set the criteria for the procurement.

The Honiara City Council Act allows the Council or a delegated standing committee to accept and decline tenders. SIG's Interim Financial Instructions would normally require a tenders board established for this size of procurement. However, we understand that a direct approach to the supplier was made and have not been provided with any committee minutes to support the decision made. Equally we found no evidence that the potential supplier was assessed, or their product tested for suitability against specified criteria.

We have seen an agreement between the Council and the supplier, Jingshan Anbao Firefighting Company dated 15 November 2019, although unsigned by the Council. The signed agreement with the supplier is not a public private partnership in the technical term, and neither is it a contract for the purchase of goods but rather a memorandum of understanding. This simply agrees in principle to an arrangement but has no specified commitments to purchase products. There are no prices and no volumes included in the agreement.

The Purchase Order was prepared and signed by the Clerk on 18 November and signed by the supplier on 20 November at the same time as the invoice was sent. Both the purchase order and invoice details that 3400 pieces will be supplied at a unit price of USD68 which totals \$231,200 US with 30 days credit. There is no evidence to support why 3400 pieces and how a rate of \$68 US was agreed.

It is therefore unclear how the Council identified this supplier as a preferred supplier between the 13 and 15 November. The Clerk has stated that the supplier was identified through a google search. This explanation seems unlikely given the challenges we have experienced in reperforming such a search. We note that there are a range of fire extinguisher suppliers in Honiara who are registered with Companies Haus and could have responded to such a tender had it been issued.

We have found no documentation that those involved in the process have declared any interests in the process.

The goods were landed into Honiara on 24 December 2019. On 31 January 2020 the funds were paid internationally to the supplier.

We found that the Council did not budget for any fire extinguisher purchases in 2020. Neither have we found any assessment of the financial capability of the Council to make such purchases. Their ability to pay for the fire extinguishers was only made possible through the loan discussed in section 2.2.1.

The PFM Act seeks to promote sound public financial management. It includes three broad principles for accountable and accounting officers which are around prudence in the use of public resources, transparency in decision making and accountability to the people of the Solomon Islands. It is therefore our conclusion that the facts relating to the procurement of the fire extinguishers fall a long way short of the expected processes a Council should follow in purchasing close to \$2 million goods.

Our key findings in relation to this procurement are:

- Inadequate planning occurred to justify the need for the procurement and to confirm the financial viability of the procurement.
- There is no evidence the Council has established appropriate standards for fire extinguishers to be Council approved. There is therefore no assessment of the products purchased against such criteria.
- No open tender process has been applied which means the process has not been competitive and the council is therefore unable to demonstrate that it has sought to achieve value for money for its tax payers.
- There is no evidence that conflicts of interest have been identified, or managed during the process.

Risk Rating	Recommendation	Council Response	OAG Response
High	<p>For large purchases, particularly where the expected benefits are not clear (e.g. due to the trial nature of the service) a business case should be developed to justify the procurement, and ensure that the procurement is viable, that it is needed and affordable.</p> <p>For smaller procurements, planning is still required although a full business case may not be necessary. Thresholds and expectations should be set out in the Council guidance.</p> <p>Good procurement planning should include the justification for the specifications of the good/service to be procured and therefore criteria against which the tenders will be evaluated.</p>	<p><i>As part of transparent procurement and sound financial management system, especially for large purchases, Council has adopted the Approved Work Plan 2020 so that requires Procurement Plans and Business Case Procedures to be developed for big procurements.</i></p> <p><i>Council has also adopted in the Approved Work Plan 2020 that thresholds for smaller procurements would be specified in the City Fund Finance Management Ordinance. The City Fund Finance Management Ordinance is expected to be completed by end of Fourth Quarter 2020.</i></p> <p><i>Council has further adopted that City Council Tender Board would ensure that good procurement planning includes justification and specification of goods and services to be procured.</i></p> <p><i>It is expected that HCC Tender Board will be established by end of Quarter 4, 2020.</i></p>	<p><i>OAG acknowledge response and will do a follow-up audit to assess the progress on creating the Financial management ordinance.</i></p> <p><i>OAG acknowledge response and action taken by HCC. OAG continues to recommend that the council tender board set-up, should include administrators rather than councillors as board members.</i></p>

<p>High</p>	<p>Financial approvals for procurement should be gained at an indicative level at the planning stage and included within budgets as anticipated.</p> <p>Any procurement decision should ensure that the Council has sufficient funds to fulfil the purchase prior to the commitment being made by the Council.</p>	<p><i>As part of transparent procurement and sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure financial approvals for procurement to be gained at an indicative level at the planning stage and included within the budgetary framework.</i></p> <p><i>Council has agreed that compliance to City Fund Management Ordinance would ensure that any procurement decision must have sufficient budget provisions.</i></p>	<p><i>OAG acknowledge response and will do a follow-up audit to assess monthly cash flow reports and monthly budget analysis from Council financial management system.</i></p>
<p>High</p>	<p>Conflicts of interest should be declared for all involved in a procurement process. If a conflict is identified, this should be assessed and mitigation action should be implemented. This could include removal from a process and decision if required.</p>	<p><i>As part of good practice and governance, Councillors and Senior Management of the Council have declared conflicts of interest with the Leadership Code Commission for assessment.</i></p>	<p><i>OAG acknowledge response and action taken by HCC to declare conflict of interest with LCC. However, the Council nevertheless needs to ensure that each procurement can demonstrate the effective identification and management of any conflicts directly in relation to the procurement. Therefore the Council should ensure these processes are addressed for each procurement within the Council processes.</i></p>
<p>High</p>	<p>Expected competitive procurement processes should be adhered to ensuring that best value for public funds is achieved. Any decision to use non-competitive processes should be justified and evidenced appropriately.</p>	<p><i>As part of transparent procurement and sound financial management system, Council has agreed to develop City Fund Management Ordinance to enhance expected competitive procurement processes to adhere to principles of money for best value of public funds.</i></p>	<p><i>OAG acknowledge response and will do a follow-up audit on whether HCC adhere to procurement principles. Advisable to use Provincial Government FMO and Procurement and Contract</i></p>

			<i>administration manual as baseline.</i>
High	Documentation should be retained to support the good procurement process which has been conducted. This should include key documents in planning, approaching the market, evaluation, decision making, contract award and ongoing monitoring of the delivery of the contract.	<i>As part of sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure provision of original documentations to enhance sound procurement processes.</i>	<i>OAG acknowledge response and will do a follow-up audit to check whether proper filing done to safeguard important documents.</i>
High	The procurement of fire extinguishers should be referred to the appropriate authorities for further investigation and appropriate action.	<i>Council has provided documents on procurement of fire extinguishers to oversight body (Office of the Auditor General) for investigation. Council further agrees to investigation of fire extinguishers by independent oversight body (Leadership Code Commission)</i>	<i>OAG will liaise with the relevant authorities including LCC and the Ministry to ensure appropriate action is taken.</i>

2.1.2 Summary of the Motor Vehicle procurement

The second purchase our audit considered was for 12 vehicles budgeted at \$4.2 million. This included a range of vehicles including cars, pick-ups (Hilux), a bus and trucks.

For the purchase of vehicles, we noted a restricted tender was applied by the Council administration to select potential suppliers. This included at least five potential suppliers. Whilst five is a good number to include in a competitive process, we are concerned that the Council appears to use restricted tenders as standard practice, rather than being the exception.

Appointed Councillor has a 20% shareholding in Golden Pacific Motors, one of the companies selected to respond to the tender. We found, however, no documentation that he or others involved in the process, have declared any interests in the process, or where they have an interest, that this was appropriately managed.

Similarly to the fire extinguisher process, our investigation found no tender board or similar committee with minutes to support the procurement evaluation process.

We reviewed the memo from the Works Manager who received the tenders and recommended to the Clerk the purchase of the 12 vehicles. The memo appears to recommend the purchase of the cheapest option for the pick-ups and cars although this is not the case for other vehicles and there is no explanation to support this.

We have obtained a copy of a quote for Golden Pacific Motors and this also reveals inaccuracies in the memo provided by the Works Manager. The quote shows a range of vehicles being tendered for by Golden Pacific Motor whereas the memo only shows the cars. Had this information been included it may have altered the selection of the suppliers for the different categories of vehicles. Given the lack of further explanation, there is a risk that the procurement process has not fairly considered all the tenders.

It appears that due to financial difficulties faced by the Council, only five vehicles (Hilux) were purchased from Ela Motors Ltd and two vehicles (RAV4) from Golden Pacific Motors. We understand that the decision to not continue with further purchases was made by the Clerk.

Our review has focused on the purchase of pick-ups (Hilux) and cars. We summarise the procurement request for these vehicles and the outcome as follows:

Vehicle Specification	Budgeted Quantity	Budgeted amount (\$m)	Proposed Award	Proposed provision (units and \$m)	Received (units and \$m)
Pick-ups (Hilux)	7 units	\$2.090m	Ela Motors	7 units \$1.981m (\$0.283m/unit)	5 units \$1,648,605
Land Cruiser	1 unit	\$0.45m	Ela Motors	1 unit \$0.312m	None.
Cars	Unspecified	\$0.18m	Golden Pacific	2 units \$0.18m ¹	2 units \$0.18m

From this table we see that only 5 Hilux have been received by the Council. From a review of one supporting invoice for the purchase of the Hilux, we found that the Council have paid a rate of \$0.274m/Hilux. Given the amount paid of \$1.6m this however equates to 6 vehicles. We have been unable to confirm with the Council that a sixth vehicle has been received.

