



**SOLOMON ISLANDS GOVERNMENT**

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# **OFFICE OF THE AUDITOR-GENERAL**

## **ANNUAL REPORT 2014**

**COVERING 2012 AND 2013 OPERATIONS**

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Reported by:

Office of the Auditor General  
PO Box G18  
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Solomon Islands

December 2014

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## Contents

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Foreword from the Acting Auditor General .....	iii
CHAPTER 1 – THE OFFICE OF THE AUDITOR-GENERAL.....	1
Outputs.....	1
Administration.....	5
CHAPTER 2 – AUDIT OF NATIONAL GOVERNMENT .....	11
Accounts of the Solomon Islands Government .....	11
Audits of Line Ministries .....	15
Ministry of Agriculture and Livestock Development.....	20
Ministry of Communication and Civil Aviation.....	21
Ministry of Culture and Tourism .....	22
Ministry of Development Planning and Aid Coordination.....	24
Ministry of Education and Human Resources Development.....	25
Ministry of Finance and Treasury.....	27
Ministry of Fisheries and Marine Resources .....	33
Ministry of Foreign Affairs and External Trade .....	35
Ministry of Forestry and Research .....	36
Ministry of Health and Medical Services .....	37
Ministry of Infrastructure and Development.....	38
Ministry of Lands, Housing and Survey.....	39
Ministry of Mines, Energy and Rural Electrification .....	40
Ministry for Police and National Security and Corrective Services Solomon Islands .....	41
Ministry of Provincial Government and Institutional Strengthening.....	42
Ministry of Rural Development and Indigenous Affairs .....	43
Office of the Prime Minister and Cabinet.....	44
CHAPTER 3 – AUDITS OF PROVINCIAL GOVERNMENTS.....	47
Overview .....	47
Provincial Government Ward Development Grant Expenditure.....	50
Central Islands Province .....	53
Choiseul Province.....	56
Guadalcanal Province.....	58
Isabel Province .....	63
Makira-Ulawa Province.....	68
Malaita Province .....	75
Rennell and Bellona Province.....	86
Temotu Province .....	90
Western Province .....	94

CHAPTER 4 – AUDIT OF HONIARA CITY COUNCIL .....	101
CHAPTER 5 - AUDITS OF SOEs AND STATUTORY BODIES .....	103
Contracted Out Audits .....	105
Central Bank of Solomon Islands.....	107
Commodities Export Marketing Authority .....	108
Investment Corporation of Solomon Islands.....	110
Solomon Airlines Limited .....	110
Solomon Islands Broadcasting Corporation .....	111
Solomon Islands College of Higher Education .....	112
Solomon Islands Electricity Authority .....	112
Solomon Islands National Provident Fund .....	113
Solomon Islands Postal Corporation.....	115
Solomon Islands Ports Authority .....	116
Solomon Islands Visitors Bureau .....	118
Solomon Islands Water Authority.....	118
Telecommunications Commission of Solomon Islands .....	121
CHAPTER 6 - AUDITS OF DONOR GRANTS.....	123
CHAPTER 7 – AUDITS OF ECONOMY AND EFFECTIVENESS .....	125
Introduction.....	125
Managing Sustainable Fisheries in Solomon Islands Exclusive Economic Zone .....	126
Tertiary Scholarships Management .....	128
Rural Constituency Development Fund Progress Update .....	131
APPENDICES .....	133
Appendix 1 - OAG Unaudited Annual Accounts .....	133
Appendix 2 - Definitions and Technical Concepts .....	141
Appendix 3: Glossary of acronyms .....	143

# Foreword from the Acting Auditor General

I am pleased to present our 2014 annual report covering the results of audits performed during the 2012 and 2013 financial years.

Those two years were a challenging time for this Office – as has been 2014 which will be reported on in our 2015 Annual Report – as we continued to promote transparency and accountability of Solomon Island public sector entities whilst developing the capacity of our staff to meet international standard. During that time of 2012 and 2013, we witnessed the forced retirement of the former Auditor-General Mr Edward Ronia, relocated our office - twice, and dealt with an ever changing government landscape with new systems, legislation and procedures.

This 2014 Annual Report details the operations of this Office, the results of financial statement audits conducted, as well as some of the higher risk issues identified in our audits, on the national government accounts, the nine provincial governments' accounts, and thirteen state owned enterprises and statutory authorities. I also summarise the results of two performance audits issued during the period on the management of fisheries harvesting our tuna and on the management of tertiary education scholarships.

I have also taken the step of including in this annual report more detail than previously on the results of financial statement audits conducted on state owned enterprises and statutory authorities while protecting any commercially sensitive information in the process. In the past the descriptions had been limited to the audit opinions issued by the Auditor General.

I have taken this step as part of this Office's role in increasing the transparency of the collection and use of resources intended for contributing to the public good. Good quality and timely financial reporting, underpinned by strong internal controls, serves as a solid foundation for encouraging high quality service delivery to the public – and it is hoped that greater public scrutiny of the management issues affecting the efficiency and effectiveness of these organisations will encourage boards and managements to accelerate their adoption of recommendations made by this Office to correct any weaknesses identified during our audits.

Robert Cohen, Acting Auditor-General

17 December 2014

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# CHAPTER 1 – THE OFFICE OF THE AUDITOR-GENERAL

This Office has changed the way it measures its activities so that our focus is now more on what we have produced and achieved rather than what resources we have used or developed – though that is important to record as well. Accordingly, I first describe in this report our outputs and then focus on more traditional aspects of our organisation.

## Outputs

### Audit Reports

Our primary output is audit reports – to the National Parliament, the nine Provincial Assemblies, the Honiara City Council and the various Boards of State Owned Enterprises (SOEs) and Statutory Authorities (SAs). We also produce Special Audit Reports which are provided to the requesting government agencies when it is believed that the topic is of importance for the general governance of the Solomon Islands Government (SIG) or in the public interest. In addition, this Office undertakes efficiency audits of government programs or operations (known as Performance Audits) which are also reported to the National Parliament.

The status of our financial audit reporting responsibilities to end of 2013 is shown in the table below:

AUDIT REPORT COMPLETIONS TO 31 DECEMBER 2013						
	Governments			Public Bodies		Total
Auditee Type	National	Provincial	Council	SOE	SB	
Number	1	9	1	8	6	25
Total Due	5	45	5	40	30	125
Completed 2009	1	9	1	7	5	23
Completed 2010	1	9	1	7	5	23
Completed 2011	1	9	0	6	5	21
Completed 2012	0	9	0	5	4	18
Completed 2013	Not yet due	Not yet due	Not yet due	0 <sup>^</sup>	1	1
Total Done	3	38	2	25	20	86
%Total Done	60%	84%	40%	63%	67%	69%

<sup>^</sup>The Solomon Islands Ports Authority has a 30 September year-end where by its financial statements are required to be audited within three months of balance date being 31 December. Other SOEs have a 31 March deadline for completion of audited financial statements so were not yet due as at 31 December, 2013.

The results of our financial audits which were described in our various audit reports are summarised and reported in this Annual Report as follows:

Chapter 2 Solomon Islands Government and National Accounts

Chapter 3 Provincial Governments

Chapter 4 Honiara City Council

Chapter 5 State Owned Enterprises and Statutory Authorities

Chapter 6 Donor Funded Projects

In addition, during 2012 and 2013 our Office reported to the National Parliament on two performance audits which are described in Chapter 7. The audits covered the following Government programs:

- Management of Tuna Fisheries in the Solomon Islands Fisheries Exclusive Economic Zone; and
- Tertiary Scholarships Management

Our Office is currently conducting a performance audit on the Distribution of Rural Constituency Development Funds which will be reported in the subsequent year. In addition, our Office conducted a cooperative audit under the auspices of the Pacific Association of Supreme Audit Institutions [PASAI] looking at Global Warming Food Security Measures which will also be reported when complete.

Our Office also undertook a special audit of certain aspects of the operations of the Solomon Islands High Commission to Papua New Guinea at the request of the Ministry of Foreign Affairs and External Trade.

### **Anti-Corruption Activities**

The previous Auditor General attended the 4th Integrity in Action (INTACT) Community of Practice meeting which was held in Kathmandu, Nepal, in October 2011; as well as Steering Group Meetings and Seminars organised by the Secretariat of ADB/OECD Anti-Corruption Initiative for Asia and Pacific as an observer.

At the 17th Steering Group Meeting held in Hanoi, Vietnam in 2012 Solomon Islands was accepted as the 30th Member of the Initiative. For Solomon Islands this was an achievement after past years attendance of meetings of the Initiative in an observer status.



Membership of the Initiative means Solomon Islands will be accessible and eligible for information sharing with all the members of the Initiative on new developments in anti-corruption issues. Solomon Islands will benefit from financial assistance to attend meetings and programmes organised and funded by the Initiative.

More importantly Solomon Islands, like all the members of the Initiative, will be obliged to meet anti-corruption requirements under regulations of the Initiative. Striving to meet these requirements will improve Solomon Islands anti-corruption development and standing among the members of the Initiative, the region and the world.

In January 2012 Solomon Islands ratified the United Nations Commission Against Corruption (UNCAC). Locally, an Integrity Group Forum (IGF) consisting of the accountability and integrity institutions have been pushing the UNCAC agenda by inviting representatives of UNDP from Fiji and the local UNDP office in Solomon Islands to make presentations on the UNCAC to the Forum. The Forum has invited United Nations Operations on Drug Crimes (UNODC) to make their visit to Solomon Islands for the self-assessment review of Solomon Islands in early 2013.

## **National and Provincial Legislatures**

### *National Parliament*

In addition to providing audit reports to the National Parliament, the Auditor General is also the Secretary to the Parliamentary Public Accounts Committee (PAC). The PAC is responsible for reviewing the Government's budget legislation before the Appropriation Bills can be debated in the Parliament, as well as conducting public hearings into audit reports issued by the Auditor General before preparing reports on the audits for debate in the Parliament.

Although the PAC has been actively conducting hearings into the Government's budget legislation it has been noticeably absent in dealing with our audit reports since the Ninth Parliament was formed in 2010. Our Office will continue to inform and to lobby the PAC to conduct hearings into our reports.

In February 2011 the previous Auditor General together with two members of the Parliamentary Public Accounts Committee (PAC) attended a Summer School for Public Accounts Committees, in Melbourne, Australia, at the invitation of the Commonwealth Parliamentary Association, through the Clerk to the Solomon Islands National Parliament. The importance of an effective

PAC system was covered, including the essential relationship between the Office of the Auditor General and the PAC.

#### *Provincial Assemblies*

Encouragingly, the provincial governments have now become more active and have been establishing Provincial Public Accounts Committees for their respective Provincial Assemblies. It was pleasing that the then Auditor General was invited to participate as a resource person in a number of workshops held by the Provincial Government Strengthening Program (PGSP) with the Ministry of Provincial Government in 2012. The role of the Provincial PACs is to review our audit reports on the provincial governments' financial management and their annual financial statements.

#### **Regional Governance Activities**

Solomon Islands is an active member of the Pacific Association of Supreme Audit Institutions [PASAI] which is the local regional group of national audit offices who form the International Association of Supreme Audit Institutions [INTOSAI] responsible for setting international standards for government auditing.

At the PASAI Congress held in Noumea, New Caledonia in September 2012, the Solomon Islands 12 months term as a member of the Governing Board of PASAI representing Melanesian bloc countries was extended for a further two years.

At the Congress Solomon Islands was also selected together with nine other member countries of PASAI to undertake a Cooperative Performance Audit (CPA) on Climate Change. This followed the first regional CPA conducted on Managing Sustainable Fisheries (Tuna Fishery) in Solomon Islands Fisheries Exclusive Economic Zone. The report on Fisheries was tabled in Parliament in September 2012 [Chapter 7].

In December 2012 our Office attended workshops in Nadi, Fiji on the rollout of the International Standard for Supreme Audit Institutions (ISSAIs), and the latest practices manual issued by PASAI on Strategic Management Operational Guidelines (SMOG). The guidelines will assist SAIs in the region to develop their strategic, corporate and business/work plans and formulate operational rules appropriate to each SAI.

In 2013, Solomon Islands attended the Congress held in Guam where PASAI's Ten Year Strategic Plan was formulated and adopted.

## **Administration**

### **National Audit Office Bill**

The saga of new legislation for modernizing and establishing the Office as a National Audit Office has continued since late 2008. The original 2008 draft was revised in 2011 to include an explicit authority for the Auditor General to conduct performance audits which look at efficiency and effectiveness of government programs, in line with international expectations on the roles of Supreme Audit Institutions such as this Office.

However, the Bill did not progress any further than that in 2011. In 2012 the Bill was reviewed again and further amendments identified as being required to be made – particularly as the Ministry of Finance & Treasury updated its parts of the *Public Finance and Audit Act* and passed them through Parliament under the *Public Financial Management Act 2013*.

### **New Office**

The Office is experiencing a greater sense of independence when in 2012 it was relocated to the current building on Mud Alley, physically separated from the Ministry of Finance and Treasury (MoFT) building complex site. For many years with the location of the Office of the Auditor General physically sited behind the MoFT building, the Office has always been erroneously assumed and respected as a department of MoFT when, by virtue of the Auditor General's function as the external auditor of the government and its public entities, our independence from MoFT is an important ethical requirement.

We thank the Permanent Secretary to MoFT who appreciated the need for greater independence of our Office from MoFT and granted us the right to use the Mud Alley building as the permanent office to house the operations of the Office of the Auditor General.

### **Staff Establishment**

In 2012 the Office continued to operate with an approved establishment of 36 posts with 10 vacancies similar to the establishment structure in 2011. In the 2013 Budget submission the Office submitted a revised organization structure intended to meet modern audit office

requirements under international auditing standards. However, we were only partially successful.

However, the Office did benefit from the provision of eight new graduates under a New Graduate Scheme funded by RAMSI outside of our establishment. The graduates worked under the direct supervision of the management staff and this experience over two years prepared them well for absorption into the SIG establishment and payroll as permanent employees of the Public Service after their contracts under the RAMSI Graduate Scheme expired in March 2013. Seven of them were so absorbed in 2013.

RAMSI's assistance in this regard is much appreciated and acknowledged as it enabled the Office to successfully undertake the duties mandated to the Auditor General in 2011 and 2012.

### **Training Policy**

The nature and mandate of this Office requires the Auditor General to have professional staff with specialist skills in auditing and accounting, and hence the crucial need for all staff to attain relevant tertiary and professional qualifications.

Even with the addition of the eight Graduate Auditors provided to this Office under the RAMSI Graduate Scheme, three quarters of our audit staff still only held diplomas from the local technical college. Our Office has provided funding and time off to study part-time towards their tertiary qualifications with either the University of South Pacific or University of Papua New Guinea which have established local centres in Honiara.

However, because it would take those who did not obtain a full-time study scholarship some 10 years to gain their degrees on a part-time basis, the previous Auditor General established an accelerated training policy to enable all those with diplomas to attain a degree qualification in relevant disciplines by 2015. This was done by granting staff with less than 8 units of study remaining to attend full time local study whilst remaining on our payroll.

Further, those staff with only three units left to complete and who are required to attend class in Fiji to complete those units, were given assistance under the RAMSI-funded Last Semester Program (LSP) to attend class in Fiji. In 2012 two officers benefitted from the LSP and in 2013 a further two officers.

Beside the LSP students, three other full time SIG scholarship students returned at the end of 2012 with one officer successfully completing his accounting degree while two others need to complete their degrees with further study locally.

In 2012 a female staff officer was awarded a prestigious Australian Endeavour Scholarship to undertake her tertiary studies in Perth, Western Australia. While in Australia the Western Australian Audit Office provided her with an attachment to its Office which exposed her to greater skills and experiences in professional auditing. Another female continued her full time SIG sponsored studies locally with UPNG.

For those staff already qualified in Accountancy, the plan is for them to now undertake professional studies that would enable them to become registered CPA members of the Institute of Solomon Islander Accountants [ISIA]. Such qualification of our staff will give this Office the professional skills necessary to enable the Office to meet international expectations in carrying out its responsibilities.

### **Office Management**

The corporate management of this Office was greatly assisted by RAMSI during the latter part of 2012 with the appointment of a replacement principal audit advisor/Deputy Auditor General, Mr Robert Cohen, who took up the vacant position left by the previous Deputy, Mr Peter Johnson.

In preparation for a greater involvement of local staff in the running of the Office a Corporate Planning workshop was conducted for all staff in November 2012 to engage all staff in planning for the future direction of the Office. Almost all of the current Corporate Plan was retained which expires in 2015.

In addition, all senior managers are now being involved in the daily running of the Office through management committees covering the executive, training, finance and communications. This exposure to management decision-making has rapidly increased the engagement of staff in the Office's affairs as well as provide them with essential skills for more senior positions.

## **International Development Support**

### *Australian Assistance Arrangements*

We continue to acknowledge the assistance rendered to the office by RAMSI since 2003. With the support of the international advisors and funding support for training, additional graduate staff, equipment, regional participation in anticorruption and audit activities and community awareness activities for this Office, we were able to provide professional auditing services and reports to the National Parliament, Provincial Assemblies and public sector institutions.

RAMSI also provided drafting assistance for finalising the proposed new audit legislation which was still in progress at the end of 2013.

Though RAMSI's presence in the country under the current agreement with the Solomon Islands Government expired in June 2013, we are grateful that a continuation of international support for this Office was approved under a new bilateral agreement between the Australian and Solomon Islands Governments.

### *Advisor Support*

In 2012 three international technical advisor positions were retained – namely: - a principal audit advisor/in-line Deputy Auditor General, a performance audit advisor and a financial statement audit advisor.

The position of the principal audit advisor, who also holds the Deputy Auditor General in-line position, was left vacant at the end of 2011 and was not filled until June, 2012. Under the new Australian aid arrangements this position has been retained as a long term commitment to ensure the reforms in the Office are not lost whilst the staff are trained to take over its management. The position of performance audit advisor was not refilled upon completion of the incumbent's contract in January 2013 and this responsibility was passed to the principal audit advisor.

The position of financial statement advisor was a specialist position required to assist the staff to audit financial statements prepared in accordance with International Financial Reporting Standards [IFRS] for Statutory Authorities and State Owned Enterprises. The position also assisted staff to audit projects which are required to report in accordance with International Public Sector Accounting Standard (IPSAS – Cash).

Under the new arrangements, the financial statement position was generalised to extend technical support to the branch which was responsible for the audit of national and provincial governments which had been left without advisor support since 2010 and was struggling to meet its auditing and reporting obligations.

#### *Training and provision of graduate staff*

The details of RAMSI support has been described above in the Training Policy section of this report [p.6].

#### *Equipment*

Some key pieces of equipment were provided to this Office by RAMSI including a heavy duty printer to enable us to print our audit reports under secure custody, and the project vehicle used under RAMSI was provided as an additional vehicle for the Office after RAMSI ended.

#### *Regional Representation*

In May 2012, with funding from RAMSI, the previous Auditor General, with the Chairman of the Leadership Code Commission, was able to attend the 5th Independent Commission Against Corruption (ICAC) Symposium which was held in Hong Kong.

Solomon Islands was also able to send a delegation of three members - the Auditor General, the Acting Director of Financial Intelligence Unit and the Director of Governance and Anti-Corruption Unit from the Prime Minister's Office to the 17th ADB/OECD Anti-corruption Initiative for Asia and Pacific Steering Group Committee and Seminar which was held in Hanoi, Vietnam in October 2012. At the Steering Group Committee meeting Solomon Islands with Timor Leste were accepted and registered as the 29th and 30th new members of the Initiative.

The financial support from RAMSI also enabled the Deputy Auditor General to support the then Auditor General when he attended meetings of the Pacific Association of Supreme Audit Institutions (PASAI) Congresses which were held in Noumea, New Caledonia in 2012 and Guam in 2013.

#### *Community Awareness Program*

The Communication, Education Information (CEI) program of the Accountability Institutions under the RAMSI Machinery of Government was a successful program. It enabled the Accountability Institutions (including the Ombudsman and the Leadership Code Commission) to

conduct awareness outreaches to Schools, the Churches and the Provinces. In 2012 a radio drama produced by the three accountability intuitions was played over the Solomon Islands Broadcasting Corporations (SIBC). A DVD on the three institutions' roles and functions was produced for presentation and distribution to the public.

### **Gender**

This Office prides itself on the opportunities it provides to female staff to ensure that they have equal access to education, training and management positions. The gender balance within the Office is almost evenly split on all of these bases.

### **Departure of Auditor-General**

In November 2013, the previous Auditor-General, Mr Edward Ronia was retired by the Governor General on the basis that he had attained the age of 55 years and had not made previous arrangements with the Governor General in consultation with the Public Service Commission to extend his appointment beyond the age of 55 years in order to complete his full term of office.

This left the Office and the country without an Auditor-General for a short period of time until the appointment of the Deputy Auditor-General, Mr Robert Cohen as Acting Auditor-General in December, 2013. Action has commenced to appoint a new Auditor-General in consultation with the Prime Minister's Officer, Public Service Commission and Ministry of Public Service. I take this opportunity to thank Mr Edward Ronia for his strong legislation and dedication to this demanding role.

### **Finance**

Our unaudited Financial Statements for the years ended 31 December 2012 and 2013 have been prepared in accordance with International Public Sector Accounting Standards Board Financial Reporting Under the Cash Basis of Accounting [IPSAS – Cash Basis] and are displayed in Appendix 1 to this Report.