We found no evidence the decision to purchase the vehicles was confirmed in an offer letter or signed contract agreement. This has made it difficult for us to verify the above issues.

Again, these facts fall a long way short of the expected processes for a significant procurement. Our key findings in relation to this procurement are similar:

- Inadequate planning occurred to justify the need for the procurement and to confirm the financial viability of the procurement. This includes justification of the specifications requested and how these would be assessed to ensure value for money in their eventual selection.
- There is no evidence that conflicts of interest have been identified, or managed during the process. The role of Appointed Councillor should have been managed very carefully through the process given he is involved in the governance of the Council and has a financial benefit in one of the procurement's respondents. We have found no evidence that this was considered.

¹ The memo sighted during the audit incorrectly stated that 1 car would be received for \$180,000. The tender details show that this was an error and should have said 2 vehicles.

- A restricted tender process was applied without a robust explanation for its use.
- There is insufficient documentation to support the outcome of the procurement and the final decision of the council to purchase a specified number of vehicles and the rate that was agreed.
- This means the council is unable to demonstrate that it has sought to achieve value for money for its tax payers.
- The Council has not been monitoring its payments for the purchase adequately. At present there is an unexplained difference between the amount paid and the expected number of vehicles received by the Council.

We note the following recommendations:

Risk Rating	Recommendation	Council Response	OAG Response
High	<p>For large purchases, particularly where the expected benefits are not clear (e.g. due to the trial nature of the service) a business case should be developed to justify the procurement, and ensure that the procurement is viable, that it is needed and affordable.</p> <p>For smaller procurements, planning is still required although a full business case may not be necessary. Thresholds and expectations should be set out in the Council guidance.</p> <p>Good procurement planning should include the justification for the specifications of the good/service to be procured and therefore criteria against which the tenders will be evaluated.</p>	<p><i>As part of transparent procurement and sound financial management system, especially for large purchases, the Approved Work Plan 2020 estimates that Procurement Plans and Business Case Procedures will be developed by the City Council by end of Fourth Quarter 2020.</i></p> <p><i>Thresholds for smaller procurements would be specified in the City Fund Finance Management Ordinance. The City Fund Finance Management Ordinance is expected to be completed by end of Fourth Quarter 2020.</i></p> <p><i>City Council Tender Board will ensure that good procurement planning includes justification and specification of goods and services to be procured. It is envisaged that HCC Tender Board will be established in end of Quarter 4, 2020.</i></p>	<p><i>OAG acknowledge response and will do a follow-up audit on new procurement process created by HCC. It is advisable to exclude those charged with government from administration matters. For example council tender board members.</i></p>
High	<p>Conflicts of interest should be declared for all involved in a procurement process. If a conflict is identified, this</p>	<p><i>As part of good practice and governance, Councillors and Senior Management of the Council have declared conflicts of</i></p>	<p><i>OAG acknowledge response and action taken by HCC to declare conflict of interest with LCC. However, the Council</i></p>

	should be assessed and mitigation action should be implemented. This could include removal from a process and decision if required.	<i>interest with the Leadership Code Commission for assessment.</i>	<i>nevertheless needs to ensure that each procurement can demonstrate the effective identification and management of any conflicts directly in relation to the procurement. Therefore the Council should ensure these processes are addressed for each procurement within the Council processes</i>
High	Expected competitive procurement processes should be adhered to ensuring that best value for public funds is achieved. Any decision to use non-competitive processes should be justified and evidenced appropriately.	<i>As part of transparent procurement and sound financial management system, Council has agreed to develop City Fund Management Ordinance to enhance expected competitive procurement processes to adhere to principles of money for best value of public funds.</i>	<i>OAG during its follow-up will review mitigation actions taken by HCC to achieve best value for public funds.</i>
High	Documentation should be retained to support the good procurement process which has been conducted. This should include key documents in planning, approaching the market, evaluation, decision making, contract award and ongoing monitoring of the delivery of the contract.	<i>As part of sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure provision of original documentations to enhance sound procurement processes.</i>	<i>OAG acknowledge responses and will do a follow-up review.</i>
High	This procurement and the missing vehicle should be referred to the appropriate authorities for further investigation and appropriate action.	<i>Council would make arrangements with the Appointed Councillor to pay outstanding amount of \$148,605.00 to retrieve the sixth vehicle. (Council records show that \$1.5m was paid by the Council for vehicles.</i>	<i>OAG has been unable to substantiate the details provided by the Council (see 2.2.2) but acknowledge the intention to resolve the purchase of the sixth vehicle. OAG will liaise with the relevant authorities including LCC and the</i>

		<p><i>Costed at \$0.274m per vehicle, total cost of 5 vehicles amounted to \$1.370m.</i></p> <p><i>\$0.13million was over payment of 5 vehicles. Appointed Councillor paid \$0.148m to make total payment of \$1.6m)</i></p> <p><i>Appointed Councillor has agreed to release the sixth vehicle upon payment of balance.</i></p>	<p><i>Ministry to ensure appropriate action is taken.</i></p>
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2.1.3 Summary of the lock-up process and management of conflict of interest

Our review of the 19 market lock-ups further identified issues with the procurement processes operated by the Council.

We found no registration or declaration of conflicts of interest disclosed by those involved in the process which would normally ensure there are no personal interest and all involved are independent from all decisions in awarding contracts. This is a requirement stated in the Honiara City Act 1999 - schedule 2, section 8 (1). Given some Councillors submitted letters in support of some applications this shows that some conflicts of interest may exist and have therefore not been appropriately managed.

The tender closing date was extended from 2 December 2019 to 9 December 2019. In its self, this is an acceptable procurement practice so long as no respondents are disadvantaged. However, our concern is raised as the reason for the extension is not supported by the evidence and the high proportion of late respondents that received contracts. The Council Clerk and Legal Officer informed us that the extension was because insufficient applications had been received by 2 December. Our findings note however that 74 applications had been received by the initial deadline. Our testing found that the extension enabled the award of a lock-up to 5 applicants. Refer appendix 5 (2.1) for detail review sheet.

We note that the evaluation committee which considered the applications was a standing committee of the Council. This comprised a range of Councillors, Legal Advisor and the Market Master. It is not normal practice for the governance of an organisation to be undertaking the detailed analysis, and evaluation. Instead this would normally occur within the Council staff with the recommendation, if required, being provided to governance. We found that neither the Honiara City Council Act 1999 nor the Local Government Act addressed the lack of distinction in the roles and responsibilities of governance and management.

We have not been provided with evidence of the tender evaluation report which explains the selection of successful applicants against listed criteria.

We found there were missing contract agreements and contract file documents.

We found through our investigation that some lock-ups are being run by individuals who did not submit any tender application. This suggests that some of those awarded a lockup have

since on-sold the operation of the lock-up. Due to the lack of the evidence of any agreements with lock-up holders, we are unable to determine if this practice is allowed under the agreement.

Again, these facts reveal further weaknesses in the procurement processes of the Council. Our key findings in relation to this procurement are:

- There is evidence to suggest that conflicts of interest have not been identified, or managed during the process.
- There is a lack of appropriate documentation to support the tender process, the evaluation and eventual award of contracts. Since there is insufficient evidence to substantiate the process to evaluate and award lock-ups, there is a risk that bids have been unfairly evaluated.
- A lack of ongoing monitoring means that there is the risk that those operating the lock-ups are not meeting the expectations set by the Council.

We also found that in this example, some confusion of the roles and responsibilities between governance and management which needs to be addressed more generally across Council activities.

We note the following recommendations:

Risk Rating	Recommendation	Council Response	OAG Response
High	Conflicts of interest should be declared for all involved in a procurement process. If a conflict is identified, this should be assessed and mitigation action should be implemented. This could include removal from a process and decision if required.	<i>As part of good practice and governance, Councillors and Senior Management of the Council have declared conflicts of interest with the Leadership Code Commission for assessment.</i>	<i>OAG acknowledge response and action taken by HCC to declare conflict of interest with LCC. However, the Council nevertheless needs to ensure that each procurement can demonstrate the effective identification and management of any conflicts directly in relation to the procurement. Therefore the Council should ensure these processes are addressed for each procurement within the Council processes</i>
High	Documentation should be retained to support the good procurement process which has been conducted. This should include key documents in planning,	<i>As part of sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure provision of original</i>	<i>OAG acknowledge response and will do a follow-up audit to access the new internal controls implemented.</i>

	approaching the market, evaluation, decision making, contract award and ongoing monitoring of the delivery of the contract.	<i>documentations to enhance sound procurement processes.</i>	
High	Ensure all successful applicants of the market lock-up procurement indicated in the tender board minutes are the rightful lease holders and that contracts are appropriate to ensure that operation of the lock-ups as intended by the Council (e.g. not on-sold).	<p><i>As part of transparent management of lock up shops, Council has agreed that all successful lockup shop vendors remain the rightful lease holders in the next 2-years.</i></p> <p><i>Council has further agreed that any re-sell of lockup shops by successful applicants is not allowable and shall amount to termination of lease.</i></p> <p><i>Consistent with the requirements of the Financial Management Ordinance the lockup shops will be tendered and re-allocated.</i></p>	<i>OAG acknowledged response and action taken by councillors</i>
High	<p>The Honiara City Council Act 1999 and Local Government Act should be reviewed to provide greater clarity on the distinction between the roles of management and governance.</p> <p>The Council should ensure it has a clear understanding of the roles and responsibilities between Governance and Management and that procurement decisions are made at the right level to allow both to fully fulfil their role.</p>	<p><i>For greater clarity and distinction between the roles of management and governance the Executive Committee has approved that in Annual Work Plan 2020 review of the Honiara City Act 1999 would be concluded at the end of quarter 4, 2020.</i></p> <p><i>The Approved Annual Work Plan envisages that consequential amendment of the Local Government Act 1997 would also end in December 2020.</i></p> <p><i>Consequential amendment of Local Government Act 1997 would lead to review of the Honiara Town Council (Ward Development Fund) Regulation 1997.</i></p>	<i>OAG acknowledge response and will do a follow-up audit to assess the progress of the annual work plan.</i>

2.2 Loan arrangement with the Council and Appointed Councillor

2.2.1 Receipt of \$1.8 million from Appointed Councillor to purchase fire extinguishers

Our audit confirmed from bank statements that on 31 January 2020 an amount of \$1.8 million was deposited into the Council bank account from Appointed Councillor. In an interview conducted with Appointed Councillor on the 23 July 2020, he confirmed he provided the \$1.8 million because the 30 days credit deal of the supplier Jiangshan Anbao had lapsed and the Council did not have the funds to meet the obligation. Appointed Councillor also confirmed that no contract agreement was signed with the Council for the Council to refund the \$1.8 million but they (the Council and Appointed Councillor) verbally agreed that the Council would repay the principal upon selling of the fire extinguishers. He further confirmed that the Council had at that time repaid a total amount of \$0.108 million in cash against the \$1.8 million. This means the Council is yet to repay a total amount of \$1.692 million but that the Council is also showing its commitment to repay the funds. We have not been provided with a copy of any contract to support the agreement which supports these statements or the outstanding balance.

It is our view therefore that the Council has entered into a loan arrangement and as such, with no evidence of any approval by the Minister, is in breach of section 48 of the Honiara City Council Act.

Risk Rating	Recommendation	Council Response	OAG Response
High	The Council must ensure that it sets a balanced budget to ensure no borrowings are required and therefore enable the Council to comply with section 66 (3) and section 70 of the Public Financial Management Act 2013 and Honiara City Act 1999 section 48 (2).	<i>As part of transparency in the borrowing powers of the City Council with leadership of the Ministry of Home Affairs, Council is reviewing the Honiara City Act 1999.</i> <i>The Council would develop the City Fund Finance Management Ordinance.</i>	<i>OAG acknowledge response and will do a follow-up audit on what actions taken by those charged with governance on the breach of PFM Act and HCC Act.</i>
High	The arrangement of a loan between the Councillor and the Council and subsequent repayments should be referred to the appropriate authorities for further investigation and appropriate action.	<i>Honiara City Council Management in light of the review of HCC Act 1999 and development of the City Fund Finance Management Ordinance would develop regulations on loan application and management procedures to enhance transparency, good governance and accountability.</i>	<i>We note the Council will refer the loan between the Appointed Councillor and Council to an Independent Oversight Authority (Leadership Code Commission) for investigation.</i> <i>OAG will liaise with the relevant authorities including</i>

			<i>LCC and the Ministry to ensure appropriate action is taken.</i>
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2.2.2 The Council obtain \$1,148,605 from Golden Pacific Motors (GPM) through Appointed Councillor to purchase five vehicles from Ela Motors Ltd

At our meeting with Appointed Councillor he confirmed, that through his shareholding in GPM (20% shareholder), he assisted the Council to purchase five vehicles from Ela Motors, which totalled to \$1,648,605. We have sighted \$1,148,605 paid from GPM to Ela Motors and a further \$500,000 paid from the Council but with no corresponding deposit to the bank statements. We have therefore determined the amount of assistance the Council is liable to repay GPM is \$1,148,605 for the purchase of the Hilux. We have found no formal Council agreement to support this arrangement.

Appointed Councillor also confirmed during the interview that the Council paid \$1 million to GPM. We confirmed two payments of \$0.5 million were made by the Council to GPM on 19 and 27 February 2020, of which \$0.18 million related to the purchase made with the firm. This means the Council is yet to repay \$328,605 to GPM for purchase of the vehicles from Ela Motors and the cars purchased directly from GPM.

The supporting documentation for the repayment of \$1 million to GPM was a local purchase order, payment requisition, payment voucher, and quotation from GPM for 12 vehicles for a total of \$3.73 million. These documents were prepared and approved by the Works Manager, Clerk and Treasurer. As GPM were only successful in one of the tendered vehicles, to use this quote as supporting documentation appears to have been included to show that all vehicles tendered for have been supplied by GPM. The audit has found that in fact only two of the vehicles within the original were procured through GPM. The inclusion of a long list of vehicles and the use of the words 'first instalment' on the documentation attached to the payment voucher is incorrect, misleading and potentially fraudulent. The amount shown on the payment voucher of \$3,730,000.00 is again incorrect, misleading and potentially fraudulent as the amount rightly payable to GPM for the purchase of two is \$180,000.00 only.

From this action, it is clear that the Council has used the funds provided by Appointed Councillor through GPM as a bridging loan to assist with managing their cash flows. As we concluded in section 2.2.1, it is our view therefore that this action is in contravention of the Public Financial Management Act 2013 and HCC Act. In addition, it highlights the poor management of the Council's funds through entering into purchase agreements without the funds to pay for them.

Risk Rating	Recommendation	Council Response	OAG Response
High	The Council must ensure that it sets a balanced budget to ensure no borrowings are required	<i>As part of transparency in the borrowing powers of the City Council through the leadership of the Ministry of Home Affairs is</i>	<i>OAG acknowledge response and will do a follow-up audit to assess the mitigation</i>

	and therefore enable the Council to comply with section 66 (3) and section 70 of the Public Financial Management Act 2013 and Honiara City Act 1999 section 48 (2).	<p><i>reviewing the Honiara City Act 1999.</i></p> <p><i>The Council would develop the City Fund Finance Management Ordinance.</i></p> <p><i>Council agrees that investigation of loan is carried by an Independent Oversight Body (Leadership Code Commission).</i></p>	<i>action taken by Leadership Code Commission.</i>
High	Documentation should be retained to support arrangements the Council has entered into and key decisions of the Council.	<p><i>As part of sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure provision of original documentations to support arrangements the Council has entered into and key decisions of the Council.</i></p> <p><i>Council agrees to retain documents to support arrangements the Council has entered into and key decisions of the Council.</i></p>	<i>OAG acknowledge response. Review of the filing system will be done during the follow-up audit.</i>
High	All payments in relation to the original quote from Golden Pacific Motors should be subject to review in light of these findings and only verified and legitimate payments should be processed.	<i>As part of sound transparent procurement processes, Council agrees that all payments in relation to the original quotes by Golden Pacific Motors is subject to review by an Independent Oversight Authority (Leadership Code Commission)</i>	<i>OAG acknowledge response and action taken by the council. A follow-up audit will done to review the progress on the action taken.</i>
High	The arrangement of a loan between the Councillor and the Council and subsequent repayments and consequent breach of the Honiara City Council Act and the attempts by the Council Officers to falsify supporting documents should be referred to the appropriate authorities for further investigation and appropriate action.	<i>As part of sound transparent procurement processes, Council agrees to investigate the loan between the Appointed Councillor and Council by an Independent Oversight Authority (Leadership Code Commission)</i>	<i>OAG will liaise with the relevant authorities including LCC and the Ministry to ensure appropriate action is taken.</i>

2.3 Ward Development Grants (WDGs)

Our testing sought to confirm that WDGs are appropriately authorised, and comply with the applicable Act or regulations.

The sections below detail our findings.

2.3.1 Discrepancies over Ward Development Grant (WDG) payment process.

The *Honiara Town Council (Ward Development Fund) Regulations 1997* established under the *Local Government Act (Cap 14)* states “The Council shall in each financial year allocate a sum of \$15,000 or such other amounts as may be approved by the Minister for each ward in Honiara”. Our review found that the budget for ward development grants was \$210,000 for each ward councillor. There is no evidence that these payments are based on any ordinances or the Honiara City Council Act. We understand that the payments were included in the Council budget and this has been the basis for the payments.

Applications for WDGs should include evidence of a proposal for the use of the funds. Our testing did not find evidence that proposals for the use of the funds were attached with the application forms.