## CHAPTER 2 – AUDIT OF NATIONAL GOVERNMENT

### Introduction

The Auditor-General is required under the *Public Finance and Accountability Act CAP 120* to examine and report on the national accounts produced by the Ministry of Finance and Treasury (MoFT) on behalf of the Solomon Island Government (SIG) annually. The main objective of this audit is to provide assurance to the people of the Solomon Islands that the expenditure of Governments funds is accurately reported and to provide advice to the ministries concerned to help them improve the systems they use to record, collate and report on their financial transactions.

## Accounts of the Solomon Islands Government

### Reporting Framework

It was pleasing to note that the Solomon Islands Government had commenced reporting processes to adopt an internationally recognised financial reporting framework for its accounts as issued by the International Public Sector Accounting Standards Board [IPSAS]. However, the existing Public Finance and Audit Act prescribes the statements to be disclosed with little guidance as to the form and content. These are not internationally recognised statements and offer stakeholders little information to assist them interpret SIG's financial performance and position for the year. Under the *Public Financial Management Act 2013* effective from 1 January 2014, the 2014 SIG financial statements will be required to be prepared using a combination of the Public Financial Management Act 2013 requirements and financial instructions as prescribed by the Finance Minister. This is expected to enhance existing reports to the extent that Solomon Islands financial reports could be compared against other Pacific or International countries.

The importance of receiving timely and high quality financial statements cannot be over-emphasised. Members of the public, government agencies, employees, donors, the media, suppliers and customers all depend upon high quality service delivery of public goods and services. One means of demonstrating this is via the public reporting of timely and high quality financial statements. Good quality and timely financial reporting supported by strong internal controls form a strong foundation for improving trade and business within the country. They enhance the transparency of public sector spending and encourage the accountability of officers responsible for managing the nation's scarce resources for the benefit of all Solomon Islanders.

## **Timeliness**

The *Public Finance and Audit Act 1978* required that the SIG financial statements be presented to the Auditor General within six months of the end of the financial year i.e. 30 June.

It was encouraging to note that the Ministry of Finance and Treasury (MOFT) presented the Auditor General with the 2011 SIG financial statements ahead of the six month deadline. However, the 2012 SIG financial statements were late and had still not been received by this office by the end of the 2013 year. It is clear that more planning and coordination by responsible parties is required to ensure that SIG is able to meet its own legislative deadlines in the delivery of the national accounts to the Office.

## **Quality**

The quality of the SIG financial statements and supporting source documentation require much improvement. To be reliable, every statement, note disclosure and balance recorded within the SIG financial statements must be consistently supported by reconciliations, finance system reports and other source documentation to demonstrate that balances are valid and are presented fairly. It is better practice for management to sign off such reconciliations to evidence their review and acceptance of the reported disclosures and demonstrate that the financial statements are complete, accurate and valid. Such basic accounting controls can be easily implemented and enforced by management. The responsibility for improving the quality and timeliness of financial statement preparation rests with management.

## **Audit Opinion**

Unfortunately, the Auditor General was once again and as in previous years, required to issue a disclaimer of opinion on the 2011 Financial Statements. The reasons for this disclaimer of opinion were similar to prior years. Issues contributing to this disclaimer of opinion included:

- a significant proportion of original procurement documents were not able to be located and so we were not able to verify a large portion of expenditure;
- revenue receipts recorded were incomplete;
- bank reconciliations were incomplete;
- there was insufficient evidence to support the existence and value of SIG assets; and
- internal controls within the expenditure and revenue processes still do not provide sufficient assurance as to the veracity of recording of transactions for both the line Ministries and MoFT.

### **MoFT accounting system**

It was noted that MoFT continued its efforts to improve the AX finance system during 2013 via the refinement of existing and creation of new finance reports used by the line ministries. Such reports became linked to the budgeting system. However the system was not utilised to capture and manage property, plant and equipment assets which are significant component any nation's balance sheet. This Office looks forward to the year when it is presented with Financial Statements expressed in accordance with IPSAS standards with figures that are reliable and complete.

### **Background to SIG Accounts and Audit Approach**

#### **Statutory reporting requirements**

In accordance with Section 38 of the *Public Finance and Audit Act 1978* (the Act) the Permanent Secretary MoFT is responsible for preparing the Solomon Island National Accounts each year and providing them to the Auditor-General for audit and certification. The Act in its current form provides limited guidance as to the form and content of disclosures to be reported.

The new *Public Financial Management Act 2013* (effective from 1 January 2014) does allow for the Minister to issue financial instructions which prescribe the use of other financial reporting frameworks such as IPSAS Financial Reporting Under the Cash Basis of Accounting [IPSAS – Cash Basis]. By doing so, this would allow for greater transparency over the national accounts and enable comparison of the financial performance and position of the Solomon Islands Government against other countries across the Pacific and the world. It was positive to note that SIG commenced preparing IPSAS Cash basis financial statements in 2010 and again in 2011, however for the purposes of complying with existing legislation, the Auditor General was unable to take them into account for the purposes of issuing an audit opinion on them.

#### **Audit approach**

In order to audit the National Accounts, our auditors undertake combined interim and final audits of the accounts and records of MoFT and all line Ministries on an annual July-June cycle. The results of those audits inform the Auditor General as to an appropriate form of audit opinion to issue on the National Accounts. Those audits serve two purposes; firstly to check whether the internal controls over revenue, expenditure, assets and liabilities are working properly to ensure the transaction amounts are reliable, correctly classified and complete; and secondly, to check that the figures in the financial statements match the underlying ledgers in the accounts.

To date, the poor performance of the internal controls in all line Ministries, combined with the difficulty in locating supporting documents in MoFT, have rendered the National Accounts financial statements too unreliable to be able to form an opinion on their veracity or accuracy.

Given the resource and capacity constraints that our Office faces, not all Ministries were subject to an audit during the 2011 and 2012 financial years. The office undertook Ministry audits identified as major and high risk first and implemented a rolling audit programme to ensure every Ministry is subject to an audit at least every three years. For 2011 and 2012, the following Ministries were subject to an audit by the Office:

<b>17 MINISTRIES AUDITED OVER THE 2011 AND 2012 FINANCIAL YEARS</b>	
Ministry of Agriculture and Livestock Development (MALD)	Ministry of Health and Medical Services (MHMS)
Ministry of Communication and Aviation (MCCA)	Ministry of Infrastructure Development (MID)
Ministry of Culture and Tourism (MCT)	Ministry of Lands and Housing (MLH)
Ministry of Development Planning and Aid Coordination (MDPAC)	Ministry of Mines , Energy and Rural Electrification (MMERE)
Ministry of Education and Human Resources Development (MEHRD)	Ministry of Police and National Security (MPNS)
Ministry of Finance and Treasury (MoFT)	Ministry of Provincial Government and Institutional Strengthening (MPGIS)
Ministry of Fisheries and Marine Resources (MFMR)	Ministry of Rural Development (MRD)
Ministry of Foreign Affairs and External Trade (MFAET)	Office of the Prime Minister and Cabinet (OPMC)
Ministry of Forestry and Research (MFR)	

The Ministries that were not subject to audit over this period included:

Ministry of Commerce, Industry and Employment (MCIE)	National Parliament (NP)
Ministry of Environment, Conservation and Meteorology (MECM)	Ministry for National Unity, Reconciliation and Peace (MNURP)

Office of the Governor-General (OGG)	Office of the Prime Minister and Cabinet (OPMC)
Ministry of Home Affairs (MHA)	Ministry of Public Service (MPS)
Ministry of Justice and Legal Affairs (MJLA)	Ministry of Women, Youth and Children's Affairs (MWYC)
National Judiciary (NJ)	

These will be audited in the future.

### **State Owned Enterprises and Statutory Bodies**

The Auditor General also audits all State Owned Enterprises and statutory authorities but their financial statements do not as yet form part of a consolidated set of national accounts.

These audits are separately reported to the relevant Ministers for presentation to the Parliament as part of their individual Annual Reports. I summarise the results of those audit reports in this Report under Chapter 4.

## **Audits of Line Ministries**

### **Overview**

#### *Responsibilities of MoFT and line Ministries*

The primary responsibility for maintaining the original procurement source documentation rests with MoFT. This is because any payments must be made on original and approved source documentation (e.g. contracts, payment vouchers, invoices) and are then filed by MoFT.

Although transactions are processed by MoFT, all of the Ministries have responsibility to ensure they have adequate internal control over the initiation of those transactions. As part of the audit of the 2011 and 2012 SIG Financial Statements, we tested the initiation and documentation of transactions undertaken by Ministries as well as the processing by the MoFT. An additional objective of this work, aside from verifying the financial statements, is to provide recommendations to the various Ministries that will assist them to improve their internal control procedures. If internal controls are operating effectively, then key stakeholders can find greater assurance that the financial reports are reliable for their information needs.

### *Summary of audit results on MoFT and line Ministries*

During the audit of the 2011 and 2012 Solomon Islands Government financial statements, our auditors identified several weaknesses in the internal controls among the ministries. These are listed below:

- Lack of action for recovery of non-acquittals;
- Bank reconciliations not performed;
- Cashbooks not properly maintained;
- Asset registers either not up-to-date or non-existent;
- Lack of evidence of properly prepared or reviewed bank reconciliations;
- Lack of reconciliations of account code controls cards to Treasury information;
- Special imprests issued to persons who are not public servants;
- Lack of timely recovering and retirement of standing and special imprests;
- Lack of salary and wages forms to substantiate payroll payments;
- Lack of proper filing system;
- Lack of verification of daily revenue collection;
- Lack of receipts and deposits and poor management of receipt books;
- Conflicts of interest identified in awarding of services;
- Lack of segregation of duties in key institutional functions and controls.

All of these internal control weaknesses do not apply to all ministries but they are common and often significant. They contribute to the risk of fraud and misappropriation as well as wastage of resources resulting in deferred projects and poor service delivery. As has been stated earlier above, because of the pervasiveness of these weaknesses, it was not possible for the Auditor General to form an opinion on the financial statements of the Solomon Islands Government for 2011.

### *MoFT and line Ministries' actions for improvement*

We note that most of the ministries are gradually improving their performance in attempting to comply with the legislation, Financial Instructions and General Orders as compared to past audits. Furthermore, officers are recognising the importance of the Auditor-General fulfilling his Constitutional mandate and are more ready to address the issues raised in previous audits.

However, more needs to be done. Despite agreed recommended action plans over previous years to remedy the observed weaknesses, the continuation of systems weaknesses suggests that current

attempts by Ministries to implement the action plans requires improvement. Proper implementation of action plans will greatly increase the likelihood that the Auditor General will be in a position to provide an audit opinion rather than a disclaimer in future audits and will also enable him to reduce the resources needed to complete the audit of Ministries of the National Accounts.

It was pleasing to note that there has been a great improvement in the filing of transaction documentation by MoFT after it has processed them. Poor filing procedures contribute greatly to our auditors being unable to confirm the validity of the transactions. This results in the Auditor General being unable to verify that a transaction is correctly accounted for, even when everything would have been done correctly. This Office trusts that these improvements in filing procedures continue to a point where all documents become readily accessible to our auditors when conducting their audits.

## **SIG National Accounts**

### *Revenue and Expenditure*

Although the Auditor General was unable to form an opinion on the financial statements prepared by MoFT, it was possible to verify the total amount of money that has passed through the SIG bank account.

The table below outlines a summary of the Solomon Islands Government revenue and expenditure for 2011 and 2012. The MoFT Financial Statements classify the expenditure into classes of expenditure that aligns with the Budget.

Given that the Auditor General was unable to verify the veracity of the reported transactions and balances, the figures produced in those statements cannot be relied upon for making decisions. For example, the difficulty in finding documentation to support all payments means that an amount may have been classified incorrectly or transactions may even be fraudulent. As a result, individual items in the SIG accounts may be materially incorrect.

**Indicative reported 2011 and 2012 SIG Revenue and Expenditure**

<b>Description</b>	<b>31/12/2012</b>	<b>31/12/2011</b>	<b>% Change</b>
<b>Revenue</b>			
Recurrent	\$2,542,911,461	\$2,285,007,034	+11%
Budget Support	\$ 347,073,155	\$ 247,213,877	+40%
<b>Total Revenue</b>	<b>\$2,889,984,616</b>	<b>\$2,532,220,911</b>	<b>+14%</b>
<b>Expenditure (includes Budget Support)</b>			
Personal Emoluments	\$ 689,133,541	\$ 625,065,276	+10%
Office Expense, Transport, Travel, Repair & Maintenance & Utility Cost	\$ 393,104,725	\$ 342,303,848	+15%
Purchase of Supplies & Services	\$ 227,922,678	\$ 188,767,191	+21%
Grants, Training, Subscriptions & Conferences	\$ 455,796,710	\$ 405,037,180	+13%
Debt Servicing Charges	\$ 178,005,537	\$ 131,246,813	+36%
Specialist Costs	\$ 220,685,619	\$ 171,454,994	+29%
<b>Total Expenditure</b>	<b>\$2,164,648,810</b>	<b>\$1,863,875,302</b>	<b>+16%</b>
<b>Net Surplus</b>	<b>\$ 725,335,806</b>	<b>\$ 668,345,609</b>	<b>+9%</b>

NB: A disclaimer of opinion was issued over these balances sourced from the 2011 SIG financial statements, whilst the 2012 balances are yet to be audited.

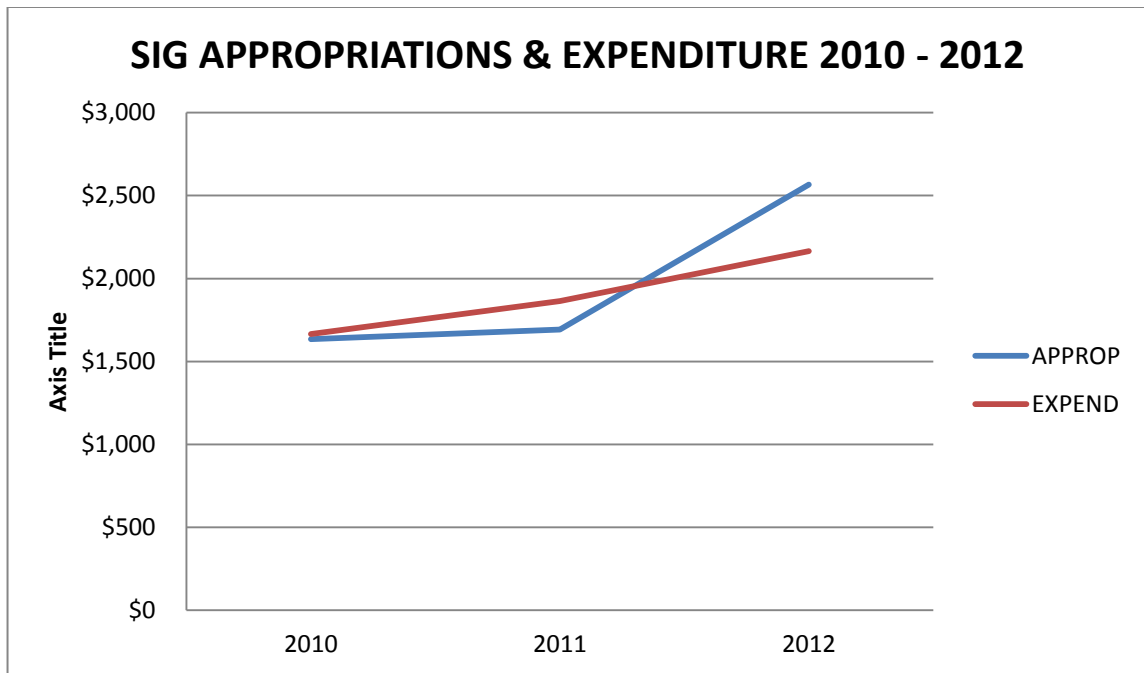
The above table indicates that there has been an increase in spending across all SIG Ministries over the 2011 and 2012 financial years. This further emphasises the need for Ministries to have strong internal controls to ensure that these monies are fully accounted for and value for money is received over goods received or services performed.

The 2010 and 2011 Statements were received just before or on the due date of 30 June in their respective years. The 2012 financial statements had not been received by this Office at end of 2013 – the period covered by this report.

There has been an increase in appropriations to meet government expenditure over the period 2010 to 2012 in order to prevent unappropriated expenditure which had been occurring previously.

This is shown graphically in the chart below.





Given the increase in public expenditure, it is critical that internal controls over revenue, expenditure, assets and cash are operating effectively. This is to ensure services are delivered and funds are spent for official purposes only and expenditure commitments made are sustainable. It was also evident that expenditure exceeded appropriations in 2010 and even more so in 2011 through Advance and Contingency Warrants. It was pleasing to see that this was brought under control in 2012 though these figures are yet to be audited.

### **Results of audits on line Ministries**

In this section of my Report I describe the results of our audits of each of the line Ministries and MoFT. As you will see from our descriptions, many of these issues have been ongoing for some considerable time, and it is frustrating to note the slow progress in remedying them. However, as stated earlier above, it was pleasing to see that the Ministries were starting to come to grips with the need to strengthen their internal controls and improve their oversight of their financial systems.

The results of our audits of the Ministries are presented in alphabetical order, and accordingly, their order of presentation does not signify any order of seriousness in the findings described.

# Ministry of Agriculture and Livestock Development

## *Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 22 special imprest holders either had not retired their imprest or the imprest was retired late in 2012. The value of these totalled \$492,484. This issue has been raised with the Ministry since 2006. It is a breach of Financial Instruction P7 68.4. The Ministry had not demonstrated compliance with the financial instructions.

## *Monthly reconciliation of Account Code Control Cards not performed*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increased the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

## *Bank reconciliations not performed (c/fwd 2008)*

Risk Rating - High

Bank reconciliations were not performed for five bank accounts as required by the Financial Instruction P5 73.2. Bank reconciliations are key internal control for keeping track of money received, money spent and cash available for future commitments. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud and this going undetected. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

## *Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

This Office noted that the Ministry had an asset register but the register was incomplete and not up-to-date as at 31 December 2012. Some of the assets listed in the register did not have a complete description and were unable to be sighted by our auditors.

Financial Instruction M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price. This also includes the inventories of non-current assets. Poor maintenance of an asset register increases the risk of misused and stolen assets and this not be detected within a timely basis.

## **Ministry of Communication and Civil Aviation**

### *Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 16 special imprest holders had either not retired their imprest or the imprest was retired late in 2011 and 2012. The value of these totalled \$632,960. This issue has been reported to the Ministry since 2006. It is a breach of Financial Instruction P7 68.4.

### *No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

### *No segregation of duties over the preparation of bank reconciliations*

Risk Rating - High

When a bank reconciliation is performed it is required by Financial Instruction P5 73.5 to be verified by another officer to ensure accuracy. This Office noted that no one had verified the accuracy of the bank reconciliation prepared by the Ministry. Lack of verification of bank reconciliations increases the risk of inaccuracy and omission of unmatched debits or credits and may result in fraud if unchecked by management in a timely manner. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instructions M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets. No assurance could be obtained over the asset balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*Departure tax not collected*

Risk Rating - High

The Ministry had yet to collect total departure tax due in 2011 and 2012 from Solomon Airlines totalling \$ 2,189,649. Furthermore, Financial Instructions P3 2.1 and P5 14.2 require the Accountable Officers (AO) to submit arrears of revenue report and keep a revenue charts or collection statistics for each collector or point of revenue collection. This Office noted that the Ministry did not comply with P3 2.1 and P5 14.2. It is important to monitor how much revenue is due to the Ministry but not yet collected at year end and to monitor the trend of revenue collection in each revenue collection points.

*Civil Aviation Special Fund financial statements and supporting documentation not provided to audit*

Risk Rating - High

The Civil Aviation Authority of Solomon Islands (CAASI) had not provided its 2011 and 2012 financial reports and supporting documentation to this Office for audit verification. In the absence of a reconciled set of financial reports and supporting documentation, the Ministry had not been transparent in disclosing how it has spent taxpayer's money in order to achieve the objectives of the special fund. There is an increased risk of misappropriation and fraud of taxpayer's money resulting in financial loss to the Solomon Islands Government.

## **Ministry of Culture and Tourism**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 23 special imprest holders either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$1,255,828. This issue has been raised with the

Ministry since 2006. It is a breach of Financial Instruction P7 68.4. The non-retirement or late retirement of special imprests results in financial loss to the Ministry either in terms of outright loss of the imprest or interest income foregone in the Ministry's bank account.

*Special imprest holder identified who was not an accountable officer*

Risk Rating – High

This Office identified in one instance where an imprest totalling SBD\$12,392 was issued to someone who was not an accountable officer. An accountable officer is defined in chapter 3 of the financial instruction as any public officer. This Office identified an instance where a senior member of management of the Festival of Pacific Arts in 2012 who was not a public officer was issued with an imprest that was yet to be retired thereby breaching Financial Instruction P7 68.4 which requires special imprests to be accounted for on a timely basis. The Ministry's non-compliance with the Financial Instructions in issuing special imprests to a non-public officer increases the risk of misappropriation and fraud.

*Bank reconciliations not performed (c/fwd 2008)*

Risk Rating - High

Bank reconciliations were not performed for three bank accounts as required by the Financial Instruction P5 73.2. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets. Consequently the Ministry was unable to determine the number, location, condition or value of assets owned, or whether any assets have been subject to damage or theft thereby exposing it to financial loss.

## **Ministry of Development Planning and Aid Coordination**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 17 special imprest holders are either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$437,993. This issue has been raised with the Ministry since 2006. It is a breach of Financial Instruction P7 68.4. The non-retirement or late retirement of special imprests results in a risk of financial loss to the Ministry either in terms of outright loss of the imprest or interest income foregone in the Ministry's bank account.

*Bank reconciliations not performed (c/fwd 2008)*

Risk Rating - High

Bank reconciliations were not performed for three bank accounts as required by the Financial Instruction P5 73.2. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources.

Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*Asset register not up-to-date as at 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

## **Ministry of Education and Human Resources Development**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 28 special imprest holders either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$1,196,041. This Office estimated interest forgone of \$42,105 as a result of non-retirement. This issue has been raised with the Ministry since 2006. It is a breach of Financial Instruction P7 68.4. Financial Instruction P7 68.4 requires special imprest to be retired within a reasonable period and must sign a salary deduction if the special imprest is not accounted for and retired on a timely basis. The non-retirement or late retirement of special imprests results in financial loss to the Ministry either in terms of outright loss of the imprest or interest income foregone in the Ministry's bank account.

*Lack of recovery of special imprest account and salary deductions not fully accounted for*

Risk Rating - High

Financial Instruction P7 72.3 (c) requires imprest accounts not fully accounted for to be recovered as salary deductions. A special imprest holder did not fully account for his special imprest. No salary deduction was made to recover the unaccounted funds. The Ministry has not been systematically enforcing the requirements in the Financial Instruction.

*Bank reconciliations not performed (c/fwd 2008)*

Risk Rating - High

Bank reconciliations were not performed for four bank accounts to reconcile the bank account balances as at 31 December 2012. This is required by Financial Instruction P5 73.2. The non-performance of monthly bank reconciliations results in improper debits or credits being posted but not being detected and corrected in a timely basis. It also increases the risk of misappropriation of public funds. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*No guidelines for constituency scholarship awards*

Risk Rating - High

A Ministry and related Cabinet approval did not provide guidelines to properly administer the constituency scholarship awards received by Members of Parliament from the Ministry. Section 35(1) (f) of the Public Finance and Audit Act 1978 “requires that adequate Regulations and Instructions exist for the guidance of accounting officers” in ensuring public funds are properly administered. This increases the risk of public funds being misappropriated and conflict of interest.

*Salary and Wages authorisation form not sighted*

Risk Rating – High

The Ministry had terminated one of its officers but the instruction sent to Ministry of Finance and Treasury did not include the Salary and Wages authorisation form as the prescribed form to effect any adjustments to public officers’ salary or wages. This is required under Chapter 6 of the SIG Financial Instructions. Lack of prescribed supporting documentation increases the risk of processing unauthorised and illegitimate claims.

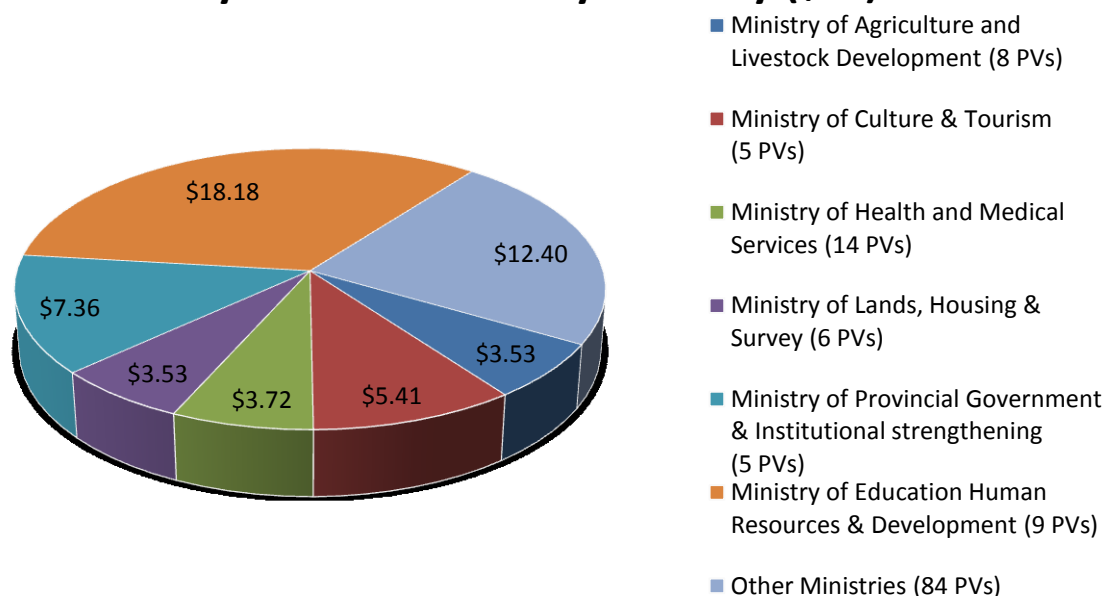


## Ministry of Finance and Treasury

The Ministry of Finance and Treasury (MoFT) as central finance ministry for the Solomon Islands, has an important responsibility in protecting and reporting upon the integrity of the nation's wealth and supporting the essential services delivered by other Ministries. It is the nation's core Ministry dealing with all financial matters and is in the unique position to monitor and report upon the financial performance and position of all Ministries. MoFT is also responsible for ensuring the safeguard of payment vouchers and supporting invoices to substantiate all transactions processed through its finance system.

### *SIG Missing Payment Vouchers*

**Figure 1: 2011 to 2012 - Value of missing Payment Vouchers by Ministry (\$M)**



There were a total of 131 payment vouchers totalling approximately \$54m which were not able to be verified by our auditors because the original source documentation was unable to be located. The breakup between the various Ministries was as follows:

Ministry	Number of missing Payment Vouchers	Dollar value of missing payment vouchers
Office of the Prime Minister and Cabinet	7	\$1,783,941
Ministry of Agriculture & Livestock Development	8	\$3,525,435
Ministry of Communication & Aviation	15	\$2,574,436

Ministry of Culture and Tourism	5	\$5,408,052
Ministry of Development Planning and Aid Coordination	16	\$2,991,235
Ministry of Education and Human Resource Development	9	\$18,182,887.88
Ministry of Fisheries and Marine Resources	21	\$2,386,016
Ministry of Health and Medical Services	14	\$3,724,548.16
Ministry of Lands and Housing	6	\$3,525,435
Ministry of Mines and Rural Electrification	3	\$139,166
Ministry of Police and National Security	20	\$2,288,104
Ministry of Provincial Government and Institutional Strengthening	5	\$7,359,881
Ministry of Rural Development and Indigenous Affairs	2	\$323,880
<b>TOTAL MISSING PVs</b>	<b>131</b>	<b>\$54,213,017.04</b>

There were no alternative means that our auditors were able to use to confirm the validity of this expenditure recorded within the SIG general ledger. Consequently and unfortunately, the Auditor General had no option under international auditing standards other than to issue a disclaimer of opinion over the 2011 Solomon Islands national accounts [the 2012 financial statements are yet to be received]. Such accounts are used by international bodies (e.g. International donors, other countries, Public Economic and Financial Accountability [PEFA] indices) to assess the performance, position and condition of a nation.

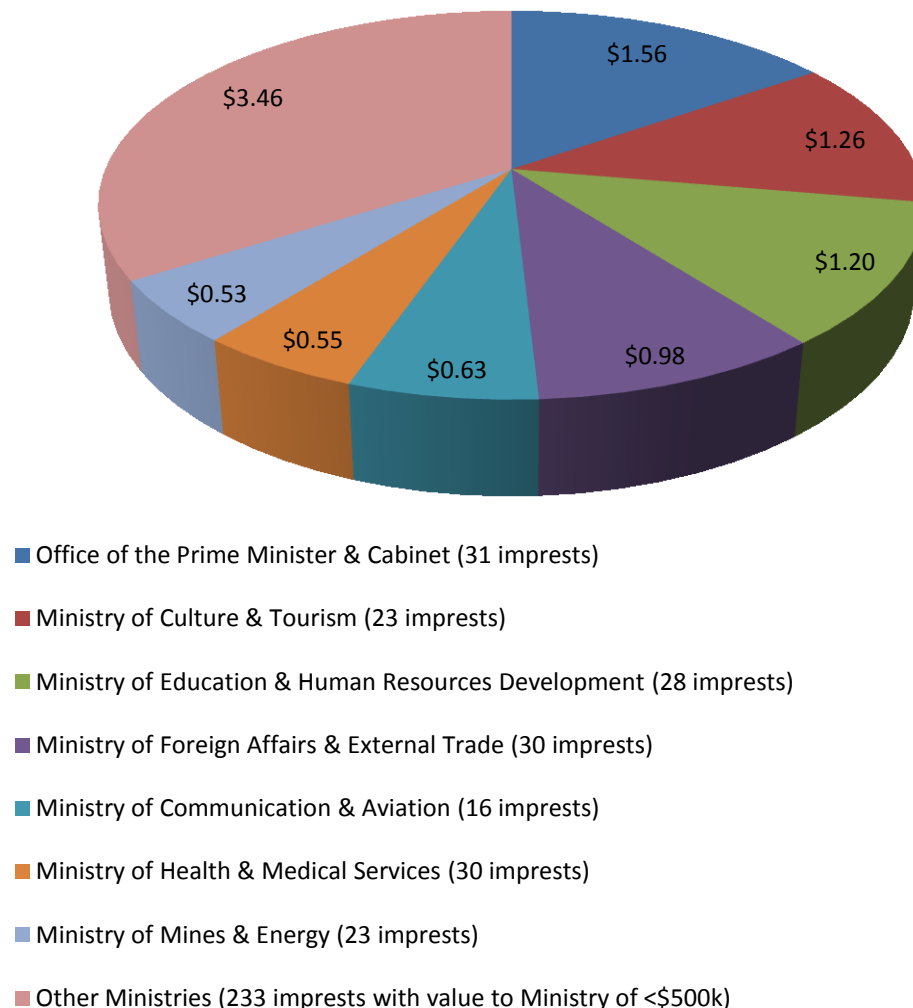
It is acknowledged however that since the issue of the 2011 audit report to MoFT, the Ministry had undertaken efforts to improve the record keeping of its source documentation. Some key reasons for losing documentation (e.g. lack of space to store paperwork) were gradually being addressed however physical security measures and restricting general access to this confidential documentation required significantly more attention. Maintaining good management of records is the responsibility of every officer to ensure good management practice is maintained.

#### *SIG - Late or unretired imprests*

Figure 2 below shows that for the 2011 and 2012 financial years of the 17 Ministries audited, there were a total of 395 imprests accounting for \$9.75 million which had been late and had not been retired by the imprest holders. The largest of these by dollar value was the Office of the Prime Minister (\$1.56m), followed by the Ministry of Culture and Tourism (\$1.20m) and Ministry of Education and Human Resource Development (\$1.26m). There were 9 other Ministries which had an individual value of up to \$500,000 totalling \$3.05m. These results indicate that across the public

sector, internal controls around the management of imprests was poor which could result in monetary loss to the Government or at the least, deferral of planned projects that could benefit the community. There is a high risk that these imprests become unrecoverable from the imprest holders resulting in financial loss to the Government. Further, late receipt of imprests means that the Government is forgoing interest on its bank accounts.

**Figure 2: 2011 & 2012 Value of late and unretired imprests (\$M)**



*MOFT - Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

For 2011, this Office noted 52 special imprest holders from MoFT had retired their imprest very late. These totalled \$231,723. This issue has been reported to the Ministry since 2006 regarding the breach of Financial Instruction P7 68.4. The Ministry has not been systematically enforcing the requirements of this Financial Instruction which requires special imprests to be retired within the

reasonable period and signing of a salary deduction form if the special imprest is not accounted for and retired on a timely basis.

*Imprest account warrant not filed in an orderly manner*

Risk Rating - High

MoFT had not maintained a proper filing system for imprest warrants. Imprest warrants were placed within boxes inside the imprest section office. It was difficult for Ministry staff to locate these imprest warrants upon audit request. Section M1 22.1 states that “all Officers are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties”. Maintaining good management of records is the responsibility of all officers to ensure good record management practices are maintained and records can be located in good condition and in a timely manner.

Our auditors identified that imprest account warrants had not been properly filed for the following Ministries. Imprest source documents for the following Ministries could not be located with MoFT’s records:

<b>Ministry</b>	<b>No. of missing imprest source documents</b>	<b>Value</b>
Ministry of Health and Medical Services	17	\$279,469.29
Ministry of Infrastructure Development	14	\$74,930.00
Ministry of Police and National Security	2	\$20,520.00

Audit verification of the imprests for the Ministry of Fisheries and Marine Resources was also unable to be performed due to missing documentation.

In some cases, imprest warrants for different Ministries were mixed up in the same box. This made it very difficult for MoFT staff and our auditors to locate and verify these imprest warrants.

*Poor record keeping*

Risk Rating - High

The MoFT did not maintain a proper filing system for payment vouchers. Payment vouchers were placed in boxes inside the payment section office and in the storage room. It was difficult for ministry staff to locate payment vouchers upon request. Section M1 22.1 states that “all Officers are

personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties". Maintaining good management of records is the responsibility of all officers to ensure good record management practices are maintained.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that MoFT did not perform a reconciliation of Account Code Cards to its own Treasury information. This increases the risk of misstatement in financial reports used for decision making. Financial commitments reported may be materially misstated. Reliance was unable to be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of audit opinion.

*Bank reconciliations not performed (c/fwd 2008)*

Risk Rating - High

Bank reconciliations were not performed for 28 bank accounts covering 8 Ministries. The preparation of bank reconciliations is a requirement of Financial Instruction P5 73.2 and is the key control for any financial system. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud. However, it was pleasing to note that since the issue of the 2011 and 2012 accounts and records audit reports, MoFT had made significant efforts to ensure bank accounts are being reconciled on a regular basis.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating - High

The Ministry did not maintain an up-to-date asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

*Monitoring of Revenue - Lack of compliance with Financial Instruction P3 2.1*

Risk Rating – High

Financial Instruction P3 2.1 and P5 14.2 require the Accountable Officers (AO) to submit an arrears of revenue report and keep revenue charts or collection statistics for each collector or point of revenue

collection. This Office noted that the Ministry did not comply with P3 2.1 and P5 14.2. This is important to monitor how much revenue has due but has not been collected at year end and to monitor the thread of revenue collection in each revenue collection points. It also contributed to the Auditor General issuing a disclaimer of audit opinion as the reported balance for revenue is misstated.

*No reconciliation of revenues from direct deposits*

Risk Rating - High

The Ministry of Fisheries and Marine Resources (MFMR) main revenue collections are from the fishing licence fees, permit fees, access fees and the fishing levy fees for each boat. The payment of these various fees were via Telegraphic transfers (TT) through the Central Bank of Solomon Islands (CBSI). MFMR did not reconcile which fees were paid, from which country and for how many boats. This increases the risk of understating the expected revenue to be collected from each boat and company. This increases the risk of financial loss to the Ministry and contributed to the Auditor General issuing a disclaimer of opinion over the financial statements.

*Revenue collections from Inland Revenue Division Record Management System did not reconcile with AX general ledger*

Risk Rating: High

The Inland Revenue Division (IRD) receipted its daily revenue collections electronically using the Record Management System (RMS). The daily collections are then summarised and sent to MoFT Central Revenue Collection (CRC) for uploading to AX general ledger system. The two systems did not reconcile. The AX general ledger reported a total of SBD\$178million revenue for 2012, whilst the RMS recorded a total of SBD\$170million; this was a significant difference of approximately \$8 million. It was pleasing to note that IRD had reduced the difference to SBD\$0.9million at the time of the audit.

*Customs and Excise files could not be located*

Risk Rating: High

This Office could not locate six files for customers export and importation of goods. The files were placed all over the storage room and later shifted to a shipping container outside the Customs and Excise Office for storage. Section M1 22.1 states that "all Officers are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties". Maintaining good records management is the responsibility of all officers. Lack of good record management practice increases the risk of misappropriation and fraud. The

inability of our auditors to sight these primary source documents contributed to the Auditor General's decision to issue a disclaimer of opinion of the 2011 national accounts.

## **Ministry of Fisheries and Marine Resources**

### *Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted 27 special imprest holders had retired their imprest very late in 2012. These totalled \$438,395. This issue has been reported to the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 which requires special imprests to be retired within a reasonable period. A salary deduction form must be signed if the special imprest is not accounted for and retired on a timely basis.

### *Bank reconciliations not performed (c/fwd 2008)*

Risk Rating - High

Bank reconciliations were not performed for three bank accounts as required by the Financial Instruction P5 73.2. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

### *No cash book maintained for one bank account*

Risk Rating – High

A cash book was not maintained for one of the Ministry's bank accounts. Financial Instruction P5 72.1 requires the authorising officer operating a SIG bank account to ensure all transactions are promptly and accurately recorded in the cashbook. In the absence of a cashbook, these transactions do not get entered into the AX general ledger and there is no means of assessing the classification and value of MFMR receipts and payments to be recorded within the SIG financial statements.

### *No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to Treasury information. This Office noted that the Ministry did not perform a

reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*Conflict of Interest identified in awarding of catering service*

Risk Rating - High

The Ministry awarded a catering service contract to family and staff members of the Ministry on two separate occasions for Ministry functions in which staff gained a personal advantage from an official activity. This represents risk of giving rise to a conflict of interest and increases the risk of misappropriation and fraud.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating - High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

*No reconciliation of revenues from direct deposits*

Risk Rating - High

The Ministry's main revenue collections are from the fishing licence fees, permit fees, access fees and the fishing levy fees charged over each fishing boat. The payment of these various fees were via Telegraphic transfers (TT) through the Central Bank of Solomon Islands (CBSI). Our auditors identified that the Ministry did not reconcile which fees were paid, from which country and for how many boats. This increases the risk of understating the expected revenue to be collected from each boat and company. It contributed to the Auditor General's decision to issue a disclaimer of opinion over the financial statements.



# Ministry of Foreign Affairs and External Trade

## *Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 30 special imprest holders either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$975,320. This issue has been reported to the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 and increases the risk of financial loss to the Ministry.

## *Imprest register not maintained by Ministry*

Risk Rating – High

The Ministry did not maintain an imprest register. It is difficult for the Ministry to monitor the imprest holders to ensure imprest holders retire their imprest in a timely manner as required by the Financial Instruction. Financial Instruction P7 71 states that “Treasury and any approved sub-accountant must keep a detailed record of all Special Imprests issued. Non-compliance with the Financial Instructions special imprest increases the risk of misappropriation and theft.

## *No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

## *Bank reconciliation not performed monthly*

Risk Rating: High

Bank reconciliations were not performed on a monthly basis for the Ministry’s standing imprest. This is required by the Financial Instruction P5 73. Non-performance of monthly bank reconciliations results in improper debits or credits and these not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud. Reliance may not be placed

over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

## **Ministry of Forestry and Research**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 19 special imprest holders either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$403,578. This issue has been raised with the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 and if left unchecked by management will result in financial loss to the Ministry.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of under or over commitment of ministry actual budget and the national account.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

# Ministry of Health and Medical Services

## *Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 30 special imprest holders are either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$546,879. This issue has been reported to the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 and if uncorrected will likely result in financial loss to the Ministry.

## *No segregation of duties over the preparation of bank reconciliation*

Risk Rating - High

Our Auditors confirmed that no one had verified the accuracy of the Ministry's bank reconciliation. Lack of verification of bank reconciliation by an independent officer increases the risk of inaccuracy and omission of likely debits or credits and may result in fraud or at least error within the financial reports if unchecked by management.

Financial Instruction P5 73.5 requires bank reconciliations to be verified by another officer to ensure accuracy. Segregation of duties is an important internal control as the risk of error or fraud occurring over the management of bank accounts is reduced if another office reviews these for accuracy and appropriateness.

## *No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which could result in a qualified or disclaimed audit opinion.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

This Office noted that the Ministry has an asset register but the register was incomplete as at 31 December 2012 and not up-to-date. Some of the assets listed in the register did not have a complete description and were unable to be sighted.

Financial Instruction M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price. This also includes the inventories of non-current assets. Poor maintenance of asset register increases the risk of misuse and stolen assets.

## **Ministry of Infrastructure and Development**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 31 special imprest holders are either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$129,160. This issue has been reported to the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 and if left unchecked will result in financial loss to the Ministry.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which could result in a qualified or disclaimed audit opinion.

*Bank reconciliation not performed monthly*

Risk Rating: High

Bank reconciliations were not performed for the Ministry standing imprest on a monthly basis as required by the Financial Instruction P5 73. Non-performance of monthly bank reconciliations may result in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of fraud and or error.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

## **Ministry of Lands, Housing and Survey**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted 19 special imprest holders had either not been retired or the imprests had been retired late in 2011 and 2012. These totalled \$247,962. This issue has been reported to the Ministry since 2006 regarding the breach of Financial Instruction P7 68.4. The Ministry has not been systematically enforcing the requirements of this Financial Instruction which requires special imprests to be retired within a reasonable period and that imprest holders must sign a salary deduction if the special imprest is not accounted for and retired on a timely basis.

*Monthly bank reconciliation not performed*

Risk Rating: High

The Ministry's standing imprest bank reconciliations had not been performed on a monthly basis as required by the Financial Instruction P5 73. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud and this go undetected.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which could result in a qualified or disclaimed audit opinion.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating - High

This Office noted that the Ministry had an asset register but the register only included 2012. There were no assets listed in the register for 2011. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price. This also includes the inventories of non-current assets. Poor maintenance of asset register increases the risk of misuse and stolen assets.

*Monitoring of Revenue - Lack of compliance with Financial Instruction P3 2.1*

Risk Rating – High

Financial Instruction P3 2.1 and P5 14.2 require the Accountable Officers (AO) to submit arrears of revenue report and keep a revenue charts or collection statistics for each collector or point of revenue collection. This Office noted that the Ministry did not comply with P3 2.1 and P5 14.2. This is important to monitor how much revenue has due but has not been collected at year end and to monitor the thread of revenue collection in each revenue collection points.