We also found that most of the 12 councillors did not properly retire their receipts before receiving the next quarter’s payment. Good practice is that new funds are not paid until all the previous amount has been appropriately retired. In some instances it appears that a full year’s WDG had been paid by May with only \$70,000 having been retired.

Ward	Annual amount budgeted (\$) (or \$52,500/quarter)	Amount paid through bank statements Jan – May 2020 (\$)	Amount retired (\$)
Naha	210,000	125,000	70,000
Ngosi	210,000	210,000	70,000
Mbuburu	210,000	140,000	70,000
Vura	210,000	145,000	70,000
Mataniko	210,000	70,000	70,000
Rove/Lengakiki	210,000	175,000	70,000
Vavaya	210,000	95,000	70,000
Kola	210,000	140,000	70,000
Kukum	210,000	70,000	70,000
Panatina	210,000	105,000	70,000
Cruz	210,000	140,000	70,000

Ward	Annual amount budgeted (\$) (or \$52,500/quarter)	Amount paid through bank statements Jan – May 2020 (\$)	Amount retired (\$)
Vuokesa	210,000	200,000	70,000
Total	2,520,000	1,615,000	840,000

The retirement process should ensure that sufficient documentation is provided to support the full amount. Our audit found a general lack of sufficient supporting documentation. For instance:

- No invoices or letter from schools as claim as assistance of school fees.
- No copy of pro-forma invoices from suppliers indicating of acquiring of goods as mentioned.
- For family assistance there were no written notes by family members requesting support.
- Only the Councillors are signing the evidence to support the retirement. This would normally include the signature from the project recipients in addition to the Councillor.

As a result of these issues we have been unable to confirm that the ward development grant payments have been spent on the purposes intended.

Risk Rating	Recommendation	Council Response	OAG Response
High	<p>Ensure Honiara City Council review the Act, regulations and ordinances for Ward Development Grants. The Council should set a level which is deemed appropriate and affordable for the Council.</p> <p>The framework for payments should be established to ensure clear guidance around payments and retirements.</p>	<p><i>As a vehicle for setting the most appropriate and affordable level of Ward Development Grant the Executive Committee has approved in its HCC Annual Work Plan 2020 that review of the Honiara City Act 1999 would lead to development of regulations that will determine the most affordable level of the grants.</i></p> <p><i>The Approved Annual Work Plan envisages that consequential amendment of the Local Government Act 1997 will also end in December 2020. The review of the LGA 1997 will develop clear guidelines on payments and retirements of the grants.</i></p>	<p><i>OAG acknowledge response and will do a follow-up audit to assess the progress of implementing new controls over the ward development grants.</i></p>

		<i>Consequential amendment of Local Government Act 1997 will lead to review of the Honiara Town Council (Ward Development Fund) Regulations 1997.</i>	
High	Ensure appropriate documentation is retained as part of the ward development grant approval process. This should include project proposals and the application form template in the Local Government Act 1997 (Cap. 14).	<i>As part of sound financial management system, Council has agreed to review the Honiara Town Council (Ward Development Fund) Regulations 1997 as part of the Consequential Amendment of the Local Government Act 1997 and this should include project proposals and the application form template in LGA 1997 (Cap 14).</i>	<i>OAG acknowledge response and will do a follow-up audit to assess the progress of action taken by Council.</i>
High	Ensure good practices in relation to retirement of receipts. This should be managed on a timely basis, with supporting evidence for all funds before further funds are issued.	<i>As part of transparent management of ward development grant, retirement of receipts with supporting evidences of grants used must be provided to the Council before disbursement of the next tranche of Ward Development Grant.</i>	<i>OAG acknowledge response and will do a follow-up audit to assess the progress of action taken by Council.</i>
High	The ineffective controls and management of Council funds in the payment of ward development grants should be referred to the appropriate authorities for further investigation of misconduct and appropriate action.	<i>As part of sound management of ward development grant processes, Council has taken steps to control and investigate the transaction of Ward Development Grants. Council further agrees to investigate control and investigate the management of Ward Development Grants by an Independent Oversight Authority (Leadership Code Commission)</i>	<i>OAG acknowledges HCC's response and highlights that budgeted funds for each wards for 2020 FY is \$ 210,000. If a ward is paid more than the budgeted amount without budget amendments, the excess amount is unappropriated. Ward grants should not paid as arrears as all budget items should Zero at the end of the financial year. OAG will liaise with the relevant authorities including LCC and the Ministry to ensure</i>

			<i>appropriate action is taken.</i>
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2.4 Budget Management

Our testing sought to establish if a budget was set and appropriately approved and then whether it was being appropriately managed by ensuring:

- Over spending items were budgeted for.
- Virement processes were in place to rectify overspending.
- Bank account balances are reconciled with the MYOB system as at the 31st March 2020.

Our testing identified the following matters.

2.4.1 Budget setting 2020

The 2020 Council Budget was approved and gazetted by the Minister of Home Affairs on 19 December 2019.

We have found that the Council has not implemented budgetary control measures. This means that spending is not in line with the budget. In particular we found:

- No use of virement forms to address areas of overspending.
- Requisition forms were authorised without confirming the budget and available balance which has resulted in overspending.
- Some spending has been posted to areas of the budget with nil balances.

Risk Rating	Recommendation	Council Response	OAG Response
High	The Council must ensure that it sets a balanced budget to ensure no borrowings are required and therefore enable the Council to comply with section 66 (3) and section 70 of the Public Financial Management Act 2013 and Honiara City Act 1999 section 48 (2).	<i>As part of Financial Management Strengthening Plan, Council would develop budget procedures and processes to guide and lead Management and Staff to effectively and efficiently expend sufficient financial resources in-accordance with the Approved Work Plan 2020.</i> <i>The Council will review the Honiara City Act 1999, will make consequential amendment of the Local Government Act 1997 and develop the City Fund Finance Management Ordinance to appropriately address borrowings to ascertain balanced budgeting.</i>	<i>OAG acknowledge response and will do a follow-up audit to assess the progress of action taken by Council.</i>
High	The Council should implement budgetary control procedures to ensure payments are	<i>As part of Financial Management Strengthening Plan, Council would adopt strict measures of checks and balances systems to make HCC</i>	<i>OAG acknowledge response and will do a follow-up audit to assess the progress</i>

	maintained within the agreed budget. This should include checks to for adequate remaining budget before payments are approved and that this is clearly evidenced.	<i>comply with the requirements of relevant financial management regulations/ordinances.</i>	<i>of strict measure taken by council</i>
High	Ensure the chart of accounts in MYOB matches the annual appropriation.	<i>As part of Financial Management Strengthening Plan, Council would ensure that close monitoring of chart of accounts in MYOB is done so that it matches the annual appropriation.</i>	<i>OAG acknowledge response and will do a follow-up audit to review action taken to resolve the mismatch chart of account against the budget.</i>

2.4.2 No Annual Work plan or Corporate plan

There is no corporate or annual work plan exist that will help to visualize the goals and objectives of each functions of the Council. It was noted that plans were initiated to come up with the corporate plan, however, no completed documents were sighted. These key-planning documents are very important for the Council, as it will help to visualise the work activities for current and subsequent years. In addition, those documents should be the basis of planning the yearly appropriation.

Risk Rating	Recommendation	Council Response	OAG Response
High	Ensure management develop a corporate/ strategic plans and an annual work plan to guide the council activities. Align the planning document goals, objectives and activities with the annual appropriation.	<i>The Management has developed a Corporate /Strategic Plan 2020 in the form of Annual Work Plan 2020 that Executive Committee has approved at its meeting on Thursday, 10 September 2020.</i> <i>The Annual Work Plan 2020 has aligned policy objectives of the Honiara City Council Policy Statement with Honiara City Council Approved Budget 2020.</i>	<i>OAG acknowledge response and action taken by council to approve the Annual Work Plan for 2020.</i>

2.4.3 Financial management system (MYOB) data not reliable

Our latest annual audit of the Council's financial statements for 2015 concluded a Disclaimer of Opinion meaning that we were unable to determine what adjustments might be needed to the financial statements. We have not been receiving the financial statements for audit in a timely manner. This is contrary to the requirements of the Act. The 2016 and 2017

statements have now been received and are due to be audited in the coming months. This investigation has, however, noted some serious concerns with the operation of the financial system.

One of the controls we expect to see in place is that access to input data to the financial system is carefully managed. Normally we would expect this responsibility separate to that of Treasurer. Our testing found that there is no control over who can access the system and all finance officers can access and input data at their convenience.

We would then expect that the data input to the system is reviewed to ensure data entry is correct. We found that the Treasurer is responsible for the monitoring and reconciling of the data input on a regular basis. However we found that this was not occurring. In addition we noted that number of PVs remain on the Treasurer’s desk, which are not input in the system. At the time of our visit, these related to January, February and March 2020.

On further investigation we noted that the bank accounts were not correctly reconciled for 31 March 2020 with a difference of \$8,647,073.65 between the bank statement and the financial system balance. At the end of March 2020 the bank statement showed a balance at \$684,383 whilst the general ledger was \$9,331,4567. This shows that a large amount of payments were not posted in MYOB. It also means that effective monitoring of the financial position of the Council is not possible.

In addition we noted that in the first quarter of the financial year, a total amount of \$22,809,604 had been incurred by the Council. This equates to 44% of the annual appropriation for 2020. This is in contradiction to some of the statements provided to the public prior to our investigation.

We have noted through our review that the administrator account for MYOB is managed by a party external to the Council. This poses a significant risk for the Council as no staff in the Council have administration access to the system and this control is held outside the control of the Council.

We are concerned that the above lack of controls are significant and that the Treasurer has not appropriately fulfilled his responsibilities to maintain an adequate control environment.

Risk Rating	Recommendation	Council Response	OAG Response
High	Access rights to the financial system should be reviewed. Staff should be allocated access appropriate to their role to ensure segregation of duties. Administrator access should be reviewed to ensure it is allocated within the Council at the appropriate level.	<i>Council has reviewed and realigned access rights to financial systems consistent with levels/ranks of responsibility. Access to Administrator password to financial systems would be re-allocated to the Treasurer from external hosts.</i>	<i>OAG acknowledge response and action taken by council. A follow-up audit will done to review the progress of action taken by council</i>

High	Council should implement controls to ensure the timely input and timely and independent review of data to the financial system.	<i>Finance Division has taken steps to timely input data and timely conduct independent review of data to the financial system.</i>	<i>OAG acknowledge response and action taken by council. A follow-up audit will be done to review the progress of action taken by council</i>
High	Establish a cashbook to monitor all cash in and cash out of the institution on daily operation.	<i>Council has instructed that Finance Division establishes a cashbook register to monitor all cash in and cash out on a daily basis.</i>	<i>OAG acknowledge response and action taken by council. A follow-up audit will be done to review the progress of action taken by council</i>
High	The ineffective controls and management of Council funds should be referred to the appropriate authorities for investigation of misconduct and determination of appropriate action.	<i>As part of sound financial management processes and systems, Council has taken steps to make effective controls and management of Council funds. Council further agrees to investigate control and management of Council funds by an independent authority (Leadership Code Commission).</i>	<i>OAG will liaise with the relevant authorities including LCC and the Ministry to ensure appropriate action is taken.</i>

2.5 Other Observations

During the audit we have made a number of further observations not directly associated with our initial objectives but need to be highlighted. These are detailed below.

2.5.1 Fire extinguishers sales by the Council has no legal basis

Our audit identified that there was no gazetted policy established to determine the selling price of the fire extinguishers. In addition, there is no ordinance for the sale of fire extinguishers. It is therefore our view that the Council has not established the formal and legal basis from which it can sell fire extinguishers and collect revenue from the public.

Information obtained concerning the fire extinguishers were:

- The Council has been charging, without legal basis, \$980.00 per fire extinguisher.
- The Council has collected, without legal basis, a total sum of \$675,160 cash from its customers for sale of fire extinguishers. This was from the month of January to May 2020. Of this, \$459,560 has been recoded within the general ledger and \$215,600 has been recorded outside the general ledger in manual receipt books only.
- From our interviews cash collected from the sales has not being deposited into the Council bank account but kept by City Clerk for transfer to Appointed Councillor as his reimbursement for \$1.8 million borrowed by the Council.
- There was no schedule or reconciliation maintained to keep track of how much already paid to Appointed Councillor.

Risk Rating	Recommendation	Council Response	OAG Response
High	Immediately implement the appropriate legislation and budget appropriation to allow the selling of fire extinguishers by the Council.	<i>As part of transparent, accountable and good governance of the administration of the Council, the Council is working on appropriate legislative reviews – Review of City Act 1999 and consequential amendment of Local Government Act 1997 to lawfully implement the selling of fire extinguishers by the Council.</i> <i>Executive Committee of the Council approved the Review of City Act 1999 and consequential amendment of Local Government Act 1997</i>	<i>OAG acknowledge response and action taken by council. A follow-up audit will done to review the progress of action taken by council</i>
High	All cash collected should be banked in a timely manner as part	<i>Council is taking strategic measures to upscale processes to conduct daily banking of collections.</i>	<i>OAG acknowledge response and action taken by council. A</i>

	of the controls to reduce the risk of theft.	<i>Council has implemented administrative measures to ensure daily banking of collections.</i>	<i>follow-up audit will be done to review the progress of action taken by council</i>
High	Proper records should be maintained to track receipts and payments in relation to the loan.	<i>Council has temporarily ceased selling of fire extinguishers until regulatory frameworks are put in place. Finance Division is keeping all records on receipts and payments.</i>	<i>OAG will review the filing system in place when do the follow-up audit.</i>
High	A cash count should be undertaken immediately to reconcile the cash received, recorded in MYOB and paid to Appointed Councillor.	<i>Council has ensured that cash counts were undertaken, reconciled and recorded in MYOB.</i>	<i>OAG through its follow-up audit will check on the cash count and reconciliation.</i>

2.5.2 Lack of Financial Management Ordinance

Section 39 (6) and Section 40 (3 (b)) of the Honiara City Council Act 1999 requires the Council to have a Financial Management Ordinance in place to guide the appropriation in a given period. OAG noted that there was no financial management ordinance kept or followed by the Council and OAG view this as a total breakdown in the internal control as no ordinances available to safeguard the city funds.

Risk Rating	Recommendation	Council Response	OAG Response
High	<p>The Council must develop financial management ordinances as required under Section 39 (6) and Section 40 (3 (b)) of the Honiara City Council Act 1999 to safeguard the annual appropriation of the Council.</p> <p>The Provincial Government Financial Management Ordinances and Financial Instructions and Stores could be used as a baseline to develop your Financial Management Ordinances or be adopted until such a time</p>	<p><i>As part of Financial Management Strengthening to safeguard the City Fund the Executive Committee has approved in the HCC Annual Work Plan that Council develops City Fund Finance Management Ordinance by end of fourth quarter.</i></p> <p><i>The Provincial Government Financial Management Ordinances and Financial/Stores Instructions will provide guidelines in the development of City Fund Finance Management Ordinance</i></p>	<i>OAG acknowledge response and action taken by council. A follow-up audit will be done to review the progress of action taken by council</i>

	as the Council's own policies can be developed.		
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2.5.3 Governance demarcation issues of the Ministry, the Councillors and Council management

From the range of issues arising, we are concerned that there has been an absence of effective monitoring of the Council by the Ministry of Home Affairs (the Ministry). It is apparent that a renewed effort is required to ensure that the learnings from this report are implemented and long lasting improvements are achieved.

Risk Rating	Recommendation	Management Response	OAG Response
High	Whilst the Council is responding to this report, we recommend that a system of performance management is implemented for Council Officers to provide clear direction and hold leaders accountable for the delivery of improvements necessary.	<i>Ministry of Home Affairs response refer appendix 5 (2)</i>	<i>OAG acknowledge response and propose plan to resolve the governance issue faced by HCC.</i>
High	Design a performance mechanism to be implemented at the Ministry to guide and strengthen the operation of the Council in achieving its long-term goals and objectives. Consideration could be given to that used by the Ministry of Provincial Government and Institutional Strengthening on Provincial Governments.	<i>Ministry of Home Affairs response refer appendix 5 (2)</i>	<i>OAG acknowledge response and propose plan to resolve the governance issue faced by HCC.</i>

Appendix 1: Risk Rating Definition

A description of the risk ratings as applied to our recommendations is set out below:

Priority Rating	Description of impact
High	<ul style="list-style-type: none"> • Matters which may pose a significant business or financial risk to the entity; and / or • Matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity; and / or • Moderate risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Moderate	<ul style="list-style-type: none"> • Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year; and / or • Matters that may escalate to high risk if not addressed promptly; and / or • Low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	<ul style="list-style-type: none"> • Matters that are isolated, non-systemic or procedural in nature; and / or • Matters that reflect relatively minor administrative shortcomings and require action in order to improve the entity's overall control environment.
Improvement Opportunity	<ul style="list-style-type: none"> • Matters of a procedural or administrative nature which could improve the efficiency or effectiveness of entity level, systemic or transactional processes.