*Poor cash control*

Risk Rating – High

This Office noted that the Ministry had not maintained proper records of revenue collected. It was difficult to reconcile revenue receipted and traced to its receipts and cash book. At the time of the audit it was difficult to determine the completeness and accuracy of the revenue collected. Financial Instruction P5 14 requires the AO to make sure all revenue collected is correct and promptly accounted for. This issue contributed to the Auditor General's decision to issue a disclaimer of opinion over the financial statements.

## **Ministry of Mines, Energy and Rural Electrification**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 28 special imprest holders either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$530,569. This issue was raised to the Ministry since 2006 regarding the breach of Financial Instruction P7 68.4 yet the Ministry had not been systematically enforcing the requirements in the Financial Instruction.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which could result in a qualified or disclaimed audit opinion.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. An asset register is important internal control for an organisation. It helps the organisation identify the assets, their purchase price, location and help manage disposal and timing of procurement. It is also used to reconcile assets against reported items within the general ledger.

Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

## **Ministry for Police and National Security and Corrective Services Solomon Islands**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 19 special imprest holders either had not retired their imprest or the imprest was retired late in 2012. These totalled \$225,471. This issue has been reported to the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 and if left unchecked will result in financial loss to the Ministry.

*Monthly reconciliation of Account Code Control Cards not performed*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement

in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which could result in a qualified or disclaimed audit opinion.

*Procurement of police uniforms lacked supporting documentation*

Risk Rating – High

Our Auditors noted that the procurement of police uniforms from Lotus Garments of Fiji lacked supporting documentation. According to records sighted by our auditors, a total of SBD\$10,872,349 was paid and most of these payments were made on December 28, 2012. There was no invoice from the supplier indicating what items were ordered and delivered. This Office made a physical verification check and noted that only five cartons of uniforms were received five months after the payments were made.

*Bank reconciliations not performed (c/fwd 2008)*

Risk Rating - High

No bank reconciliations were performed for four bank accounts as required by the Financial Instruction P5 73.2. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud and this go undetected.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

## **Ministry of Provincial Government and Institutional Strengthening**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 15 special imprest holders are either had not retired their imprest or the imprest was retired late in 2011 and 2012. These totalled \$427,814. This issue has been reported to



the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 and if left unchecked will result in financial loss to the Ministry.

*Monthly reconciliation of Account Code Control Cards not performed*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry does not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which could result in a qualified or disclaimed audit opinion.

*Bank reconciliation not performed for all bank accounts*

Risk Rating - High

Bank reconciliations were not performed for one of the MPGIS Provincial Government Strengthening Programme bank accounts as required by the Financial Instruction P5 73.2. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Ministry did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

## **Ministry of Rural Development and Indigenous Affairs**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating - High

This Office noted that 12 special imprest holders either had not retired their imprest or the imprest was retired late in 2012. These totalled \$421,880. This issue has been reported to the Ministry since 2006. It is a breach of Financial Instruction P7 68.4. If left unchecked it will result in financial loss to the Ministry.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which could result in a qualified or disclaimed audit opinion.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

This Office noted that the Ministry has an asset register but the register was incomplete as at 31 December 2012 and not up-to-date. Some of the assets listed in the register did not have a complete description and were unable to be sighted.

Financial Instruction M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price. This also includes the inventories of non-current assets. Poor maintenance of asset register increases the risk of misuse and stolen assets.

## **Office of the Prime Minister and Cabinet**

*Failure to retire special imprest accounts on a timely manner (c/fwd 2006)*

Risk Rating – High

It was noted that 31 special imprest holders either had not retired their imprest or the imprest was retired late in 2011 and 2012. This issue has been raised with the Office of the Prime Minister and Cabinet since 2006 which is a breach of Financial Instruction P7 68.4. It is evident that the Office has not been systematically enforcing the requirements of this Financial Instruction for several years resulting in a breakdown in internal control and monetary loss to the Office.

*No segregation of duties over preparation of bank reconciliation*

Risk Rating - Moderate

Financial Instruction P5 73.5 stated that “wherever possible, the bank reconciliation must not be done by an officer responsible for issuing cheques or the officer responsible for preparing deposits into the account”.

This Office noted that no one had verified the accuracy of the bank reconciliation and if it was prepared by an officer other than an officer responsible for issuing of cheques or making deposits into the bank account as stated in the Financial Instruction P5 73.5. A reviewing officer independent of the preparer examining the bank reconciliation and supporting documentation should identify any errors for correction.

*No monthly reconciliation of Account Code Control Cards to Treasury Information*

Risk Rating – High

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. This Office noted that the Office of Prime Minister and Cabinet did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources. Financial commitments reported may be materially under or overstated. Reliance may not be placed over these reported balances which contributed to the Auditor General issuing a disclaimer of opinion over the SIG financial statements.

*Asset register not up-to-date when audited by 31 December 2012*

Risk Rating – High

The Office of Prime Minister and Cabinet did not maintain an asset register. This Office was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instruction M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price. This also includes the inventories of non-current assets. The lack of an up-to-date and reconciled asset register has resulted in the Auditor General being unable to form an opinion over the asset balances disclosed within the 2012 financial statements. This is a primary accounting document to support the asset balances reported within the SIG financial statements.

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## CHAPTER 3 – AUDITS OF PROVINCIAL GOVERNMENTS

### Overview

During 2012 and 2013, this Office continued the practice of visiting each province twice a year to undertake interim audits of the accounts and records during the course of the year. The purpose of these visits was to examine the internal systems of control and to test the financial management systems and then subsequently to undertake a final audit once the Office receives a set of financial statements from the Provincial Government.

Whilst the Auditor General is able to pre-determine the interim audit visits based upon the financial year, the final audit visits are very much dependent upon receipt of financial statements from Provincial Governments, and can result in long lag times where these are delayed beyond statutory deadlines.

It is pleasing to note that all nine Provincial Governments had prepared their annual financial statements using the Financial Reporting Under the Cash Basis of Accounting [IPSAS – Cash Basis] as the basis for their financial reporting framework. There are two parts to the IPSAS – Cash Basis accounting standard. The first part requires mandatory disclosures of receipts, payments, cash balances and budgetary information. The second part details the encouraged disclosures which could be disclosed and reported upon and which are more aligned with International Financial Reporting Requirements (IFRS). These include disclosures such as commitments, fixed assets, receivables and payables and if disclosed would provide more meaningful information to members of the public and other stakeholders when reading these reports. This Office strongly encourages Provincial Governments to gradually adopt the encouraged disclosures over time. This will enhance accountability and transparency over Provincial Governments' financial performance and position.

It is also pleasing to observe the Provincial Governments have matured from using manual cash book systems and spreadsheets and have adopted computerised accounting software to improve the accuracy, completeness and timeliness of financial reporting. These developments have been driven by the UNDP-led Provincial Governance Strengthening Project which has been in operation for a number of years.

One matter of concern is the question of whether or not the Provincial Financial Management Ordinances which were passed by all Provincial Assemblies in 2008 had been gazetted by the

National Gazette Office in order for them to have legal status. Our enquiries during the year on this matter failed to discover the current status of the Ordinances and will be followed up in 2014.

Findings in relation to individual Provincial Governments audited during 2012 and 2013 are detailed as follows.

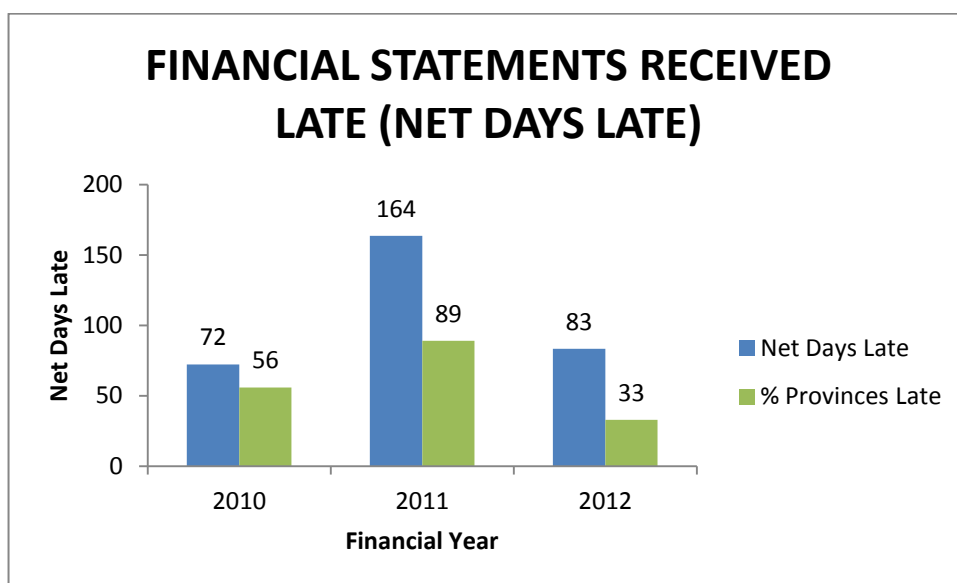
### **Results of audits on Provincial Governments**

In this section of my Report I describe the results of our audits of each of the Provincial Governments as they were presented to each of the Provincial Governments. Many of these issues have been ongoing for some time and progress to remedy these has been slow. However, it is pleasing to note gradual improvements in the overall presentation of financial statements which are gradually conforming to the IPSAS Cash financial reporting framework.

### **Provincial Government Audit Status 2010 to 2012**

As can be viewed from the tables below, between 2010 and 2012, there has been a gradual improvement in the number of days that Provincial Government-certified financial statements have been late in delivery management signed financial statements to this Office for audit certification.

Provincial Governments have a financial year end of 31 March and must have their financial statements certified by the Auditor General within nine months but no later than 31 December to avoid breaching the Provincial Government Act.



### Financial Year ending 31/3/2010

Provincial Governments	Year end	Date signed Financial Statements received from client	Days Early	Days Late	% Provinces Late
		<b>Due</b>	<b>31-Dec-10</b>		
Central Islands Province	31/03/2010	10-Jun-10	204		
Choiseul Province		10-Oct-10	82		
Guadalcanal Province		10-Apr-11		100	
Isabel Province		3-Dec-10	28		
Makira-Ulawa Province		9-Feb-11		40	
Malaita Province		5-Mar-12		430	
Rennell and Bellona Province		31-Jan-11		31	
Temotu Province		8-Aug-11		220	
Western Province		7-Nov-10	54		
		<b>Average Days</b>	<b>92</b>	<b>164</b>	<b>72</b>
		<b>No of Provinces</b>	<b>4</b>	<b>5</b>	<b>56%</b>

### Financial Year ending 31/3/2011

Provincial Governments	Year end	Date signed Financial Statements received from client	Days Early	Days Late	% Provinces Late
		<b>Due</b>	<b>31-Dec-11</b>		
Central Islands Province	31/03/2011	4-Sep-12		248	
Choiseul Province		25-Jul-12		207	
Guadalcanal Province		3-Jul-12		185	
Isabel Province		22-Nov-12		327	
Makira-Ulawa Province		17-Nov-11	44		
Malaita Province		28-Feb-12		59	
Rennell and Bellona Province		15-Aug-12		228	
Temotu Province		14-Aug-12		227	
Western Province		27-Jun-12		179	
		<b>Average Days</b>	<b>44</b>	<b>208</b>	<b>164</b>
		<b>No of Provinces</b>	<b>1</b>	<b>8</b>	<b>89%</b>

### Financial Year ending 31/3/2012

Provincial Governments	Year end	Date signed Financial Statements received from client	Days Early	Days Late	% Provinces Late
		<b>Due</b>	<b>31-Dec-12</b>		
Central Islands Province	31/03/2012	4-Sep-12	118		
Choiseul Province		12-Nov-12	49		
Guadalcanal Province		27-Dec-12	4		
Isabel Province		22-Mar-13		81	
Makira-Ulawa Province		30-Apr-13		120	
Malaita Province		9-Jul-13		190	
Rennell and Bellona Province		9-Nov-12	52		
Temotu Province		12-Dec-12	19		
Western Province		21-Nov-12	40		
		<b>Average Days</b>	<b>47</b>	<b>130</b>	<b>83</b>
		<b>No of Provinces</b>	<b>6</b>	<b>3</b>	<b>33%</b>

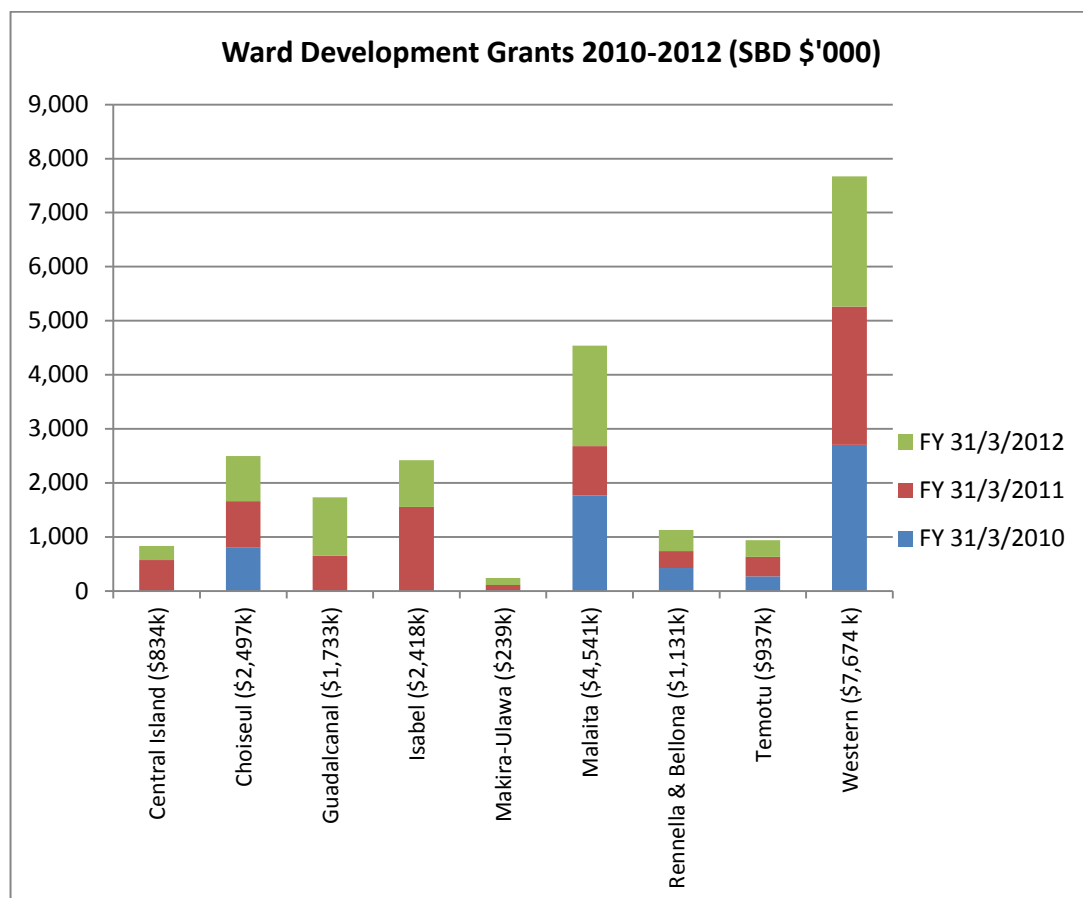
Unfortunately all financial statements for each Provincial Government received disclaimed audit opinions across this period. It is however noted that there has been noticeable improvements in the quality of the financial statements which should result in higher level audit opinions in future years.

## Provincial Government Ward Development Grant Expenditure

Provincial Governments allocate a portion of their annual budget to cover the cost of ward development grants. These grants are paid to Members of the Provincial Assembly within each province for the purpose of assisting local residents with projects to improve the quality of life and sustainability of communal services.

### *Amounts of WDG Paid to MPAs*

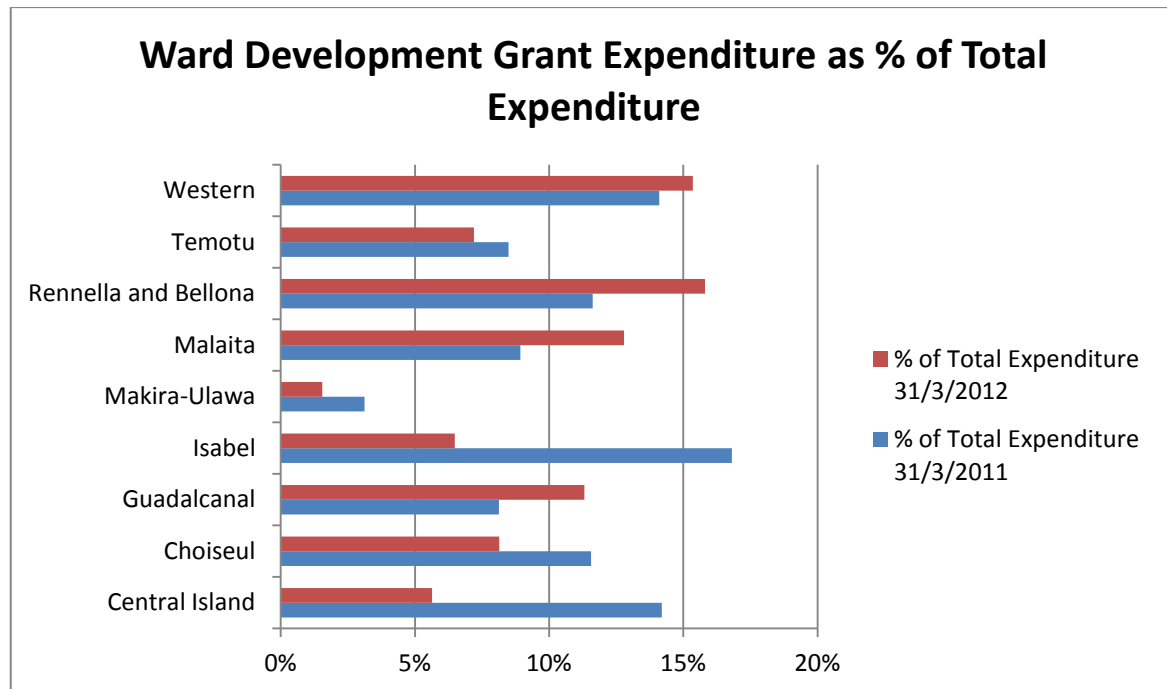
A summary of ward development grants paid by each of the Provincial Governments over the 2011 and 2012 financial years is shown below.



The graph above shows that Western Provincial Government spent the most on Ward Development Grants over the three years 2010 to 2012 amounting to almost \$8 million. The next biggest spending Provincial Government, Malaita, spent just over half this amount in the same period – with the remaining provincial governments spending half that again or much less.



However, to put it in perspective, it is helpful to compare the WDG expenditure to total expenditure. The results are shown in the following graph:



The graph shows that Western (2011 and 2012), Rennell and Bellona (2011), Isabel (2012) and Central (2012) all spent approximately the same share of total expenditure of approximately 15% at one end of the scale, while Makira-Ulawa spent the least at less than 5% on the other end of the scale.

In terms of size of budgets, it was interesting to note that some of the Provincial Governments' WDG allocations changed dramatically between years such as Isabel and Central which both tripled between 2011 and 2012; and that one of the smallest budget provinces (Rennell Bellona) spent so much of its limited budget on WDGs compared to much larger budget provinces such as Guadalcanal and Choiseul.

#### *Results of Audit of WDG payments*

Our audits performed on Ward Development Grants identified that there was often a lack of supporting documentation available to substantiate the purpose of the expenditure and that it was made to legitimate suppliers. In addition, there was lack of an audit trail to assess whether the money was spent efficiently and effectively or had benefitted the community as a whole. These are indicators of possible financial mismanagement which may result in wastage and financial loss to the community at large.

A summary of our audit findings was as follows:

Province	FY ending 31/3/2012 (\$SBD)	FY ending 31/3/2011 (\$SBD)	Ward Development Grant Issues
Central Island	260,645	573,000	2010-11 – Lack of supporting documentation to demonstrate how \$87,500 was spent. 2011-12 – Lack of supporting documentation to demonstrate how \$65,000 was spent.
Choiseul	837,003	849,081	
Guadalcanal	1,078,829	654,367	Instances where purpose for payment either undisclosed or considered illegitimate. Instances where supporting documentation was missing. One instance where approval not granted by Minister. Instances where Ward Development Grants overspent.
Isabel	860,000	720,000	Grant monies spent on consumable items – fuel and individual assistance
Makira-Ulawa	128,800	102,000	
Malaita	1,862,804	913,008	Instances where application forms not attached to grants detailing description & purpose. Missing source documents to support payment vouchers.
Rennell and Bellona	392,096	316,935	
Temotu	305,115	358,403	
Western	2,411,138	2,559,012	

## Central Islands Province

During 2012 and 2013, our auditors conducted interim audits over the accounts and records for the 2010-11, 2011-12 and 2012-13 financial years and a final audit on the financial statements for the 2010-11 year.

### *Unsupported Ward Development Grant payments*

Risk rating - High

Our audit identified that in respect of the 2012 financial year, one payment of \$65,000 for ward development grant expenditure could not be substantiated. In the absence of evidence to substantiate the payment made, there is a high risk that provincial government money be spent for non-official purposes resulting in financial loss to the Provincial Government and either lack of or at least delayed delivery of services to the community.

### *Policy for administering Ward Development Grants not implemented*

Risk rating - High

It was acknowledged that the Central Islands Provincial Government did have a policy in place to administer the Ward Development Grant however the policy had still not been implemented at the time of the audit. Therefore there is still no mechanism to control the purpose of the payments made. For a policy to be effective, it must be implemented.