Appendix 2: Recommendations action plan

Rec Ref #	Recommendation	Priority Rating	Management response / action planned	Responsible Officer	Target Date
1	The Council should develop procedures and guidance for the purchase of goods and services.	High	As part of transparent procurement and sound financial management system, the Council is developing and strengthening procedures and guidelines for the purchase of goods and services.	City Clerk/Treasurer	December 2020
	This should address good practice procurement elements including planning, sourcing and managing the contract.		The Council would develop City Fund Finance Management Ordinance that would specify thresholds for procurements.	City Clerk/Legal Office/Treasurer	December 2020
	Guidance should include thresholds which set out the expected approach for procurement. Interim arrangements should be adopted by the Council to ensure that whilst these guidelines are produced, there is an effective framework the Council can apply.		On the interim Management has issued Nine (9) Steps to Control Expenditure whilst guidelines are produced to enhance effective management of procurements.	City Clerk	Completed
2	For large purchases, particularly where the expected benefits are not clear (e.g. due to the trial nature of the service) a business case should be developed to justify the procurement, and ensure that the procurement is viable, that it is needed and affordable.	High	As part of transparent procurement and sound financial management system, especially for large purchases, Council has adopted the Approved Work Plan 2020 that requires Procurement Plans and Business Case Procedures to be developed for big procurements.	City Clerk	Completed
	For smaller procurements, planning is still required although a full business		Council has also adopted in the Approved Work Plan 2020 so that thresholds for smaller procurements would be specified in the City Fund Finance	City Clerk/Legal Office/Treasurer	December 2020

	<p>case may not be necessary. Thresholds and expectations should be set out in the Council guidance.</p> <p>Good procurement planning should include the justification for the specifications of the good/service to be procured and therefore criteria against which the tenders will be evaluated.</p>		<p>Management Ordinance. The City Fund Finance Management Ordinance is expected to be completed by end of Fourth Quarter 2020.</p> <p>Council has further adopted that City Council Tender Board would ensure that good procurement planning includes justification and specification of goods and services to be procured.</p> <p>It is expected that HCC Tender Board will be established by end of Quarter 4, 2020.</p>	City Clerk	December 2020
3	<p>Financial approvals for procurement should be gained at an indicative level at the planning stage and included within budgets as anticipated.</p> <p>Any procurement decision should ensure that the Council has sufficient funds to fulfil the purchase prior to the commitment being made by the Council.</p>	High	<p>As part of transparent procurement and sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure financial approvals for procurement to be gained at an indicative level at the planning stage and included within the budgetary framework.</p> <p>Council has agreed that compliance to City Fund Management Ordinance would ensure that any procurement decision must have sufficient budget provisions.</p>	City Clerk City Clerk/ Treasurer	September 2020 December 2020
4	<p>Conflicts of interest should be declared for all involved in a procurement process. If a conflict is identified, this should be assessed and mitigation action should be implemented. This could include removal from a process and decision if required.</p>	High	<p>As part of good practice and governance, Councillors and Senior Management of the Council have declared conflicts of interest with the Leadership Code Commission for assessment.</p>	All Councillors/ Senior Management Team	September 2020
5	<p>Expected competitive procurement processes should be adhered to ensuring that best value for public funds is achieved. Any decision to use non-</p>	High	<p>As part of transparent procurement and sound financial management system, Council has agreed to develop City Fund Management Ordinance to enhance expected competitive procurement</p>	City Clerk	September 2020

	competitive processes should be justified and evidenced appropriately.		processes to adhere to principles of money for best value of public funds.		
6	Documentation should be retained to support the good procurement process which has been conducted. This should include key documents in planning, approaching the market, evaluation, decision making, contract award and ongoing monitoring of the delivery of the contract.	High	As part of sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure provision of original documentations to enhance sound procurement processes.	City Clerk/Treasurer	Ongoing
7	The procurement of fire extinguishers should be referred to the appropriate authorities for further investigation and appropriate action.	High	Council has provided documents on procurement of fire extinguishers to oversight body (Office of the Auditor General) for investigation. Council further agrees to investigation of fire extinguishers by independent oversight body (Leadership Code Commission)	City Clerk City Clerk	August 2020 September 2020
8	The procurement for motor vehicles and the missing vehicle should be referred to the appropriate authorities for further investigation and appropriate action.	High	Council would make arrangements with the Appointed Councillor to pay outstanding amount of \$100,000 to retrieve the sixth vehicle. (Council records show that \$1.5m was paid by the Council for vehicles. Costed at \$0.274m per vehicle, total cost of 5 vehicles amounted to \$1.370m. \$0.13million was over payment of 5 vehicles. Appointed Councillor paid \$0.148m to make total payment of \$1.6m) Appointed Councillor has agreed to release the sixth vehicle upon payment of balance.	City Clerk/Treasurer	December 2020 December 2020

			Council further agrees with referral of the missing vehicle to the Independent Oversight Committee (Leadership Code Commission) for investigation.		
9	Ensure all successful applicants of the market lock-up procurement indicated in the tender board minutes are the rightful lease holders and that contracts are appropriate to ensure that operation of the lock-ups as intended by the Council (e.g. not on-sold).	High	<p>As part of transparent management of lock up shops, Council has agreed that all successful lockup shop vendors remain the rightful lease holders in the next 2-years.</p> <p>Council has further agreed that any re-sell of lockup shops by successful applicants is not allowable and shall amount to termination of lease.</p> <p>Consistent with the requirements of the Financial Management Ordinance the lockup shops will be tendered and re-allocated.</p>	<p>City Clerk/Legal Office/Market Master</p> <p>City Clerk/Legal Office/Market Master</p> <p>City Clerk/Legal Office/Market Master</p>	<p>October 2020</p> <p>October 2020</p> <p>December 2020</p>
10	The Honiara City Council Act 1999 and Local Government Act should be reviewed to provide greater clarity on the distinction between the roles of management and governance. The Council should ensure it has a clear understanding of the roles and responsibilities between Governance and Management and that procurement decisions are made at the right level to allow both to fully fulfil their role.	High	<p>For greater clarity and distinction between the roles of management and governance the Executive Committee has approved that in Annual Work Plan 2020 review of the Honiara City Act 1999 would be concluded at the end of quarter 4, 2020.</p> <p>The Approved Annual Work Plan envisages that consequential amendment of the Local Government Act 1997 would also end in December 2020.</p> <p>Consequential amendment of Local Government Act 1997 would lead to review of the Honiara Town Council (Ward Development Fund) Regulation 1997.</p>	<p>City Clerk</p> <p>City Clerk/Legal Office</p> <p>City Clerk/Legal Office</p>	<p>September 2020</p> <p>December 2020</p> <p>December 2020</p>
11	The Council must ensure that it sets a balanced budget to ensure no borrowings are required and therefore enable the Council to comply with section 66 (3) and section 70 of the Public Financial	High	As part of transparency in the borrowing powers of the City Council with leadership of the Ministry of Home Affairs. The Council is reviewing the Honiara City Act 1999.	City Clerk/Legal Office	December 2020

	Management Act 2013 and Honiara City Act 1999 section 48 (2).		The Council would develop the City Fund Finance Management Ordinance.		
12	The arrangement of a loan between the Councillor and the Council and subsequent repayments should be referred to the appropriate authorities for further investigation and appropriate action.		Honiara City Council Management in light of the review of HCC Act 1999 and development of the City Fund Finance Management Ordinance would develop regulations on loan application and management procedures to enhance transparency, good governance and accountability. Council agrees that investigation of loan is carried by an Independent Oversight Body (Leadership Code Commission).	City Clerk/Legal Office	December 2020
13	Documentation should be retained to support arrangements the Council has entered into and key decisions of the Council.	High	As part of sound financial management system, Council has agreed to develop City Fund Management Ordinance to ensure provision of original documentations to support arrangements the Council has entered into and key decisions of the Council. Council agrees to retain documents to support arrangements the Council has entered into and key decisions of the council.	City Clerk/Legal Office	December 2020
14	All payments in relation to the original quote from Golden Pacific Motors should be subject to review in light of these findings and only verified and legitimate payments should be processed.	High	As part of sound transparent procurement processes, Council agrees that all payments in relation to the original quotes by Golden Pacific Motors is subject to review by an Independent Oversight Authority (Leadership Code Commission)	City Clerk	December 2020
15	The arrangement of a loan between the Councillor and the Council and subsequent repayments and consequent breach of the Honiara City Council Act and the attempts by the Council Officers to “falsify this payment” should be	High	As part of sound transparent procurement processes, Council agrees to investigate the loan between the Appointed Councillor and Council by an Independent Oversight Authority (Leadership Code Commission)	City Clerk/Legal Office	December 2020

	referred to the appropriate authorities for further investigation and appropriate action.				
16	<p>Ensure Honiara City Council review the Act, regulations and ordinances for ward development grants. The Council should set a level which is deemed appropriate and affordable for the Council.</p> <p>The framework for payments should which amount should be established to ensure clear guidance around payments and retirements.</p>	High	<p>As a vehicle for setting the most appropriate and affordable level of Ward Development Grant the Executive Committee has approved in its HCC Annual Work Plan 2020 that review of the Honiara City Act 1999 would lead to development of regulations that will determine the most affordable level of the grants.</p> <p>The Approved Annual Work Plan envisages that consequential amendment of the Local Government Act 1997 will also end in December 2020. The review of the LGA 1997 will develop clear guidelines on payments and retirements of the grants.</p> <p>Consequential amendment of Local Government Act 1997 will lead to review of the Honiara Town Council (Ward Development Fund) Regulation 1997.</p>	City Clerk/Legal Office	December 2020
17	<p>Ensure appropriate documentation is retained as part of the ward development grant approval process. This should include project proposals and the application form template in the Local Government Act 1997 (Cap. 14).</p>	High	<p>As part of transparent management of ward development grant, retirement of receipts with supporting evidences of grants used must be provided to the Council before disbursement of the next tranche of Ward Development Grant.</p>	City Clerk/Treasurer/Human Resource Manager	December 2020
18	<p>Ensure good practices in relation to retirement of receipts. This should be managed on a timely basis, with</p>	High	<p>As part of transparent management of ward development grant, retirement of receipts with supporting evidences of grants used must be provided to the Council before disbursement of the next tranche of Ward Development Grant.</p>	City Clerk/Treasurer	December 2020

	supporting evidence for all funds before further funds are issued.				
19	The ineffective controls and management of Council funds in the payment of ward development grants should be referred to the appropriate authorities for further investigation of misconduct and appropriate action.	High	As part of sound management of ward development grant processes, Council has taken steps to control and investigate the transaction of Ward Development Grants. Council further agrees to investigate control and investigate the management of Ward Development Grants by an Independent Oversight Authority (Leadership Code Commission)	City Clerk/Legal Office/Treasurer	December 2020
20	The Council must ensure that it sets a balanced budget to ensure no borrowings are required and therefore enable the Council to comply with section 66 (3) and section 70 of the Public Financial Management Act 2013 and Honiara City Act 1999 section 48 (2).	High	As part of Financial Management Strengthening Plan, Council would develop budget procedures and processes to guide and lead Management and Staff to effectively and efficiently expend sufficient financial resources in-accordance with the Approved Work Plan 2020. The Council will review the Honiara City Act 1999, will make consequential amendment of the Local Government Act 1997 and develop the City Fund Finance Management Ordinance to appropriately address borrowings to ascertain balanced budgeting.	City Clerk/Treasurer	December 2020
21	The Council should implement budgetary control procedures to ensure payments are maintained within the agreed budget. This should include checks to for adequate remaining budget before payments are approved and that this is clearly evidenced.	High	As part of Financial Management Strengthening Plan, Council would adopt strict measures of checks and balances systems to make HCC comply with the requirements of relevant financial management regulations/ordinances.	City Clerk/Treasurer	December 2020

22	Ensure the chart of account in MYOB matches the annual appropriation.	High	As part of Financial Management Strengthening Plan, Council would ensure that close monitoring of chart of accounts in MYOB is done so that it matches the annual appropriation.	Treasurer	
23	Ensure management develop a corporate/ strategic plans and an annual work plan to guide the council activities. Align the planning document goals, objectives and activities with the annual appropriation.	High	The Management has developed a Corporate /Strategic Plan 2020 in the form of Annual Work Plan 2020 that Executive Committee has approved at its meeting on Thursday, 10 September 2020. The Annual Work Plan 2020 has aligned policy objectives of the Honiara City Council Policy Statement with Honiara City Council Approved Budget 2020.	City Clerk	September 2020
24	Access rights to the financial system should be reviewed. Staff should be allocated access appropriate to their role to ensure segregation of duties. Administrator access should be reviewed to ensure it is allocated within the Council at the appropriate level.	High	Council has reviewed and realigned access rights to financial systems consistent with levels/ranks of responsibility. Access to Administrator password to financial systems would be re-allocated to the Treasurer from external hosts.	City Clerk/Treasurer	September 2020
25	Council should implement controls to ensure the timely input and timely and independent review of data to the financial system.	High	Finance Division has taken steps to timely input data and timely conduct independent review of data to the financial system.	City Clerk/Treasurer	September 2020
26	Established a cashbook to monitor all cash in and cash out of the institution on daily operation.	High	Council has instructed that Finance Division establishes a cashbook register to monitor all cash in and cash out on a daily basis.	City Clerk/Treasurer	October 2020
27	The ineffective controls and management of Council funds should be referred to the appropriate authorities	High	As part of sound financial management processes and systems, Council has taken steps to make effective controls and management of Council funds.	City Clerk/Treasurer	October 2020

	for investigation of misconduct and determination of appropriate action.		Council further agrees to investigate control and management of Council funds by an independent authority (Leadership Code Commission).		
	Immediately implement the appropriate legislation and budget appropriation to allow the selling of fire extinguishers by the Council.	High	As part of transparent, accountable and good governance of the administration of the Council, the Council is working on appropriate legislative reviews – Review of City Act 1999 and consequential amendment of Local Government Act 1997 to lawfully implement the selling of fire extinguishers by the Council. Executive Committee of the Council approved the Review of City Act 1999 and consequential amendment of Local Government Act 1997	City Clerk/Legal Office	December 2020
28	All cash collected should be banked in a timely manner as part of the controls to reduce the risk of theft.	High	Council is taking strategic measures to upscale processes to conduct daily banking of collections. Council has implemented administrative measures to ensure daily banking of collections.	City Clerk/Legal Office	Ongoing
29	Proper records should be maintained to track receipts and payments in relation to the loan.	High	Council has temporarily ceased selling of fire extinguishers until regulatory frameworks are put in place. Finance Division is keeping all records on receipts and payments.	City Clerk/Legal Office/Treasurer	September 2020
30	A cash count should be undertaken immediately to reconcile the cash received, recorded in MYOB and paid to Councillor Szetu.	High	Council has ensured that cash counts were undertaken, reconciled and recorded in MYOB.	City Clerk/Treasurer	September 2020
31	The Council must develop financial management ordinances as required under Section 39 (6) and Section 40 [3 (b)] of the Honiara City Council Act 1999	High	As part of Financial Management Strengthening to safeguard the City Fund the Executive Committee has approved in the HCC Annual Work Plan that Council	City Clerk	September 2020

	<p>to safeguard the annual appropriation of the Council.</p> <p>The Provincial Government Financial Management Ordinances and Financial Instructions and Stores could be used as a baseline to development your Financial Management Ordinances or be adopted until such a time as the Council's own policies can be developed.</p>		<p>develops City Fund Finance Management Ordinance by end of fourth quarter.</p> <p>The Provincial Government Financial Management Ordinances and Financial/Stores Instructions will provide guidelines in the development of City Fund Finance Management Ordinance</p>	City Clerk	December 2020
32	<p>Whilst the Council is responding to this report, we recommend that a system of performance management is implemented for Council Officers to provide clear direction and hold leaders accountable.</p>	High	<i>Ministry of Home Affairs response refer appendix 5 (4)</i>	Ministry of Home Affairs	2021
33	<p>Design a performance mechanism to be implemented at the Ministry to guide and strengthen the operation of the Council in achieving its long-term goals and objectives. Consideration could be given to that used by the Ministry of Provincial Government and Institutional Strengthening on Provincial Governments.</p>	High	<i>Ministry of Home Affairs response refer appendix 5 (2)</i>	Ministry of Home Affairs	2021

Appendix 3: Assessment Criteria

With the absent of “Financial Management Ordinance” and sub-regulatory instructions at Honiara City Council, OAG uses most of the national government Acts and regulations as our criteria to measure against the subject matters. The following were the criteria used;

1. Public Financial Management Act 2013
2. Honiara City Council Act 1999
3. Honiara Town Council (Ward Development Fund) Regulations 1997
4. Interim Financial Instructions 2014
5. Procurement and Contract Administration Manual 2013
6. The Council Revenue Ordinance
7. Annual Appropriation 2020 (budget book)

Appendix 4: Detail of exceptions

Honiara Central Market Lock-up shops audit summary

Lock-Up No.	Tender Board Committee (TBC) Award these Successful Applicants to lease the lock-up shops.	Application submitted (Yes/No)	Contract agreement signed/Exist (Yes/No)	File or documents verified by audit (Yes/No)	Tender application fee paid (Yes/No)	Applications in which Tender Board Committee (TBC) decision was influenced	Current leaseholder (user) confirmed through spot-check conducted for market lock-up shops
1	Esther Ann	Yes	Yes	Yes	Yes		Esther Ann
2	Batholomew Tauto	Yes	Yes	Yes	Yes		Batholomew Tauto
3	Delight Oge	Yes	File Missing	No	Yes		Delight Kaudi
4	Fakoa Associates	Yes	Yes	Yes	Yes		Kesty
5	David Ogua	File missing	File Missing	No	Yes		Casiano Poroapara
6	Mevilyn Ledi	Yes	Not attached in file	No	Yes	Recommended by City Mayor prior to TBC meeting.	Mevilyn Ledi
7	Bejamin Toata	Yes	Yes	Yes	Yes		Bejamin Toata
8	Godrian Saferio	Yes	No attached in file	No	Yes		Godrian Saferio
9	Mbokonavera 1 Community Service Group	Yes	Not attached in file	No	No		Joseph Tangi & Billy Abae
10	Catherine B Taunani	Yes	Yes	Yes	Yes		Catherine B Taunani

11	Selina Koriohimare	Yes	Yes	Yes	Yes	Request letter by Cr. Clement Terewauri to Chairman of TBC Robert Oge prior to TBC meeting	Selina Koriohimare
12	Rex & Madeline Solo	Yes	Not attached in file	No	Yes		Francis Damani
13	Councillor Dorah Iro	Yes	File missing	No	Yes		Alfred Waiaraha
14	Suzie Filali	Yes	Not attached in file	No	Yes		Suzie Filali
15	George Koga	Yes	Not attached in file	No	Yes		George Koga
16	Stella Mate	No	No application submitted	No	No		Stella Mate
17A	Augustine Wale	Yes	Not attached in file	No	Yes		Dickson Pola
17B	Milton Peter Suimae	Yes	Yes	Yes	Yes	Recommended by City Mayor prior to TBC meeting.	Milton Peter Suimae
18	Harry Toifai	File missing	Not attached in file	No	No		Harry Toifai & Robert Oge

Appendix 5: Honiara City Council and Ministry of Home Affairs responses and actions

Supplementary documents and MHA management responses

1. Nine (9) Steps of the Procurement Process/Plan – effective as of Tuesday, July 14, 2020.



HONIARA CITY COUNCIL OFFICE OF THE CITY CLERK

All replies to: **The City Clerk**

P O Box 324, Honiara
Solomon Islands

Telephone: +677 24843

Mobile: +677 7495068

Email: rence.sore@honiaracitycouncil.com.sb

Our Ref:

Date: Tuesday, July 14, 2020

Deputy City Clerk
All Heads of Divisions/All Divisions

NINE (9) STEPS OF THE PROCUREMENT PROCESS/PLAN – effective as of today (Tuesday, July 14, 2020)

We have just had a 'Special Audit' by the Auditor General's Office. We have also recruited an Audit/Accounting Specialist to prepare our 2016, 2017, 2018 and 2019 Financial Accounts for audit proper.