### *Error in cash account balance*

Risk Rating – High

Our auditors identified an error within the opening cash balance for 1 April 2010 and the closing 31 March 2010 balance between note 2 and the reconciliation cash movement of \$2,595. Audit was unable to confirm the correct opening balance for 31 March 2010 and closing balance for 31 March 2011. Consequently the reported cash balance was materially misstated contributing to the Auditor General issuing a disclaimer of opinion over the 2011 financial statements.

### *Unsupported or missing Payment Vouchers or no requisitions*

Risk rating - High

Despite a slight improvement from 2010/11, this Office noted several weaknesses regarding expenditure controls at Central Islands Provincial Government. There were instances where payment vouchers were approved but lacked requisitions to show if these payments were legitimate.

The overall payments were correct according to bank account but due to lack of supporting documentation and missing paid vouchers totalling \$61,249, our auditors were unable to confirm and verify the classification and accuracy of payments made for approximately 17% of the selected sample, for the year ended 31 March 2011. The lack of sufficient and appropriate audit evidence to substantiate the reported balances has contributed to the Auditor General's decision to issue a disclaimer of opinion over the 2011 financial statements.

In addition, payment vouchers for "operations" totalling \$117,960 (approximately 2.55% of total Operations Expense of \$4,623,533) could not be located to substantiate the transactions recorded within the general ledger.

This indicates poor financial management controls over payments. The lack of supporting payment vouchers and other primary accounting records increases the risk of misappropriation or fraud of the Provincial Government's funds.

#### *Unreconciled Special Imprest Register*

Risk rating - High

This Office found that the special imprest register did not reconcile with retirement source documents. For 2011, our auditors identified that special imprests for approximately 14% of the total sample selected were not provided for audit examination. Also approximately 50% of the total samples selected were still outstanding.

For 2012, approximately 34% of the special imprests tested had not been retired and our auditors identified that 16% of the total samples selected were still outstanding. Consequently, this Office was unable to confirm and verify the accuracy and correctness of the special imprest register reported for the years ended 31 March 2011 and 2012.

This is a breach of the Provincial Financial Management Ordinance. It also exposes the Provincial Government to the risk of cash flow management issues and misappropriated funds. In addition, because the balances disclosed are inaccurate, there is a risk that the budget may be exhausted before year end.

The continued failure to update the special imprest register with the retirement source documents exposes the Provincial Government to the risk of financial loss through misappropriated funds. There

is a risk that management may exhaust the budget if the reported special imprest balances disclosed are inaccurate resulting in incorrect financial decisions being made.

*Staff Special Advances*

Risk Rating - Moderate

In respect of the 31 March 2011 financial year, our auditors noted that that a total of \$10,630 in staff special advances was yet to be recovered by year-end. Our auditors were unable to confirm whether the Provincial Government would recover the outstanding special advances during the 2011/12 financial year. Failure to monitor the special advance register increases the Provincial Government to the risk of misappropriation, financial statement may mislead or funds may be used without the estimated and appropriation budget.

*Central Islands Province Development Authority is yet to be fully operational*

Risk Rating - High

During 2012, our auditors noted that Central Islands Provincial Government had appointed a Board of Directors to run the Central Islands Province Development Authority (CIPDA) but the investment is yet to be fully operational. There was no proper subsidiary established to provide adequate control over the potential business arms of the Provincial Government including a financial reporting system. The CIPDA was unable to provide the accounting records of its performance or operations. Consequently, there is no means of determining the financial performance or position of the Provincial Government's investment and no way of determining whether the investment is profiting and should be paying dividends back to the Provincial Government as shareholder or whether the entity is trading at a loss.

*Asset Policy still in draft and asset register did not reconcile*

Risk rating - High

This Office noted that the Provincial Government's asset policy was still in draft. It was also noted that the asset register did not reconcile to a sample of the assets tested by our auditors.

In the absence of a finalised asset policy, there may be confusion or inconsistency in the application of the Provincial Government's intended asset policy. This could result in financial loss or misstated financial reports needed for decision making. By not maintaining a reconciled asset register, there is a risk that assets may be purchased but may not exist or be stolen or damaged and this not be detected in a timely manner. This may result in financial loss to the Provincial Government. Lack of

monitoring the entity's assets may lead to ineffective budget planning and make management's task of determining the market value of its assets is more difficult.

As a result of the above findings, the Auditor General was required to issue a disclaimer of opinion over the Provincial Government's 2011 financial statements.

## **Choiseul Province**

### *Lack of evidence of preparer and reviewer sign-off over bank reconciliations*

Risk Rating: High

It was pleasing to note that Choiseul Provincial Government had prepared bank reconciliations for each of its bank accounts during both the 2010/11 and 2011/12 financial years. However there was no evidence of sign-off by an independent officer attesting that the bank reconciliations had been appropriately reviewed or that supporting documentation was attached to substantiate line items within the reconciliation.

Non-performance of this review is a breach of administrative and accounting procedures and provides less assurance to management and the administration that reported bank balances are complete and accurate. Segregation of duties is an important control to ensure that any instances of fraud or error be detected and corrected by management within a timely manner.

### *Choiseul Province Enterprises Ordinance is yet to be fully implemented C/F*

Risk Rating - Moderate

The Choiseul Province Enterprises Ordinance disestablished the Choiseul Province Investment Authority Ordinance. It further gave authority for two controlling Ministers to hold the shares on behalf of the Provincial Government. This Office was unable to sight the latest Financial Statements prepared for the Provincial Government for the Investment Authority. The lack of records prevents the operations of subsidiary businesses being brought to account, thereby preventing the Provincial Government from making decisions about whether or not to continue operations or dispose of the asset.

### *Un-acquitted Imprests*

Risk Rating - High

Our auditors examined Provincial Government's imprest register with a focus over the six month period 1st October 2010 – 31st March 2011. This showed two imprests that had not been retired. It

is acknowledged that the Provincial Government had made some attempt to recover an imprest totalling \$13,370 provided to a imprest holder who had since deceased.

There is a risk of misuse of monies and financial loss to the Provincial Government if no effective attempts are made at recovering these amounts.

*Incomplete Asset Register (C/Fwd from 2010)*

Risk Rating - High

For the 2010/11 and 2011/12 financial years, the Choiseul Provincial Government's reporting of assets has been limited to cash and bank account balances. This is the bare minimum required under cash basis IPSAS. The Provincial Government did not maintain a complete asset register or have in place an asset policy and management mechanism to decide how and when to purchase, maintain and dispose of assets.

Our auditors noted that the Provincial Government asset listing did not have the details of all assets nor their values. Maintaining an up-to-date asset register is important because the Provincial Government also owns major assets in the form of properties which are not being recorded nor valued under its current accounting procedures. Lack of an asset register, asset policy and asset management procedures will increase the risk of misuse, loss and theft of assets.

These factors understate the assets and prevent the Provincial Government from making appropriate management decisions in monitoring, maintenance and disposal of assets in line with relevant regulations and guidelines.

*No payables register in place*

Risk Rating - Moderate

Our auditors observed that there was no register in place to confirm the real movements of the payables for the financial period. The absence of a proper payable register hinders the Provincial Government from effectively issuing appropriate payments on a timely manner and increases the risk of over or under payment of creditors when they arise.

*Unreconciled General Ledger*

Risk Rating – High

In comparison to previous years, this Office noted an improvement in the overall record keeping of the Provincial Government's accounts and in the timely submission of the financial statements to this

Office. However in respect of both the 2010/11 and 2011/12 financial statements, our auditors noted some receipt and payments transactions and balances had not been properly reconciled with the cash book. It was apparent that not all transactions had been posted to the general ledger and some general ledger accounts remained unreconciled at the time of the audit. The unreconciled general ledger increases the risk of misstatement of the financial statements. Consequently the reliability of such financial reports by key stakeholders such as the Provincial Government Executive and members of the public is diminished.

As a result of the above findings, the Auditor General was required to issue a disclaimer of opinion over the Provincial Government's financial statements.

## **Guadalcanal Province**

Our auditors conducted an interim audit of the accounts and records for the 2010-11 and 2011-12 financial years.

### *General observations*

Risk Rating - High

In respect of the 2010/2011 audit, this Office generally noted an improvement in the overall record keeping and the internal controls compared to previous years. However, our auditors noted that there continued to be significant control breakdowns in the general day to day operations of the Guadalcanal Provincial Government. The Provincial Government was informed well in advance of the audit commencing; however, like in previous years, key staff members failed to report to work without apparent reason.

### *Delay in the submission of annual financial statements*

Risk rating - High

The Provincial Financial Management Ordinance requires that the Provincial Government's financial statements should be received by this Office within six months after the end of the financial year. However, it was noted that the Provincial Government's financial statement was received after six months in the month of December 2011 and December 2012 – in breach of the Ordinance.

However, section 39 (2) of the *Provincial Government Act 1997* requires Provincial Governments to prepare and submit their financial statements to this Office as soon as practicable after the end of



the financial year to which they related but not later than nine months in order for this Office to conduct an audit.

Accordingly, whilst the failure to submit the financial statements within 6 months was a breach of the Provincial Government's own legislation, they were still within the required legislative timeframe for national requirements prescribed in the Provincial Government Act 1997.

*Inadequate control, recording and banking of monies*

Risk Rating - High

Our auditors confirmed that revenue collected was used for direct payments without being deposited into the Provincial Bank Account. Failure to keep control of recorded revenue hinders the Provincial Government to determine its total revenue. Revenue collected and used for expenditure is poor financial practice and may expose the Provincial Government to an increased risk of theft, misappropriation and unauthorised collection of public funds or otherwise financial loss.

*Treasury receipt books missing*

Risk Rating - High

Manual Treasury receipt books for October 2010 to March 2011 could not be located by Provincial Government staff when requested by our auditors. Our auditors noted during testing that there were receipts missing in the file listing. Poor record keeping increases the risk of manual receipt books being used for inappropriate collection of cash and this go undetected and uncorrected by management. Consequently, this represents a significant risk to the completeness of revenue which contributed to the Auditor General issuing a disclaimer of opinion over the 2011 financial statements.

*Missing and unsupported payment vouchers*

Risk Rating - Moderate

In respect of the 2010/11 audit, our auditors were unable to verify payment vouchers totalling \$23,142 (1.5% of the audit sample). Payment vouchers totalling \$335,060 (21.75% of audit sample) did not have adequate documentation to support these payments. Record keeping by the Provincial Government was poor increasing the risk that provincial funds may be misappropriated or drawn for personal use, expenditure may be incurred exhausting the budget before year end and financial statements may be materially misstated.

*Poor controls over issuing, filing and retiring of imprests*

Risk Rating – High

Our auditors identified the following breakdowns within the Guadalcanal Provincial Government imprest procedures:

- Unretired or outstanding un-acquitted imprest accounts;
- Imprest application forms were not signed by the accounting/authorised officer;
- Acquitted imprest accounts were without supporting documentation; and
- Acquitted imprests were missing from the files.

There is an increased risk with imprests being issued that the monies will not be acquitted in a timely manner. Further there is an increased risk of loss or misuse of monies when imprest forms are not authorised or missing and when there is a lack of supporting documentation attached.

*Poor management of property, plant and equipment*

Risk Rating – High

Our auditors confirmed with the Treasurer that although the Provincial Government has started to maintain an asset register during 2010/11, not all the assets were recorded, not all of the assets had a valuation, and the Provincial Government did not have a policy to manage the assets. Lack of an updated asset register, asset valuations and an asset management policy exposes the Provincial Government to risk of financial loss via the potential misuse, loss and theft of assets and this go undetected and uncorrected by management.

*Poor controls over Trade Receivables*

Risk Rating – Moderate

Our auditors noted that the Provincial Government still did not maintain a register of outstanding monies yet to be received from customers for the years 2010 to 2011. Although the Provincial Revenue Collector submitted the Provincial Government's revenue database to this Office, the listing was incomplete. This hinders the Provincial Government from effectively budgeting for future income and increases the risk of outstanding revenue not being collected from trade debtors resulting in financial loss to the Provincial Government.

*Poor controls over Trade Payables*

Risk Rating - High

Our auditors identified that the Provincial Government still did not maintain a register of outstanding monies it owed to suppliers and other parties for the years 2010 and 2011. This hinders the

Provincial Government from effectively budgeting for future payments and increases the risk of duplicate payments being made to existing suppliers or not paying the correct suppliers.

*Unreliable general ledger backups*

Risk rating - High

During the 2012 audit, our auditors confirmed that whilst backups of the MYOB general ledger were performed on a daily basis, these backups were stored on the same computer and there were no external backups to a server, backup disks or a separate computer. This poses a risk that in the Provincial Government will be unable retrieve any lost data.

*Inadequate control in collecting and banking of monies (c/fwd from 2010)*

Risk rating - High

Our auditors identified the following situations where internal controls relating to the collection and banking of Provincial Government monies were inadequate.

- inadequate storage arrangements;
- holding on to cash for long periods of time;
- lack of surprise checks performed by senior management to ensure cashbooks are reconciled on a daily basis.

Consequently, these poor revenue control practices can increase the risk of financial loss via theft or misappropriation and this go undetected and uncorrected by management in a timely basis. It also increases the risk that reported revenue for the Provincial Government may be understated resulting in a qualified audit opinion.

*Delay in posting of revenue transaction to general ledger*

Risk rating - High

Our auditors confirmed with the Provincial Government's MYOB Officer that posting to general ledger was only performed on a monthly basis when it should be done daily. Delays in posting transactions to the general ledger exposes increases the risk of transactions not being captured and therefore inaccurate reporting of the Provincial Government's financial affairs.

*Breakdown in controls over Ward Development Grants*

Risk rating - Moderate

Our auditors identified significant breakdowns in control over the ward development grants disbursed to the Members of Provincial Assembly (MPAs). These are summarised as follows.

- 15/20 samples tested (worth \$133,200 and representing 69% of total sample values) were found to be unsatisfactory or the purpose for payment is either illegitimate or unknown.
- 12/20 samples tested (worth \$32,797-00 and representing 17% of total sample values) were found to be unsatisfactory due to lack of supporting documents or written explanations.
- 13/20 samples tested (worth \$22,797-00 and representing 12% of total sample values) were unsatisfactory due to the expenditure not being captured for reporting purposes.
- 1/20 samples tested (worth \$5,000-00 and equivalent 2% of total sample values) was found not to be authorised by the Minister of Finance as required for ward development grants.

Consequently this Office was unable to verify whether payments were for official or development purposes, and exposes these funds to the risk misuse by purchasing goods or services of a personal nature or for ineligible purposes.

#### *Overspending of Ward Development Grants*

Risk rating - Moderate

The total approved allocations for Ward Development Grants in 2011/2012 was \$1,050,000 equating to \$50,000 per Ward. During the audit however, our auditors identified that most of the 21 MPAs overspent their approved WDG allocations by \$319,580 (30%). This is a serious breach of the approved budget for the Provincial Government for the financial year 2011/2012. Approved provincial budgets are a legal instrument that must be implemented with stringent controls to ensure provincial funds are protected from abuse and misappropriation. Consequently, allowing the recipients of the Ward Development Grants to spend above their budget entitlements is a breach of the provincial approved appropriations.

#### *Disclaimer Audit Report on the 2011 and 2012 Financial Statements*

The Auditor General did not express an opinion on the financial statements of the Guadalcanal Provincial Government for the years ended 31 March 2011 and 31 March 2012 because of the significance of the following matters:

- the financial statements were not prepared in accordance with an applicable financial reporting framework such as International Public Sector Accounting Standards.
- a failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts.

The Guadalcanal Provincial Government had also not complied with Section 39 (2) of the Provincial Government Act 1997 in not submitting its 2010 or 2011 financial statements for audit within nine months after the end of the financial period.

## Isabel Province

Our auditors conducted an interim audit of the accounts and records for the 2010-11 and 2011-12 financial years.

### *General observations*

Risk Rating – High

This Office noted a general improvement in the overall record keeping and internal controls. However, several areas of concern relating to the 2012 financial year include outstanding receivables (business licences), unsupported revenue receipts, unacquitted imprests, issues with property, plant and equipment, cash, investments and the use of the special imprest account.

The 2011/12 Isabel Provincial Government financial statements were audited by this Office and the Auditor General did not express an opinion over the financial statements. The basis for the disclaimer of opinion was attributed to the continued failure in the system of recording and controlling of accounting transactions and insufficient audit evidence to support transactions and accounts. Furthermore, the Provincial Government had not complied with section 39(2) of the Provincial Government Act 1997 in that it submitted its accounts to the Auditor General more than nine months after end of the financial year.

Our auditors noted that the adoption by the Provincial Government of the IPSAS cash reporting framework IPSAS had created setbacks in its recording and reporting system, thereby resulting in significant differences between the general ledger and the trial balance as at 31 March, 2012. Neither the cashbook nor the general ledger were updated and our auditors were unable to confirm payment and receipt transactions back to the general ledger for existence, accuracy and completeness reported within the financial statements for the financial year ended 31 March, 2012.

### *Revenue collected in the form of equipment, goods or other items*

Risk Rating - High

Our auditors noted during testing that most of the logging companies were yet to pay their annual fee as stated in the records. Our auditors had been informed that the reason for not paying these

fees was because some of the officials in the Provincial Governments requested non-cash assistance directly from logging companies such as purchases of trucks, cars and fuel. These purchases made by the logging companies to the concerned parties were deducted from the annual fee which should have been paid to the Provincial Government.

Our auditors were unable to sight documents to substantiate the advanced amounts for which these individuals obtained from the logging companies. Consequently, there is an increased likelihood of conflicts of interest and misappropriation of public funds to benefit certain individuals without the approval of the Provincial Executive. Furthermore, there is a risk that the non-cash payments received in lieu of cash for business licences is not at market value and will not be appropriately disclosed within the financial statements.

*Poor controls over internal revenue*

Risk Rating – Moderate

Our auditors identified that there was poor control over internal revenue where particulars or detailed descriptions of revenue collected was not properly recorded in the cash book. This is a breach of the Provincial Financial Management Ordinance. Furthermore, our auditors were unable to trace receipts totalling \$5,441,261 to the general ledger as at 31 March, 2012.

There were also five receipts totalling \$271,980 which were not properly recorded within the general ledger to allow our auditors to verify their completeness and accuracy. Consequently, poor controls over the management of internal revenue increase the risk of theft and misappropriation of public funds. Receipts without sufficient detail recorded within the finance system are likely to be posted against the wrong general ledger account or against the wrong debtor thereby misstating the financial statements.

*Treasury receipt books not recorded and monitored*

Risk Rating – High

Our auditors identified a lack of control over the Treasury receipt books and the Treasury Receipt Book Register. It was observed that new orders of receipt books were not accounted for, except when they were issued. No reconciliation had been performed and our auditors were unable to confirm the total number of receipt books ordered and the number of used and unused books due to a lack of records and the use of multiple receipt books at any one time. Consequently, the risk of using manual receipt books to make inappropriate collections increases. There is also a high risk of unrecorded revenue collections.

### *Special Account*

Risk Rating – High

From audit testing over the Provincial Government's Special Account, payments totalling \$517,627 were unable to be traced to the general ledger for the year ending 31 March, 2012. On 31 March, 2011, our Auditors identified a deposit to this bank account totalling \$1,136,704 of which undocumented payments totalling \$842,431 were subsequently made

It was explained to our auditors that the Special Account is used to retain monies until it can be disbursed to the rightful recipient. The lack of an audit trail increases the risk of the Special Account being misused. This indicates a severe breakdown in internal controls. Without such controls, the Provincial Government is unable to determine whether it has collected all revenue it is due or identify which debtors have made payment. Consequently, the Government is at risk of financial loss. The Government is at extreme risk of losing public monies through poor financial practices.

### *Poor controls over PAYE deductions*

Risk Rating – Moderate

The Provincial Government had poor controls over the reconciliation of PAYE deductions. Audit identified a total of six employees during 2011/12 that had PAYE tax under-deducted by \$999 in total. This represents an overpayment of wages and salaries and an under-deduction of PAYE tax to the Inland Revenue Department. It also results in understatement of the Provincial Government's PAYE liability to IRD.

### *Poor control over disbursement of allowances and ward grants*

Risk Rating – Moderate

During the 2011/12 financial year, our auditors continued to note that the payments of Executive and Assembly allowances were inconsistent when compared to Assembly Minutes and Executive decisions. Our auditors tested a sample of 10 ward grant disbursements made to various ward members and noted that \$44,000 was spent on fuel and individual assistance (up from \$20,000 in 2010). Such expenditures may provide relief to individuals who are suffering from financial hardship, but do not provide long term development for the greater good of all citizens in each Ward. Consequently, the inconsistency in payment of sitting allowances and poor controls over cash payments may lead to misappropriation of Provincial Government funds.

*Poor controls over cash balances*

Risk Rating – High

Our audit identified that whilst bank reconciliations had been performed for two of the Provincial bank accounts, there were unexplained variances between the cashbook, cashbook reconciled and reconciled bank statement for the month ended 31 March, 2012. It appeared that the reason for these variances was because the general ledger had not been updated to reflect the cashbook in the reconciliation of both bank accounts. The net variance in bank accounts came to \$32,968. Consequently, the manner in which general ledger balances are not reconciled with the cashbook balances increases the risk of misstatement.

*Poor controls over issue and retirement of imprests (C/fwd from 2010)*

Risk Rating – High

As identified in previous audits, Isabel Provincial Government was again found to have poor control over the management of imprests. During 2011/12 the following issues were identified:

- Unretired or outstanding unacquitted imprest accounts totalling \$33,041;
- Late retirement of special imprests either which either lacked a valid reason or had a poor explanation;
- Acquitted imprest accounts which lacked supporting documentation such as payment vouchers.