Following strict adherence to Financial Management Act and relevant regulations I hereby instruct that the following Steps of the Procurement Process/Plan is put in place for immediate implementation:

1. **STEP 1:** All Invoices, Payment Vouchers and Payment Requisitions are submitted to the Procurement Officer by Heads of Divisions for initial scrutiny – Payment Requisitions must identify Budget Charge Code (Invoices, Payment Vouchers and Payment Requisitions sleep for at least 1 night with the Procurement Officer),
2. **STEP 2:** All Invoices, Payment Vouchers and Payment Requisitions are forwarded to the Senior Expenditure Officer by the Procurement Officer to identify Annual Budget, Budget Used, Running Balance and Remaining Balance for each transactions (Invoices, Payment Vouchers and Payment Requisitions sleep for at the most 2 nights with the Senior Expenditure Officer),
3. **STEP 3:** All Invoices, Payment Vouchers and Payment Requisitions are forwarded to the Treasurer and/or respective Head of Division by the Senior Expenditure Officer for certification of the Payment Voucher and

authorization of the Payment Requisition (Invoices, Payment Vouchers and Payment Requisitions sleep for at least 1 night with the Treasurer),

4. **STEP 4:** All Invoices, Payment Vouchers and Payment Requisitions are submitted to the City Clerk by the Treasurer and/or Head of Division for approval of the Payment Voucher and authorization of the Payment Requisition (Invoices, Payment Vouchers and Requisitions sleep for at least 1 night with the City Clerk),
5. **STEP 5:** All approved Invoices, Payment Vouchers and Payment Requisitions are returned to the Procurement Officer to raise payments/cheques (raising of payments/cheques at least takes ½ a day),
6. **STEP 6:** All payments/cheques are forwarded to the Treasurer for signing (signing of payments/cheques at least takes ½ a day)
7. **STEP 7:** All payments/cheques are submitted to the City Clerk for final signing (final signing of payments/cheques at least takes a day)
8. **STEP 8:** City Clerk advises the bank on details of signed and approved payments/cheques.
9. **STEP 9:** All signed and approved payments/cheques are collected by the Procurement Officer for banking.

NOTE that as these Nine (9) Steps of the Procurement Process/Plan is long, it is mandatory on the part of all Divisions that detailed and forward planning on the part of Heads of Divisions is required.

FURTHER NOTE that no short cuts will be entertained **unless** otherwise justified by the Requesting Division and approved by the City Clerk.

ADDITIONALLY, it must be also made clear that requests of payments for Councillors Entitlements is not exempted from this rule.

I thank you for complying with the nine (9) steps of the procurement process/plan.

RENCE SORE

CITY CLERK

HONIARA CITY COUNCIL

CC : City Mayor
Deputy City Mayor
All Chairpersons
All Councillors (Elected and Appointed)

2. Ministry of Home Affairs responses to audit issue 2.5.3.



SUMMARY REPORT CONCERNING HCC AUDIT REPORT

To: Auditor General
Office of the Auditor General
P O Box G18
Honiara
Solomon Islands.

Introduction.

The Ministry considers effecting an intervention pack. It will start with review of the existing HCC Act to allow for HCC institutional empowerment. This HCC institutional empower will take similar approach taken by Institutional Strengthening programme under the Ministry of Provincial Government. It is therefore compulsory that HCC legislation reform needs to take precedent to avoid the scenario of putting the cart before the horse. Institutional empowerment for HCC will later advance improvements in areas such as financial management ordinance, HCC staff instructions, monitoring and evaluations, HCC strategic planning, urban spatial planning and executions.

The matrix below summarizes the intervention package, way-forward for improvements, rationales for the intervening strategies, expected outcomes and indicators will reflect the recommended improvements (interventions).

Areas of need for intervention.	Recommended way forward to improve	Rationales of doing these	Expected outcomes	Indicators
Performance Management System	<p>1. Legislative Review</p> <p>The improved legal framework will allow for adoption of relevant institutional strengthening strategy to empower and ensure capacity of HCC administration continues to sustain over time.</p> <p>2. Institutional Strengthening programs. This intervention will allow for Reforms and Improvements to;</p> <ul style="list-style-type: none">  HRM capacity,  Financial governance & admin.  Strategic planning & execution.  Urban & Spatial Planning & Executions. 	<p>i. Make clear directives on which authority to hire and fire.</p> <p>a. Snr management team to become seconded officers of Public service</p> <p>ii. They become independent in decision making not political influence.</p> <p>iii. Allow MHA to help instill degrees of control over some operations & administration in discharging functions of M&E.</p> <p>iv. Ensure effective management and controlling of funds.</p>	<p>i. HCC Snr management team will accord more respect to PSC – as hire and firing authority.</p> <p>ii. The quality of decisions has no political interests attach to it.</p> <p>iii. MHA can actually do monitoring and Evaluations</p> <p>iv. Quality financial reports produced.</p> <p>v. Quality Audit reports</p> <p>vi. HCC has improved in its performance report</p>	<p>a. HCC Act reviewed</p> <p>b. City Clerk, Deputy City Clerk, HRM & PAO, Treasurer and its Deputy to become seconded staff of Public Service.</p> <p>c. Quality decision serving the interest of HCC.</p> <p>d. Compliance to set procedures</p> <p>e. MHA directly liaise with HCC on M&E programs.</p> <p>f. Quality reports on finance, HR and compliance processes.</p>

	<p style="text-align: center;"> Effective Monitoring and Evaluations.</p> <p>These reforms will advance the following objective in numbers 3-4 below;</p> <p style="padding-left: 40px;">3. Formulation of Financial Management Ordinance.</p> <p style="padding-left: 40px;">4. Formulation of Staff Instructions guidelines.</p>	<ul style="list-style-type: none"> i. Accountable to grants/funds injected into HCC. ii. Enables them to do planning, budgeting and reporting. iii. To have procurement guidelines to expend funds iv. Control over budget i. Ensure fair and transparent recruitment and selection process ii. Ensure consistency in decision making iii. Customizing PMP to HCC. 	<ul style="list-style-type: none"> i. HCC developed its Financial Management Ordinance ii. There is plan, budget and reporting on its operations. iii. HCC develop procurement guide iv. Matrix to control budget i. HCC develop its staff instruction ii. Recruitment done on open merit base. iii. To ensure decisions are based on this instructions and consistent. iv. HCC to have customized PMP 	<ul style="list-style-type: none"> a. FMO in placed b. Clear Annual Budget Plan and reporting matrix in placed. c. Procurement Guide in placed. a. Staff Instruction in placed b. Officers recruited based on merits and competencies. c. Uniformity on decisions to Staff instructions.
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				d. Effective assessment system/matrix in place for HCC.
Performance mechanism to strengthen the HCC operation	1. Strategic Planning and Execution	<ul style="list-style-type: none"> i. To enable it to have AWP ii. Budget iii. Functional review iv. Workforce Audit v. Incentive program 	<ul style="list-style-type: none"> i. HCC has Strategic Plans for the tenure of 3 years. ii. HCC has Annual Work Plan developed and reviewed each year. iii. HCC has annual budget to carry out its mandated functions. iv. HCC structure reviewed v. Workforce audit conducted vi. Strengthening programs identified to reinforce its operations. 	<ul style="list-style-type: none"> a. Effective Strategic Plan b. HCC has AWP in place to guide its operation. c. HCC has well designed budget for each financial year. Sound financial reports. d. Effective and functional structure e. Minimal cost on workforce but very Competent and productive. f. Donors identified to finance the program for effective management of funds and better results.

Conclusion.

This summary is at the perusal and consideration of the government. To avoid things continue to fall-apart in governance and administration of the HCC as an agency, the intervention package needs to be considered and set as priorities for the HCC institution.

Endorsement: Jeffrey Sade Deve
.....
Permanent Secretary
Ministry of Home Affairs
P O Box G11
Honiara
Solomon Islands.