As a result, there is an increased risk that Provincial Government monies issued will not be acquitted or not acquitted in a timely manner resulting in financial loss. The Provincial Government may develop a reputation as being a weak target to obtain such funds and not be required to account for them. Furthermore, there is lack of an audit trail to substantiate the validity of such payments if supporting documentation is not attached.

*Poor management of property, plant and equipment*

Risk Rating – High

Our audit identified that whilst Isabel Provincial Government had updated its asset register for the 2011/12 financial year, the asset register was incomplete. Not all Provincial Government assets were recorded on the register including large value items such as Provincial Government land and buildings.

In addition, it was noted that the Provincial Government did not have an asset management policy to guide staff on how to procure, maintain and dispose of assets. This was the same issue carried forward since 2010.



Finally, our audit identified a misclassification of assets within the fixed assets register which should have either been expensed or coded to inventory. The total value of these items amounted to \$233,902. These included items such as uniforms, plates and cups and other consumables like radio fittings, containers, sleeping bags and various tools and equipment. Poor controls over assets expose the Isabel Provincial Government to the risk of misuse, loss, damage or theft of its assets.

*Poor controls over investments*

Risk Rating – Moderate

In November 2010, our auditors noted that, the Isabel Provincial Government made a payment of \$500,000 to the Isabel Investment Corporation (IIC), which had taken over responsibility for the Government's business arm previously managed by the Isabel Development Authority (IDA). Given the level of business activity, it is essential that the Isabel Provincial Government and the Isabel Investment Corporation have a well-developed investment strategy and an effective and transparent set of operating procedures. At the time of audit, these did not exist. The lack of a well-developed investment strategy and an effective and transparent set of operating procedures prevents the Isabel Provincial Government from assessing the performance of its business, how much in dividends should be paid to it, and whether to discontinue any activities which are not performing as required.

In 2011/12, our auditors were informed by the Premier that the Provincial Government owned \$700,000 worth of shares in the Isabel Development Company but the Provincial Government had yet to receive any dividend from the company. Our auditors were unable to sight any documents to substantiate the number and value of shares owned.

IIC was able to demonstrate to our auditors the initial capital investment of \$500,000 to revive operations. However, no detailed documentation was able to be provided to our auditors to assess the financial or operational performance of this entity and whether the Provincial Government will benefit from its investment in this business arm.

Consequently, due to lack of proper documentation and poor record keeping, the lack of an investment strategy or regular IIC financial reports delivered to the Assembly, there is a high risk that the investment could be performing poorly resulting in financial loss to the Provincial Government and that this would go undetected and uncorrected. Equally, if the investment was performing profitably, the Provincial Government has no means of assessing whether a dividend should be paid.

Monies could be misused, lost or stolen resulting in the deferral of new or cancellation of existing projects which could benefit the wider community.

*No proper record of trade debtors*

Risk Rating - Moderate

Our audit identified that whilst records were maintained detailing the different business operators within the Province, the Provincial Government did not maintain a listing of outstanding debts as at 31 March, 2012. Consequently the trade debtors account balance could not be substantiated at year end and is very likely to be materially misstated. It is acknowledged that Part 1 of the IPSAS cash accounting standard does not require the disclosure of debtors. However from an internal control perspective, monitoring of customer debts is a good internal control. Furthermore, there is a risk that the Provincial Government is suffering financial loss because it is not actively monitoring debt repayments from customers.

## **Makira-Ulawa Province**

Our auditors conducted an interim audit of the accounts and records for the 2010-11 and 2011-12 financial years.

*General observations (C/fwd from 2010)*

Risk rating - Moderate

This Office generally noted some improvements in the overall record keeping and financial reporting compared to previous years. However, there were still some issues with transaction classification and financial reporting under IPSAS based requirements. Specific areas of concern were revenue; un-acquitted imprests/advances, recurrent expenditure, cash and assets. Since 2010, all provincial governments were equipped to adopt the International Public Sector Accounting Standard (IPSAS) cash reporting framework. Lack of proper classification and compliance with IPSAS cash reporting requirements increases the risk of misleading information to the end users of the financial statements.

*31 March 2012 IPSAS financial statements incomplete*

Risk rating - High

Our auditors identified that the Makira-Ulawa Provincial Governments 2011/12 financial statements were incomplete at the time of the audit. The notes and third party column of the financial statement were incomplete and all external funding and assistance being provided and used by the

Provincial Government was not disclosed as required under cash basis IPSAS. Consequently users of the financial report may be misled by incorrect reported balances or lack of reported information.

*Poor classification of transactions and items are classified under irrelevant line items*

Risk rating - Moderate

Our audit identified incorrectly classified items of transactions within the 2011/12 financial statements. This Office noted capital items such as computer expenditure and office equipment being disclosed as operating payments but these should have been disclosed under capital in nature. Consequently, the reported balances for operating expenditures were overstated and capital expenditure understated which would mislead a reader of the Provincial Government's financial statements. This has contributed to the Auditor General issuing a disclaimer of opinion over the 2011/12 financial statements.

*Budget allocation for the capital receipts on the Statement of Comparison of Budget and Actual Amounts is unsupported and unreasonable*

Risk rating – High

Based upon reported historical balances, the 2011-12 budget was assessed as being unrealistic. The budget estimate for the capital receipts in the budget statement was \$1,875,240 whereas nothing had been receipted during period. Consequently, where there is no real basis for collection of revenue from capital receipts, the Provincial Government is likely to experience a budget shortfall. The Provincial Government is also more likely to overspend if it believes the budgeted revenues would actually be received.

*Reported balances in the financial Statement does not agree to the notes disclosed*

Risk rating - Moderate

The notes to the financial statements were not complete and did not correspond to the face of the financial statement. Our audit found that Note 12 in the face of the financial statement totalled \$2,345,641 but the balance disclosed in the note was \$670,300, i.e. a variance of \$1,675,341. The financial statements did not detail any balance for the line item "Payments for Trading Activities" however Note 13 "Payment for Trading Activities" disclosed a balance of \$242,668. Consequently, the financial statements are materially misstated misleading readers of the financial report as to the truth and fairness of reported balances.

*Executive minutes unable to be located*

Risk rating – Moderate

Our audit found that the Provincial Executive had meetings for the months of October, November and December 2012 however no minutes for these meetings were prepared and provided to the Auditor General for audit examination. Our auditors requested the signed minutes but the Secretary confirmed the minutes were missing and could not be located.

Consequently our auditors were unable to verify the sitting allowance associated with meetings due to the failure to provide the minutes. The lack of compiled and signed minutes increases the risk that Executive decisions may not be implemented or assigned contracts, acquisition, disposal and leasing of Provincial assets and properties may not in accordance with the Executive decisions. As a result there is lack of transparency over decisions made by the Provincial Executive.

*Insufficient supporting documentation*

Risk rating - Moderate

It was pleasing to note the Provincial Government had improved its record keeping and procedures around payments. However, there was one payment amounting to \$93,500 described as being for “Teachers’ Travelling Expenses” which had insufficient documentation attached to the payment voucher. This had been authorised and paid for by the Provincial Government. The adequacy in determining the validity and authority of the payments could not be verified. The lack of sufficient documentation increases the risk of abuse of provincial funds and conflict of interest resulting in financial loss to the Provincial Government.

*Lack of segregation of duties identified within the payment process*

Risk rating - Moderate

Our audit noted weak controls over the segregation of duties within the payment process. Six payments totalling \$101,320 had not been properly checked, authorised or certified by different officers before the payment was processed. Any payment requires involvement of three different responsible officers to check, certify and authorise respectively as stated in the Financial Management Ordinance. The non-existence of segregation of duties increases the risk of misappropriation of provincial funds, conflict of interest over monies expended and the possibility of exhausting the budget.

*General Ledger is poorly maintained and not updated on regular basis*

Risk rating – High

For the 2011/12 financial year, our auditors identified that the general ledger had not been updated properly and contained incorrect entries which resulted in a significant difference of \$2,625,710 between the general ledger and the financial statement balances for total expenditure. The Deputy Treasurer confirmed that this is due to MYOB failure when the MPGIS officer modified the system and the financial statement was extracted prior to the work. Audit was unable to trace or match the balances to the general ledger.

GL Total Expenditure	FS Total Expenditure	Difference
\$10,858,230.43	\$8,312,520.00	\$2,545,710.43

The poor maintenance of the general ledger increases the risk of errors undetected earlier and misstatement of the financial statements. Consequently, the financial statements were materially misstated which contributed to the Auditor General issuing a disclaimer of opinion.

*Unreconciled balances for PCDF Account*

Risk rating – High

It was pleasing to note the improvements made by the Provincial Government in preparing monthly reconciliations for three of the accounts maintained by the Provincial Government. However, our auditors identified incorrect balances were used to reconcile the PCDF account for period ended 31/03/2012. The bank balance used in performing the bank reconciliation did not agree to the closing balance as per general ledger bank balance. Consequently, the bank balance reported within the financial statements was materially misstated and readers of the financial report would not be able to rely on these figures.

*Long outstanding deposits and outstanding cheques still not cleared*

Risk rating - Moderate

Our audit identified long outstanding deposits and cheques that should have been cleared by balance date. There were four outstanding deposits older than six months and three unrepresented cheques older than six months and uncleared as at 31 March, 2012. Consequently there is a risk that undeposited receipts go missing and never get deposited in the bank. In addition, there is an increased risk that suppliers get paid twice if outstanding cheques are not cleared within a timely basis. This exposes the Provincial funds to the risk of misappropriation or fraudulent activities.

*No proper Business License Register maintained*

Risk rating - High

The Provincial Government did not have a Business License Register to account for the expected revenues to be collected. The data that was produced and given during at the time of audit by the revenue department was a business license fee payer's database which only records the receipts, date of receipt, business type and etc. Consequently our auditors were unable to verify total revenues collected by the Provincial Government, total revenues to be collected from internal sources or any dues yet to be collected. This Office does not consider the budget estimate for business licence revenues to be realistic as the estimates compared to actual receipts are materially undercollected. There is also a possibility of businesses operating without being registered in the Provincial Government's financial management system resulting in financial loss to the Provincial Government.

*MUPIC has lack of proper recording and financial reporting*

Risk rating – High

The Makira-Ulawa Provincial Investment Corporation (MUPIC) had appointed a Board of Directors and was fully operational despite inadequate assets or investments to generate targeted revenue. The MUPIC was yet to determine a proper subsidiary establishment to provide adequate control over the potential business arms of the Provincial Government including a financial reporting system.

It is acknowledged that the MUPIC was still developing and was currently improving its financial status to provide the accounting records and reports on its performance and operations to the Provincial Government. However, our auditors were unable to obtain a set of financial statements or supporting source documents for verification over the Corporation's financial performance or position. Consequently, the Provincial Government was not receiving timely financial information in order to make reliable decisions.

*Asset register not updated (c/fwd. 2010)*

Risk rating – Moderate

This Office acknowledges that the Provincial Government had attempted to maintain an asset register. However, the asset register was incomplete and had not been updated to capture all of the Provincial Government assets. Our auditors undertook a physical stocktake and several assets recorded in the register could not be located. In addition, the Provincial Government did not maintain an asset policy to manage assets detailing items such as how and when to purchase, value,

asset recognition threshold and the maintenance and disposal of assets in line with relevant regulations and guidelines. Without an updated asset register, asset management policy and regular asset stocktakes performed, there is an increased risk that assets are lost, stolen or damaged and this go undetected and uncorrected by management resulting in financial loss.

*Failure to update the imprest register (c/fwd. from 2010)*

Risk rating – High

This Office noted that there was a failure in maintaining a proper imprest register for 2011/2012. The imprest register was neither reconciled against the general ledger nor up-to-date. This is a clear breach of Financial Management Ordinance 2008. In the absence of an up-to-date imprest register, there is an increased risk of the imprests being misused resulting in financial loss and this going undetected and uncorrected by management.

*Unretired imprests*

Risk rating - High

The Financial Ordinance 2008 (FMO) 53(1) stipulates that special imprests are to be retired when the purpose for the imprest has finished. FMO 56 (1) explains the reason for recovery of the outstanding imprest if the imprest is not retired within the required period. FMO 56(2) and (5) describe the necessary action to recover the moneys from the imprest holder. Our auditors noted that imprests amounting to \$172,890 (100% of audit sample) had not yet retired during the time of audit. Lack of maintaining proper imprest register leads to an inability to monitor the issue of imprests. This increases the risk of financial loss to the Provincial Government.

*Issuing of multiple imprests*

Risk rating - High

Our audit identified that there were provincial employees and Provincial Assembly Members with unacquitted imprests who were issued with new imprests. This is a clear breach of section 55 of FMO 2008 which states no imprests may be advanced to a provincial employee or member who have unacquitted imprests. This represents a breakdown in management's internal controls. Issuing imprests to officers who have not acquitted previous imprests increases the risk of misappropriation of Provincial Government funds and exposes the Provincial Government to financial loss.

#### *Imprests issued to seconded officers*

Risk rating - High

Our audit identified that the Provincial Government had officers on secondment who had un-acquitted imprests. FMO 2008 Section 57(1) requires that imprests issued to seconded officers which are not cleared within the specified time are to be recovered from the salary / and or allowance of the seconded officer.

Our audit identified that there were no recovery actions made for the seconded officers along with the charge of 10% interest for imprests in arrears over 30 days. Lack of effective recovery actions against the seconded officer increases the risk of officers not accountable for the use of the imprests. This increases the risk that the Provincial Government will be exposed to misuse of provincial government funds and financial loss to the Provincial Government.

#### *Appropriate personnel records not provided for audit examination*

Risk rating - High

Our auditors had continually requested for the staff establishment listing and the salary/wage structure during the time of audit however this was not provided for audit verifications. In addition, the schedule of annual leave and listing of short-term casuals was also requested but had not been provided. Consequently our auditors were unable to verify the reported payroll transactions and balances back to source documentation. The non-provision of appropriate records for the purpose of audit may expose the Provincial Government to a risk of unbudgeted payment of labour, payment of ghost employees and drawing of monies under salary/wages budget heads unable to be detected which would lead to an abuse of public funds. This has contributed to the Auditor General's decision not to issue an opinion over the 2011/12 financial statements given the inability to form an opinion over these reported transactions and balances.

#### *Poor controls over trade payables*

Risk rating – High

The Provincial Government did not maintain proper trade creditor register of outstanding monies it owed to suppliers for the years 2011 and 2012. A listing was provided by the Provincial Government when requested however it was incomplete as there were creditors excluded from the list.

This hinders the Provincial Government from effectively budgeting for future payments and increases the risk of outstanding debts not being paid to the appropriate suppliers. It also demonstrates that internal controls over payments were poor as creditors could not be tracked to assess whose



payments were still outstanding. There is a possibility of liability being understated and cash on hand being overstated resulting in misstatement of the financial statements.

#### *Poor controls over Trade Receivables*

Risk rating - High

Our audit identified that the Provincial Government still did not have a register of outstanding monies yet to be received for the years of 2011 to 2012. This Office made a request during the time of audit for the debtors listing for audit examination but this was not provided. The lack of an up-to-date debtors listing means that the Provincial Government cannot determine which customers still owe it money. It hinders the budgeting process and increases the risk of financial loss if government services are performed but the revenue is not collected. There is also a risk that reported receipts are misstated within the financial statements.

## **Malaita Province**

Our auditors conducted an interim audit of the accounts and records for the 2010-11 and 2011-12 financial years. It was a significant concern that management responses addressing the audit issues had still not been provided to this Office for both financial years at the time of preparing the audit report to the Provincial Government.

#### *General Observations*

Risk Rating - High

It was pleasing to note some improvement by the Malaita Provincial Government in some areas of general financial output. However, at the time of our audits, for each year, the 2010/2011 and the 2011/12 general ledgers were yet to be properly updated for receipts and payments. There were also serious control issues identified over cash reconciliations, imprest registers, advances and the management of payroll. Given the pervasive nature of the internal control breakdowns, this Office was unable to determine whether the financial statements for both years presented fairly the receipts and payments of the Provincial Government.

#### *2010/2011 and 2011/12 Financial Statements not prepared at time of audit visits*

Risk Rating - High

Our audit found that not all general ledger account balances had been disclosed in the 2010/11 Statement of Cash Receipts and Payments. At the time of the audit visit, the financial statements

were yet to be completed. The Statement of Cash Receipts and Payments had been prepared and were to be finalised according to the audited adjusted figures. In addition, two bank accounts were identified which were not reported or reconciled within the Provincial Government's accounting ledger.

The failure to properly update the general ledger and ensure all general ledger accounts are disclosed within the financial statement exposes the Provincial Government risk of improper financial management and reliable financial reporting. It also contributed to the Auditor General's decision not to issue an opinion over the 2010/11 financial statements. The 2011/12 Statement of Cash Receipts and Payments were received by this Office on 12 July, 2013. This is sixteen months after the end of that financial year. This is a clear breach of section 96 of the Financial Management Ordinance 2008 that requires the Provincial Government to prepare and lodge with the Auditor-General within six months of the end of the financial year. The late submission of financial statements reduces the relevance of the financial statements to users of the report.

*Access to minutes restricted and no record of minutes available*

Risk Rating – Moderate

Our audit found that the Provincial Executive held meetings during the last six months of the 2010/11 financial year but never compiled the minutes or made them available for examination by our auditors. Our Auditors requested the original signed minutes however were provided copies for different periods. Consequently our auditors could not confirm and verify the sitting allowances associated with meetings due to the failure to provide the minutes.

Similarly, our auditors were unable to sight five executive minutes for the last six months of 2011/2012 financial year, except for one which was held on the 5th and 6th of December 2011 at the Green house in Auki. However, audit noted that the minutes were not signed off as a true and correct record by the responsible officers.

Lack of compiled and signed minutes increases the risk that Provincial Executive decisions may not be implemented. Our auditors were unable to determine whether the activities of the Malaita Provincial Government administration were in accordance with the Executive's decisions. Assigned contracts, acquisition, disposal and leasing of Provincial assets and properties may not in accordance with the Executive decisions. The transparency of decisions made the Provincial Executive is greatly diminished.

#### *Weak collection of outstanding revenues*

Risk Rating – High

Our audit discovered that controls over internal revenue collections were weak during both 2010/11 and 2011/12 financial years. The collection of outstanding internal revenues declined because there was no robust system in place to recover these monies. The Provincial Government was also unable to confirm whether or not the old outstanding revenues should be written-off as bad debts. Consequently, the Provincial Government may experience cash flow difficulties or financial loss if unable to account for customer debts. Poor record keeping also hinders the ability of the Provincial Government to budget for future revenues.

#### *Poor monitoring of licence holders*

Risk Rating - High

The Provincial Government had a debtors' database which was not kept up-to-date. The Provincial Government had not identified those licence holders who were no longer operating or existed however these were still recorded within the debtors' database. Consequently, the lack of regular management monitoring over the collectability of customer debts exposes the Provincial Government to financial loss.

#### *Revenue ledger uncontrolled*

Risk Rating - High

The revenue ledgers were incomplete and did not completely capture the total revenue owed to the Provincial Government for both the 2010/2011 and 2011/12 financial years. The balances reported in the financial statements did not reconcile to the revenue balance reported in the general ledger. Our audit found that many SIG grants revenue receipts for 2011/12 could not be traced back to the revenue ledger indicating incomplete revenue records. Consequently, revenue was misstated which contributed to the Auditor General's decision to not issue an audit opinion over these financial statements for both financial years.

#### *Revenue deposits unable to be verified*

Risk Rating - High

Our auditors were unable to verify revenue deposited into the provincial operating bank account because the Provincial Government was unable to provide the bank statements for audit inspection. Consequently, there is a significant risk that monies receipted had not been deposited within the Provincial Government's bank account thereby exposing the government to financial loss.

### *Deteriorated Filing System*

Risk Rating - High

It was observed that a major reason for missing receipts was due to a deteriorating filing system run by the Provincial Government. Filing of receipts by number was not sequential. There were instances where deposit summaries for daily cash deposits could not be located. Receipts for revenue collected at Auki and Honiara offices were also not organised. Overall, the filing of original receipts was poorly maintained and source documents were not kept in good condition.

As a consequence of the above issues, there is an increased risk to the Provincial Government that total revenue receipts collected is incomplete resulting in financial loss and material misstatement of the Government's financial statements. Poor controls such as the deteriorating filing system encourage the theft of money, misappropriation and unauthorised collection of funds and hinder the government in achieving its objectives of delivering good quality services to improve community living standards.

### *Payments made without supporting documentation*

Risk Rating - High

For 2010/11, our audit identified that 23% of the total samples selected lacked supporting documents for audit examination. Consequently, our auditors were unable to obtain sufficient and appropriate audit evidence that the payments made were to the correct vendors recorded in the system description. These totalled \$383,695.00 which represented 41% of the sample selected. Consequently, the poor record keeping has contributed to the Auditor General's decision not to issue an audit opinion. Funds may be misappropriated or stolen and this goes undetected by management. Other expenditure budgets may be exhausted before year end resulting in poor service delivery to residents of the Provincial Government.

### *Missing payment vouchers*

Risk Rating – High

Our audit noted that there were also poor filing management and controls over procurement and payment processes. Our audit found that for 2010/11, \$222,050 worth of payment vouchers (23% of the selected sample) were unable to be located. Further inquiries were made with the Treasurer and other treasury officers however nobody was able to locate these missing payment vouchers given the poor filing system in place. Consequently, the risk of misappropriation of monies and fraud is increased resulting in high risk of financial loss to the Provincial Government.

*Lack of segregation of duties over expenditure processes and poor documentation of payment vouchers*

Risk Rating - High

Our 2010/11 audit identified that segregation of duties over the expenditure process was poor. There were several payments that were not checked, certified and authorised by different officers. Some payments made were not even authorised. There should be three officers involved before a particular payment is made over the ordering, approval and receipting of payments before final payment processing. Our auditors were also unable to obtain any explanation because the Treasurer was in Honiara during the course of this audit and other Treasury staff were away on annual leave.

*Cheque payments were made to cash*

Risk Rating - High

Our audit identified that the Provincial Government was writing cheques to cash. In addition, several cash payments were made direct from the cash box. For an effective internal control to be in place, any receipted monies should be deposited in the bank and payments should not be made direct from the cash box. There is an increased risk that unbanked cash receivables will go missing without being detected by management. Further, management is exposing itself to the increased risk of financial loss if payments are made directly from cash rather than via a cheque book. Cheques written to cash also expose the government to the possibility of fraud as there is little detail as to which suppliers were paid or for what.

*General ledger not updated on a regular basis*

Risk Rating - High

Audit noted the 2010/11 general ledger and reported financial statement balances for operating expenditure did not reconcile. There was a variance of \$ 31,237 in which the financial statement balance disclosed \$3,759,698 and exceeded the general ledger balance of \$3,728,461. This Office was informed by the Treasurer that the figures that appear in the financial statements were manually calculated and confirmed to this Office that he could not rely on the general ledger balances because the general ledger was poorly maintained and not updated on regular basis by former treasury officers. Consequently, the 2010/11 financial statements were misstated which contributed to the Auditor General not issuing an audit opinion.

*No Bank Reconciliation prepared (C/Fwd 30/9/2010)*

Risk Rating – High

Our audit identified that the Provincial Government failed to prepare bank reconciliations during the 2010/11 financial year. The 31 March 2011 bank reconciliation was incomplete making it difficult for our auditors to identify unrepresented cheques, outstanding deposits and determine the opening and closing cash balances for the year. From the work performed, our audit noted that the Provincial Government did not perform all of its bank reconciliation for the year.

Poor cash control prevents management from controlling requests for payment and may cause shortage in cash at bank. The preparation and review of bank reconciliations are a key internal control to manage and monitor the Provincial Government's cash and ensure that the general ledger is an accurate reflection of the cash position. The lack of preparing at least monthly bank reconciliations significantly increases the risk of fraud and misappropriation from occurring and this not being detected and corrected by Provincial Government management within a timely manner. Furthermore, the balances disclosed within the financial statements were misstated which contributed to the Auditor General issuing a disclaimer of opinion over the 2010/11 financial statements.

*Not all bank accounts are reported in the general ledger (C/Fwd 30/9/2010)*

Risk Rating - High

In respect of the 2010/11 financial year, our auditors identified two bank accounts which existed but were not accounted for by the Provincial Government. The Provincial Government was unable to provide an explanation to confirm the purpose for each bank account. Our auditors were unable to confirm the purpose and the function of the accounts. Consequently, there is an increased risk that these bank accounts owned by the Provincial Government could be used for improper purposes thereby exposing the Provincial Government to fraud or misappropriation and financial loss. In addition, the cash balances disclosed as at 31 March, 2011 were understated. This contributed to the Auditor General's decision not to issue an audit opinion over the 2010/11 financial statements.

*Lack of frequent surprise cash surveys*

Risk - High

In 2011/12, our auditors identified that internal controls around the daily collection and safeguard of cash by the Provincial Government were poor. There was no evidence that either the Treasurer or Deputy Treasurer performed regular surprise checks over the daily collection of cash received to verify whether the cash on hand equals what is receipted on the receipt book. Consequently, there is

a high risk that monies paid to the Provincial Government are not appropriately receipted and recorded within the general ledger or deposited within the bank on a daily basis. This increases the risk of fraud, misappropriation and theft of Provincial Government monies and this go undetected or prevented by management.

*Banking not made on a timely basis*

Risk Rating - High

Revenue collected during the period of review was not deposited into the Provincial Government bank account on daily basis. Our audit identified that collected monies were used for payments instead which is a clear breach of the Financial Management Ordinance 2008. Poor record management and untimely banking of monies increases the risk of theft, misappropriation and unauthorised collection of public funds. It also hinders the Provincial Government from determining its total revenue and revenue outstanding to the Provincial Government for disclosure in the financial statements.

*Malaita Development Authority (MDA) has no financial support from Malaita Provincial Government (C/Fwd 30/9/2010)*

Risk Rating – Moderate

Our audit confirmed that the Provincial Government's commercial arm ceased active operations in early 2000 and has remained operationally inactive since. The MDA was apparently left with properties and buildings which it now leases to businesses. MDA receives no funding from the Provincial Government and no further development and capital investment has been received by the Authority from the Government. MDA uses its income from the rentals to fund its three staff and to cover its monthly expenditure of utilities and the current operation of the Authority. It is not clear whether or not MDA will resume its full operation in future.

*Provincial Profit Oriented Businesses (C/Fwd 30/9/2010)*

Risk Rating - Moderate

Under a partnership arrangement between the Provincial Government and the Ministry of Agriculture, our auditors noted that the Provincial Government is part owner of a profit oriented business called the Dala Piggery Farm. This was funded by the Provincial Capacity Development Fund (PCDF). The project has been completed and was available to commence operations. In addition, the Provincial Government also acquired an incomplete building in Auki known as Auki Plaza. The building is yet to be completed. There is a risk that the property may lose value or incur greater costs in future if it is left in its current unfinished state.

In the absence of a coordinated action plan between the Provincial Government and the MDA, there is an increased risk that Provincial Government owned and operated commercial businesses could be used for inappropriate purposes without benefitting the wider community of Malaita Province. The Authority has not produced any financial reports to the Malaita Provincial Government.

Failure to put the Malaita Development Authority on a proper business footing prevents the Malaita Provincial Government from assessing its profitability or making any decisions about its management or future investments, and exposes the Government to the risk that all commercial businesses held by the Government may be managed or used for personal benefit.

*Failure to maintain register of imprests and advances*

Risk Rating – High

This Office noted that there was a failure in maintaining a proper Imprest Register for 2010/2011. The imprest register and the general ledger with regards to advance were not up-to-date.

*Unretired Imprests*

Risk Rating - High

The Financial Ordinance 2008 (FMO) 53(1) stipulates special imprests to be retired when the purpose for the imprest has finished. It provides FMO 56 (1) for purpose of recovery of the outstanding imprest if imprest is not retired. FMO 56(2) and (5) describe the necessary actions to recover the moneys from the imprest holder. In respect of the 2010/11 financial year, our audit identified that imprests amounting to \$545,433 had not yet been retired.

*Issuing Of Multiple Imprests*

Risk Rating - High

Our audit also identified instances where Provincial Government employees and Provincial Assembly Members with existing un-acquitted imprests were also issued with new imprests. This is a clear breach of section 55 of FMO 2008 which states no imprests may be advanced to a provincial employee or member with previous un-acquitted imprests. It further exposes the Provincial Government to financial loss.



#### *Imprests issued to seconded officers*

Risk Rating - High

Our audit identified instances where seconded staff had un-acquitted imprests. FMO 2008 Section 57(1) requires that where imprests issued to seconded officers are not cleared within the specified time, recovery will be done from the salary/ and or allowance of the seconded officer. Consequently, the poor monitoring over the issue of imprests is a breach of the FMO. It increases the risk of financial loss and contributes to poor accountability and mismanagement of the Provincial Government's limited financial resources which contributes to poor service delivery of government services to the wider community of Malaita Province.

#### *Payroll Ledger Is Not Properly Updated*

Risk Rating – High

Audit noted that the payroll data for the audited period in 2010/11 was not completely and accurately updated in the general ledger. Consequently, our auditors were unable to extract and examine the complete and reconciled payroll data for the month of November 2010. The delay in updating of the general ledger exposes the Provincial Government to possibly misstated financial statements and undiscovered errors relating to payment of salaries and deductions of tax. These delays in compulsory payments have exposed the Malaita Provincial Government to risk of legal action and fines, as well as liabilities which are becoming significant in terms of its annual budget.

#### *Lack of asset policies and procedures*

Risk Rating – Moderate

It was noted that the Provincial Government had no asset policy or procedures to guide finance staff how and when to purchase assets, the asset recognition threshold, how to maintain assets and finally dispose of them. It was pleasing to note that Malaita Provincial Government did have an asset register however it did not capture all assets and their market values. The provincial asset register was limited to the purchasing cost value.

Even though IPSAS Cash – Part 1 does not require property, plant and equipment assets to be disclosed within the financial statements, it is suggested that the Government commence developing a medium term plan to ensure assets are appropriately recorded within the asset register, valued at market value and the asset register is reconciled with the general ledger on at least a monthly basis.

### *Weak controls over administration of Ward Development Grants*

Risk Rating - High

Our audit identified the Malaita Provincial Government lacked a formal policy or guideline to explain the appropriate circumstances when Ward Development Grants should be paid. The Ward Development Grants were being used to describe monies that were unaccounted for by MPAs. In respect of 2010/11, \$755,698 out of a total \$913,008 (approximately 83%) coded to Ward Development Grants was paid to MPAs without proper records (i.e. payment vouchers and signed-off WDG application forms) being kept by the Provincial Government to demonstrate how these funds were being used by the MPAs. Consequently, this represents an increase in risk of misappropriation and that monies could have been spent by the MPAs for purposes that do not clearly demonstrate they were for the benefit of the community of Malaita Province.

### *Poor procedures in place for Ward Development Grants*

Risk Rating – High

Our audit identified that the procedure for issuing ward development grants was unsatisfactory. There were no application forms attached to payment vouchers to show the description and the purpose of the payments made. Approximately, 53% of the total samples selected are without application forms. It's imperative that supporting documents and records must properly be kept in order to promote accountability and transparency in the public sector. Consequently, our auditors were unable to determine whether the Ward Development Grant payments made were for appropriate purposes to benefit the wider community of Malaita Province.

### *Poor Ward Development Grants record keeping and documentation*

Risk Rating - High

The controls over administration and record keeping of Ward Development Grants were considered to be weak. In respect of the 2010/11 financial year, source documents for transactions totalling \$85,000 (approximately 47% of the audit sample) were unable to be located and verified by our auditors. The Provincial Government was unable to locate the missing payment vouchers. This Office also noted that the Government funds the WDG through unauthorised or incorrectly authorised payment vouchers. Consequently, the Auditor General was unable to express an opinion as to the completeness and accuracy of Ward Development Grant expenditure paid during the 2010/11 financial year.

During 2011/12, our audit identified that \$1,026,876 claims (66% of the selected sample value) were not able to be located. This Office made further inquiries with the Deputy Treasurer and other

treasury officers however they were unable to locate them. They advised our auditors that due to the poor filing system in place, they were unable to locate these missing payment vouchers. For 2011/12, our audit identified that \$45,900 or 7% of the total samples selected were not supported by related supporting documents (i.e. signed contracts).

Consequently, our auditors were unable to prove whether the payments were made to legitimate vendors as described or were genuine payments. This is a serious breach of the Financial Instructions which requires all payments to be associated with supporting documents. It is imperative that supporting documents and records be properly kept in order to promote accountability and transparency of monies issued to Assembly Members for the development of their constituencies.

*No segregation of duties over payment process*

Risk Rating - High

During 2011/12, for 13 out of the 30 expenditure transactions sampled, there was no segregation of duties in place. The process of raising the payment vouchers prior to issuing of the cheques was often performed by the same officer. There should be three officers involved before a particular payment is made where an officer is involved to prepare the payment voucher, another checks it and the final approving officer certifies the payment voucher authorising the payment prior to the cheque being issued to the supplier. Another officer should also sign-off to confirm that the goods have been received or services have been performed.

*Subsidiary trade receivables ledger not reconciled with general ledger*

Risk Rating – High

In respect of the 2010/11 financial year, the subsidiary debtors' ledger did not reconcile with the general ledger balance. The lack of updating and regular reconciliation of the two ledgers has meant our auditors could not obtain assurance over the reported balances within the financial statements. This has contributed to our decision not to issue an audit opinion over the 2010/11 financial statements. In addition, it indicates poor internal controls exist over the management of revenue and debtors which increase the risk of fraud occurring and financial loss to the Provincial Government.

*NPF and PAYE contribution remittances delayed*

Risk Rating – Moderate

Our audit disclosed that a continuous delay to remit NPF contribution has left the Provincial Government with the outstanding balance of \$269,378. In addition, the continuous delay in remitting

PAYE to IRD in timely manner left the Provincial Government with the outstanding amount of \$136,400.

The failure to remit NPF deductions penalises employees who miss out on interest earned on their entitlements. Poor management and monitoring of trade creditors increases the risk of making inappropriate payments.

## **Rennell and Bellona Province**

### *Incomplete financial statements*

Risk Rating - High

The overall presentation of the 2011/12 financial statements for Rennell and Bellona Provincial Government were presented but were not prepared in accordance with the IPSAS cash basis. The Provincial Government did not disclose what its accounting policies were. Given the failure of the Provincial Government's MYOB system during the time of the audit visit, this meant our auditors were unable to verify some of the actual balances reported within the financial statements. Consequently, the Auditor General was unable to issue an opinion over the 2011/12 financial statements.

### *Unable to sight Executive minutes*

Risk Rating – Moderate

During the time of our auditor's visit to the Province, it was noted that the new Government's Provincial Secretary had taken annual leave and therefore unable to provide our auditors with the official Executive minutes. Consequently, our auditors were unable to ascertain whether monthly reports had been prepared for Committee deliberation, verify the sitting allowances associated with these meetings or determine whether Provincial Government activities performed had been appropriately approved by the Executive.

### *Poor monitoring and collection controls over outstanding revenue*

Risk Rating – High

Our audit noted the control over internal revenue collections during 2011/12 was still weak. Outstanding internal revenues were never addressed or followed up as and when due. The Government was unable to confirm whether or not the old outstanding revenues should be written-off. Consequently, the lack of monitoring and collection of outstanding revenue increases the risk of unauthorised collection of provincial funds.

*Revenue ledger not reconciled*

Risk Rating – High

It was discovered that the revenue ledger was incomplete and did not capture the total revenue due to the Government for the audited period. Furthermore, the MYOB balances did not reconcile with the cash book. This Office further noted that staff shortages and the transition between the key staffs had also contributed to poor ledger recording. Consequently, the non-reconciliation of revenue ledger balance increases the risk of the Government not being able to determine its total revenue and recover outstanding revenue from debtors.

*Untimely PAYE and NPF contribution remittances*

Risk Rating – High

From review of the 2011/12 provincial financial statements, our audit identified that outstanding PAYE and NPF contributions had increased from previous financial year. The outstanding National Provident Fund contribution to date was \$95,934. This Office also noted the delayed in the remittance of PAYE to Solomon Islands Government totalling \$42,615. As a result, the delay in the remittance of NPF deductions increases the final contribution due as a result of the interest charges by NPF. The delay may also reduce the employees' interest earned on savings had it been paid on time.

*Receivable listing not available*

Risk Rating - High

During the audit the Provincial Government was unable to provide our auditors with the 31/3/2012 trade receivable listing as its MYOB program was out-of-date and needed updating from license holder. Furthermore, there was no hard copy of the trade receivable listing available for examination. Consequently, both management and this Office were unable to assess which companies are yet to pay up their fees/licenses to the Provincial Government and how much was outstanding for the financial period.

This is also a breach of the Financial Management Ordinance. The lack of a reconciled trade receivables listing increases the risk of unauthorised persons collecting the fees/licenses without the knowledge of the Provincial Government, potential loss of revenue to the Provincial Government, misuse of revenue collected and an understatement of reported revenue within the financial statements.

### *Unsupported payments*

Risk Rating - High

For the year ended 31 March, 2012, the overall payments were correct according to bank account statements but due to lack of supporting documentation and missing payment vouchers, this Office was unable to confirm and verify the classification of payment and the accuracy and correctness of approximately 20% of the selected sample totalling \$345,403. This indicates that the error for the remaining population of expenditure transactions could be significantly higher if the breakdown in internal control is widespread.

Payments	Total FS Balance	Total sample selected	Total amount not supported	% sample	Total amount not located	% sample
Ward Development Grant	392,096	137,238	137,238	100%	0	0
Operating payment	2,136,346	997,655.32	208,164.80	20%	200,427.40	20%
<b>Total</b>	<b>2,528,442</b>					

### *Personnel files not available*

Risk Rating – High

Supporting documents such as the letter of appointment, documents supporting salary deductions and sick leave applications were not filed in the appropriate personal files. GO O302 and C112 required two personal files classified as “In Confidential” and an open personal file for routine matters of a non-confidential nature. It enables the Provincial Government to substantiate and monitor the movement of staff. It also determines the effectiveness and efficiency of staff administration. The significant amount on the financial statement may not be reliable due to lack of personal files. Lack of sufficient documentation of staff movement, terms and conditions of employment and salary deductions increases the risk of officers being incorrectly paid with public funds.

### *Cash movement not reconciled with Note 2 in financial statements*

Risk Rating – High

Our audit found that the accuracy and correctness between Note 2 in the financial statements and the reconciliation cash movement did not reconcile. Our auditors were unable to confirm the accurate and correct opening balance for 31 March 2011 and closing balance for 31 March 2012. The failure to monitor and manage the outstanding cheques exposes the Provincial Government to risk

that the financial disclosures may be misleading to readers of the Provincial Government's financial statements.

*Special imprest unreconciled*

Risk Rating - High

Our audit found that the special imprest register did not reconcile with retirement source documents. Hence our auditors were unable to confirm and verify the accuracy and correctness of special imprest register for the year ended 31 March 2012. The non-reconciliation of the special imprest account is a breach of the Financial Management Ordinance. The continuous failure to reconcile the special imprest register exposes the Provincial Government to risk of misappropriation. Budgets may be exhausted before year end and the balance of imprests disclosed within the financial statements may be misleading.

*Rennell and Bellona Development Authority is yet to be fully operational*

Risk Rating - High

Our audit identified that the Provincial Government was still to appoint a Board of Directors for the Rennell and Bellona Development Authority (RBDA). At the time of the audit there was no proper subsidiary establishment to provide adequate control over the potential business arms of the Government including the setup of a financial reporting system. As a result, the failure of the authority to maintain an effective operational function prevents the operations of subsidiary businesses being brought to account. It hinders the Provincial Government from making decisions about whether or not to continue operations or dispose of any assets or seek payment of a potential dividend from shares held.

*Physical assets were recorded at cost value and development of asset policy / procedures*

Risk Rating: High

It was pleasing to note that the Provincial Government maintained an asset register and that all assets were disclosed at their cost value. The Provincial Government is yet to develop a register which can disclose the assets at their current market value. It is acknowledged that whilst the carrying property, plant and equipment assets at market value is not a requirement for IPSAS Cash basis reporting purposes, doing so will better aid management with its decision making. It is suggested that the Government develop a medium term plan to commence recording market values.

Furthermore the Government needs to consider an asset policy and management mechanism to provide an asset recognition threshold and how and when to purchase, maintain and dispose of

assets in line with relevant regulations and guidelines. In the absence of an asset policy and procedures, there is a risk that certain assets do not get reported within the financial statements.

## **Temotu Province**

Our auditors conducted an interim audit of the accounts and records for the 2010-11 and 2011-12 financial years.

### *Budget compiled in the absence of historical data*

Risk Rating - High

The lack of accurate historical financial and non-financial data has had a negative impact on the Government's ability to prepare a reliable budget for the 2011/12 financial year. A contributing factor to this issue has been the lack of proper training of key finance officers over generally accepted accounting principles and concepts needed to prepare a reliable budget and accurate financial statements. Consequently, the approval of an unrealistic budget reduces the effectiveness of the Provincial Government to readily monitor the delivery of services to its people and manage its cash flow.

### *Incomplete financial statements*

Risk Rating - High

Our audit identified that the Temotu Provincial Government did not include all of its general ledger and bank accounts into the financial statements. Our auditors were unable to determine the financial impact of the non-inclusion of these general ledger accounts as some of these accounts were incomplete and not reconciled. Consequently, the failure to reconcile general ledger and include them in the annual financial statements means that the financial statements are materially misstated and are therefore unreliable.

### *Weak controls over cash and management of records (C/fwd from 2010)*

Risk Rating - High

Our audit identified continuous control breakdowns in the collection of revenue. Monthly reconciliations between the general ledger and subsidiary ledgers had not been performed. Our audit further identified from testing of receipts that the rates charged to customers did not agree to the statutory licence rates. This is a serious breach of the Financial Management Ordinance. Consequently, poor record management gives rise to risk of embezzlement and misappropriation of



public funds. In addition, there is a high tendency that total reported revenue maybe understated for the period.

*Lack of frequent surprise survey of cash (C/fwd from 2010)*

Risk Rating - High

Our audit identified from the cash book register that there was no evidence that either the Provincial Treasurer or Deputy Provincial Treasurer had been performing frequent surprise surveys over cash. There were no sign-offs on the cash book register to indicate that cash counts had been conducted. This is a serious breach of the Financial Management Ordinance (FMO). In the absence of frequent checks over cash counts being performed by management, there is a risk that cash could be stolen or not banked exposing the Provincial Government to financial loss.

*Missing payment vouchers and lack of expenditure records on assets*

Risk Rating - High

From an audit sample of thirty payments selected for examination, our auditors identified that two payment vouchers were missing totalling \$81,270 (9.78% of total expenditure) and there were three payment transactions recorded in the general ledger where no records were available for scrutiny. These totalled \$73,698 and represented 8.87% of total reported expenditure payments made.

In the absence source documentation, there is a higher risk that improper payments could be made to suppliers and go undetected by management. In addition, there is no means of verifying the validity of assets recorded on an asset register if no source documentation exists. Consequently, there is a risk of financial loss to the Provincial Government and misstatement of the financial statements.

*Unsupported documentations for overtime payments and pay rises (C/fwd from 2010)*

Risk Rating - Moderate

There was no evidence of authorisation from the Provincial Secretary prior to overtime being carried out. Overtime was being performed and paid out prior to approval which is a clear breach of the Financial Management Ordinance.

In addition, our audit identified that there were pay rises made to some staff however due to lack of approved supporting documentation, our auditors were unable to verify the legitimacy of these pay rises. Consequently, the lack of complying with good practice increases the risk of the Provincial Government paying fictitious overtime claims and pay rises. This results in further financial loss to

the Provincial Government and means that the purchase and delivery of much other needed services or equipment may be either lost or deferred to a later date.

*Lack of financial report to the executive and disclosure of investment*

Risk Rating - High

Our audit noted that Temotu Development Authority (TDA) was manually keeping its financial accounts and records. It had yet to produce a financial statement and submit it to the Temotu Provincial Government (TPG) on its operations. Consequently, the TDA operations has never been disclosed in the Temotu Provincial Government's financial statements to indicate whether the business is operating profitably or not, and whether it is in a position to pay out a dividend.

By not reporting upon its financial performance and position, the Provincial Government Executive was unable to determine whether its investment in the TDA is profitable or loss making. It also increases the risk of mismanagement, fraud and theft from occurring and not being detected and corrected within a timely manner.

*Poor controls over imprests and advances register (C/fwd from 2010)*

Risk Rating - High

This Office continued to note that the Temotu Provincial Government had kept an imprests register and advance register but that these registers were not being properly updated. During 2011/12, our auditors were unable to verify the balance of the unacquitted imprests and staff advances totalling \$220,927 as reported within the financial statements. The balances were not supported by valid reconciliations. As a result, the non-reconciliation of these two registers increase the risk of funds being lost, wasted or abused through unreconciled retired imprests and advances. The reported balances are unreliable.

*Poor control over acquittal of imprests and advances (C/fwd from 2010)*

Risk Rating - High

From our review of the 2011/12 imprest registers, our audit identified un-acquitted imprests and advances that were six months past the issue date. In addition, our auditors were unable to trace the un-acquitted imprests and advance repayments back to the general ledger register. As at 31/12/2012 the reported value of imprests as per the imprest register totalled \$65,580 whereas the general ledger balance totalled \$174,666. The difference was not able to be reconciled or explained when questioned by our auditors.

By not reconciling the imprest register against the general ledger on a monthly basis, there is an increased risk to the Provincial Government that advances are not repaid or acquitted, money could be misappropriated resulting in financial loss to the Provincial Government. The recovery of such monies then requires additional administration time and cost to deduct monies from the imprest holders.

*No segregation of duties over bank reconciliation preparation and review*

Risk Rating - High

Whilst our audit found that bank reconciliations for the Provincial Government's main account and the PCDF project account were up to date until March 2012, the bank reconciliations were not reviewed and signed off by the preparer and reviewer. The review process is a good detective control and also ensures compliance with the Financial Management Ordinance. In the absence of such a control, there is an increased risk that funds could be misappropriated or stolen and this go undetected.

*Poor controls over trade receivables (C/fwd from 2010)*

Risk Rating – High

This Office acknowledged that the Government did have a receivables register to record the companies that owed fee and license revenue. However, this register was incomplete and not up-to-date as at 31 March, 2012. Consequently, by not maintaining an up-to-date register of receivables, there is a risk that revenue is not receipted against the correct debtor or receipted at all and this go undetected. This can result in financial loss and cash flow problems for the Provincial Government if debtors are not monitored and requested to pay their dues within a timely basis. It also increases the risk of misstatement of debtor balances if these are disclosed within the financial statements.

*Poor management of property, plant and equipment (C/fwd from 2010)*

Risk Rating – High

Whilst the Provincial Government had started to maintain an asset register, not all of the assets had been recorded. In addition, the Provincial Government did not have an asset policy or procedures for asset management. By not maintaining an asset register, there is a risk that some assets may be lost or stolen without the Government becoming aware of it. It also prevents the Government from being able to properly plan and budget for their secure custody and maintenance.

Whilst not a mandatory disclosure under IPSAS cash basis financial reporting, it is suggested that the Government commence developing a medium term plan to eventually capture and value all of its

assets, including large assets such as land and buildings, at market value. Without such an asset policy and procedures, there is a risk that assets could be purchased or built by the Provincial Government and not be properly recorded or disposed of.

*Weak controls over trade payables (C/fwd from 2010)*

Risk Rating - High

For the year ended 31 March, 2012, the Temotu Provincial Government did maintain a register of outstanding monies it owed to parties for the financial year ended 31 March 2012. However, from examination of the payables register, our audit found that it was not up to date and it did not include all trade payables for the audited period. This is a breach of the Financial Management Ordinance (FMO). If such balances are disclosed within the financial statements, then these would be misstated. The Temotu Provincial Government's lack of sufficient and effective controls over trade payables increases the risk of duplicate payments being made or the incorrect supplier being paid.

## **Western Province**

Our auditors conducted an interim audit of the accounts and records for the 2010-11 and 2011-12 financial years.

*General observations*

Risk Rating - High

Our audit identified that during 2011, the Provincial Government had disclosed all general ledger account balances within the 2011 financial statements which was pleasing to note. However, for 2011 and 2012, our audit continued to identify weaknesses in areas of revenue, un-acquitted imprests and assets, executive minutes, assets and investments, most of which have been reported in previous reports.

*Executive minutes not available*

Risk Rating – High

Our auditors were unable to verify the executive minutes of meetings for the year 2011 and 2012 financial years due to unavailability of the minutes at the time of the audit. As a result, our auditors were unable to determine whether the Provincial Government had been following approved executive decisions or determine the value of allowances paid to committee members. For 2012, our auditors could not verify two executive minutes of the four meetings held during the audited period

due to unavailability of the minutes at the time of the audit. In the absence of approved minutes held for Provincial Government Executive meetings, there is an increased risk over the misappropriation of funds and executive decision not carried or wrongly compiled for key development areas.

*Executive minutes not signed*

Risk Rating – High

In respect of the minutes reviewed during 2012, for the two executive minutes that were sighted, our audit identified that one of them was not signed by the secretary and chairman as required in the administration of the executive. When executive minutes are signed it will prove that the minutes are a true record of what was discussed during those executive meetings. The non-signing of the executive minute increases the risk that the meeting record could be manipulated to exclude for example, items discussed for personal interest.

*Difficulty in locating the receipt details in the General Ledger*

Risk Rating - High

Our auditors were able to trace all receipts in the financial statement to the notes and general ledger summaries. However, given the lack of detail provided within the general ledger records, our auditors had difficulty in tracing receipts back to customer records and bank deposits. As a result, there is an increased risk that revenue is misstated or cash receipts are not deposited within the bank and this go undetected by management resulting in financial loss or misappropriation of monies.

*Treasury receipt books not properly accounted for*

Risk Rating - High

Our 2010/11 audit identified a weakness in the accounting of the accountable forms. The Treasury Receipt Books and the Treasury Receipt Book Register were observed unattended on the table and counters. Poor keeping of accountable forms increases the risk of receipts books being used inappropriately which can result in the loss of Provincial Government funds.

*Missing revenue receipts – Difficulty in locating the receipt details or revenue receipts numbers or reference in the receipt books*

Risk Rating - High

During the 2011/12 audit, five revenue receipts worth \$388,351 were not produced by the Western Provincial Government Revenue Officer when requested for audit verification. The funds or revenue collected using those receipts were recorded in the ledger but the source documentation to

substantiate these receipts was missing. Consequently, the completeness and accuracy of revenue received could not be ascertained. In the absence of source documentation to support these receipts, there is an increased risk to the Provincial Government that debtors could be incorrectly receipted and the financial statements could be misstated.

*Lack of segregation of duties over payment transactions*

Risk Rating – High

Our 2011/12 audit noted that there was lack of segregation of duties for 23% of the audit samples selected. In these instances, the Provincial Treasurer signed the payment vouchers without another officer checking them. This is a breach of the Provincial Financial Management Ordinance 2008. Lack of segregation of duties increases the risk of misappropriation of provincial funds or error. Lack of checking over the accuracy of payments entered into the system increases the risk of material misstatement within the financial statements which can result in the misposting of transactions within the general ledger.

*Payment requisitions not signed - PCDF Projects, MICRO Projects, Travel Allowances*

Risk Rating - High

Our 2011/12 audit identified instances where payment requisitions had not been signed. All payment vouchers must be authorised and signed by those with the appropriate financial delegation to incur expenditure. The payment vouchers required the payment officer's certification before payment was executed. In practice what occurred was that the payment officer only checked the requisition and documentation if they were in order but had not signed them to evidence that the order specifications were correct. In the absence of segregation of duties, there is an increased risk that payments could be approved and made erroneously or paid to non-existent vendors.

*No requisition and supporting documents sighted*

Risk Rating – High

Our 2011/12 audit identified that that six out of an audit sample of thirty payment transactions examined either did not have the requisition or supporting documentation attached to the payment voucher. The value of these six payments totalled \$788,359. This is a breach of Provincial Financial Management Ordinance 2008. Consequently, the lack of documentation to support payments to suppliers or transfer of funds between bank accounts increases the risk of fraud, conflict of interest and loss of provincial funds.

*No signature of supervisor over payment vouchers*

Risk Rating – High

Our 2011/12 audit identified that 10% (3 out of 30 audit samples) totalling \$207,036 did not have the signature of the supervisor on the requisitions or payment vouchers. This is a breach of the Provincial Financial Management Ordinance 2008 (PFMO). Every requisition and payment voucher must be signed by the supervisor (e.g. Provincial Secretary or Provincial Treasurer) before supplier payments are. Lack of proper authorisation increases the risk of the misappropriation of provincial funds and conflicts of interest from arising.

*Poor controls over cash balance*

Risk Rating - High

Our 2010/11 audit identified a variance of \$120,004 between the closing cash equivalent for year ending 2009 and cash equivalent at the beginning of the year 2010. The variance arose because the bank reconciliation was not reconciled. Consequently, there is an increased risk of fraud and misappropriation of monies if the bank account is not reconciled between the general ledger and cash book / bank statement.

*Bank reconciliations not signed off by preparer or reviewer*

Risk Rating - Moderate

From our 2011/12 audit, it was pleasing to note that bank reconciliations were updated and properly filed for the five bank accounts. However our audit identified that they were not signed and dated by the preparer and countersigned by the supervisor as required in the Provincial Financial Management Ordinance 2008. The lack of signing of bank reconciliations by the preparing officer and subsequent review by an independent officer increases the risk that errors or fraud may occur and this go undetected resulting in financial loss and misstatement of the financial statements.

*Poor management of advances*

Risk Rating – High

Our audit identified that Provincial Government staff advances of \$99,098 were outstanding as at 31/3/2011. Of the total advances, \$74,441 was more than two years outstanding. This indicated that the management and recovery of advances and acquittals was poor. Consequently, there is a higher risk of financial loss to the Provincial Government. Our 2011/12 audit identified that the Provincial Government did not have an advance register to monitor and manage the staff advances as required under the Provincial Financial Management Ordinance (PFMO) 2008. Furthermore, there was poor

control over the recovery of the staff advances. Consequently, there is an increased risk of financial loss to the Provincial Government if advances are not regularly monitored.

*Weak controls over issuing and retiring of imprests*

Risk Rating – High

Our audits identified that the Provincial Government had outstanding unacquitted imprest balances totalling \$459,048 as at 31 March, 2011 and \$818,595 as at 31 March, 2012.

The table below details the break-up of unacquitted imprests by category.

Particulars	31/3/2011		31/3/2012	
	Amount	Percentage	Amount	Percentage
a. Elected Officials	\$ 77,032.20	18	\$199,556.50	24
b. Seconded staff	\$252,200.00	54	\$426,525.24	52
c. Direct employees	\$129,815.00	28	\$192,513.40	24
<b>Total</b>	<b>\$459,047.60</b>	<b>100</b>	<b>\$818,595.14</b>	<b>100</b>

Of the total 2011 unacquitted imprests \$302,151 (66%), were more than two years outstanding. This implies poor management in the acquittal of imprests and increases the risk of financial loss to the Provincial Government.

*Poor management of property, plant and equipment*

Risk Rating – High

Our audit of the 2011 financial statements identified that no asset register had been maintained, the Provincial Government lacked asset policies and procedures and no balances were reported for Note 17 Property, Plant and Equipment of the financial statements. In addition, asset stock takes were not performed. This exposes the Government to risk of loss or theft of its assets without detection. It also prevents the Government from being able to plan or budget for the proper custody or maintenance of the assets.

Also, in the absence of an asset management policy to administer the procurement, construction and disposal of assets or ensure properties are recorded at market value, the Provincial Government is at risk of financial loss. Consequently, there is an increased risk that capital items are incorrectly expensed or recorded within the general ledger if finance staff are unaware of asset recognition thresholds or how to account for asset purchases and disposals



Whilst it is not mandatory for property, plant and equipment assets to be disclosed within the financial statements prepared under the IPSAS cash basis reporting framework, such disclosures enhance the understandability of the financial statements and it is suggested that the Government develop a medium term plan to incorporate all assets into its accounts at market value.

*Poor management of investments*

Risk Rating – High

Our audit identified during 2011 that a payment of \$1,000,000 was made from the Western Provincial Investment Corporation (WPIC) to the Provincial Government for the purpose of funding Assembly Members' micro projects in their wards. Apart from that, there were no other disclosures of the Provincial Government's investment reported within the financial statements.

Given the level of activity in 2011, it is important that the Provincial Government and the WPIC have a well-developed investment strategy and an effective and transparent system. In the absence of such financial statement disclosures, readers of the financial statements are not informed as to the financial performance and position of the Provincial Government's investment. Our 2011/12 audit identified that the Provincial Government had several investments which were under the control of Western Provincial Investment Corporation (WPIC). These included Soltuna, Noro Housing Estate, Mile 6 Farm, Fisheries Centre and Western Fishing Company Limited. Our audit identified that the Provincial Government only disclosed Mile 6 Farm and Fisheries Centre in the 2011/12 financial statements.

It was further noted that WPIC did not have a qualified accountant to prepare the financial reports for review by the Provincial Government when preparing their annual financial statements. Given the level of activity in 2011/12, it is essential that the Provincial Government and the WPIC has a well-developed investment strategy and an effective and transparent system for financial reporting. In the absence of regular financial reports, the Provincial Government Executive may not be aware of the financial performance or position of its investment.

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## CHAPTER 4 – AUDIT OF HONIARA CITY COUNCIL

The most recent set of financial statements prepared by Honiara City Council was for the year ended 31 December 2010. They were audited by the Auditor General and received a qualified opinion. The basis for the qualified audit opinion was that there was not sufficient appropriate audit evidence in relation to the classification of expenditure. Except for this issue, the accounts presented fairly in all other respect in accordance with International Public Sector Accounting Standards – Cash Basis.

High risk issues identified during the course of this audit included:

- Lack of supporting documentation to substantiate fees, rates, licences and sundry receipts totalling \$220,416 or 7% of the audit sample.
- Classification errors in the general ledger in that two revenue general ledger accounts totalling \$125,225 which had not been included in the final set of financial statements;
- Poor control over management of manual receipt books;
- Lack of a register to monitor payments and repayments made to and from City Councillors;
- Missing payment vouchers to support purchases totalling \$81,311 or 4.9% of the audit sample.
- Poor financial management controls over the review of journal entries posted to the general ledger.

If left unmonitored, these issues all contribute to an environment for which fraud and theft of Council resources may occur resulting in financial loss to Council and poor service delivery.

Repeated efforts have been made by this Office to obtain a set of Council's financial statements for the years 2011 and 2012 however the Council has not been able to provide these to this Office.

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## CHAPTER 5 - AUDITS OF SOEs AND STATUTORY BODIES

In 2012 and 2013 the Auditor General issued audit opinions on financial statements received in respect of the following state owned enterprises (SOEs) and statutory bodies. An explanation of what the audit opinion means is detailed in Appendix 2 of this report.

### State Owned Enterprises which received audit certificates during 2011 and 2012

Auditee	Financial Year-End	Date f/s certified by management	Date of audit certification	Audit Opinion
CEMA	31/12/2009	23/1/2012	25/1/2012	Disclaimer
CEMA	31/12/2010	23/1/2012	25/1/2012	Disclaimer
CEMA	31/12/2011	1/10/2012	18/10/2012	Disclaimer^
SIBC	31/12/2010	23/3/2012	23/3/2012	Disclaimer
SIBC	31/12/2011	2/8/2013	20/2/2013	Disclaimer
SIPA	30/9/2010	11/7/2012	14/8/2012	Disclaimer^
SIPC	31/12/2010	20/12/2011	8/3/2012	Disclaimer
SIPC	31/12/2011	29/5/2013	5/6/2013	Disclaimer
SIEA	31/12/2008	21/3/2012	30/3/2012	Disclaimer
SIEA	31/12/2009	21/3/2012	30/3/2012	Disclaimer
SIEA	31/12/2010	26/1/2012	23/4/2012	Disclaimer
SIEA	31/12/2011	21/8/2012	3/9/2012	Disclaimer^
SIEA	31/12/2012	21/3/2013	26/3/2013	Unqualified
SIWA	31/12/2008	18/6/2012	21/6/2012	Disclaimer
SIWA	31/12/2009	18/6/2012	21/6/2012	Disclaimer
SIWA	31/12/2010	26/7/2012	16/8/2012	Disclaimer
SIWA	31/12/2011	31/7/2012	16/8/2012	Disclaimer^
SIWA	31/12/2012	1/8/2013	8/8/2013	Qualified
Solomon Airlines	31/12/2011	29/5/2012	30/5/2012	Qualified
Solomon Airlines	31/12/2012	24/9/2013	25/9/2013	Qualified

^ For these audit certificates, a disclaimer of opinion was issued over the Profit and Loss Statement, Statement of Cash Flows and Statement of Changes in Equity with a qualified audit opinion was issued over the Balance Sheet.

**Statutory Bodies & Other Agencies which received audit certificates during 2012 and 2013**

<b>Auditee</b>	<b>Financial Year-end</b>	<b>Date certified by management</b>	<b>Date of audit certification</b>	<b>Audit Opinion</b>
CBSI	31/12/2011	20/4/2012	24/4/2012	Unqualified
CBSI	31/12/2012	29/4/2013	29/4/2013	Unqualified
NPF	30/6/2012	20/9/2012	27/9/2012	Unqualified
NPF	30/6/2013	30/9/2013	30/9/2013	Unqualified
SICHE	31/12/2010	9/8/2012	15/8/2012	Disclaimer
SICHE	31/12/2011	18/7/2013	8/8/2013	Disclaimer
TCSI	31/12/2011	5/9/2012	12/9/2012	Unqualified
TCSI	31/12/2012	31/7/2013	11/11/2013	Unqualified

From the list above, it is evident that progress is being made by SOEs and Statutory Bodies to gradually meet their statutory financial reporting obligations.

**Overall Assessment**

The *State Owned Enterprises Act 2012* [SOE Act] requires state owned enterprises to produce, within three months of the end of the financial year, 'audited consolidated financial statements for that financial year consisting of statements of financial position, profit and loss, changes in financial position, and such other statements as may be necessary to show separately the financial position of the state owned enterprise and each of its subsidiaries and the financial results of their operations during that financial year'.

Whilst the State-owned enterprises have not managed to meet the reporting timeframes of the SOE Act as yet, it is hoped that, with assistance and on-going support from a shared service arrangement provided and funded by the Asian Development Bank, that the necessary improvements will be made and the SOE's will begin to produce better quality financial statements in a more timely manner.

Although the majority of the SOEs and statutory bodies received disclaimers of opinion on their audited financial statements during the two years, it was encouraging to note that the Central Bank of Solomon Islands (CBSI), the Solomon Islands National Provident Fund (SINPF) and Solomon Islands Electricity Authority continued to produce accounts in compliance with international financial reporting standards. This office was pleased to see that the 2012 audited accounts for both CBSI and

SINPF were submitted to the Minister of Finance within the statutory timeframes required by their respective legislation and that they received unqualified audit opinions. It was pleasing to note that the Telecommunications Commission of Solomon Islands also received an unqualified audit opinion with the accounts being prepared in accordance with an IPSAS cash basis.

There were also significant improvements made in the accounting records and internal controls for both Solomon Islands Electricity Authority and Solomon Islands Water Authority which resulted in unqualified audit opinions on their 2011 statement of financial positions. Solomon Airlines also showed signs of continued improvement with the 2011 financial statements receiving only a qualified audit opinion on certain balances, which had been disclaimed in prior years.

With the exception of SI Ports Authority, the improvement in the audit results for the larger SOEs and statutory bodies was encouraging. Some of the smaller SOE's and statutory authorities still had some way to go to improve their record keeping, transaction recording and internal controls and this Office looks forward to continuing to provide advice to the entities' managements on these matters. It is important for the economy and the people of Solomon Islands that all the public entities continue to work towards becoming more financially viable, efficient and effective.

## Contracted Out Audits

This Office is itself still in a developmental phase and does not have sufficient qualified and experienced staff to conduct all of the financial statement audits of SOEs and statutory bodies. A number of these audits are contracted to local and international accounting firms. Table 5 below shows the audits currently contracted out, the period of contract and to whom they are contracted to.

### Contracted out audits

AUDITEE	AUDIT FIRM & CONTRACT PERIOD
Central Bank of the Solomon Islands	Deloitte PNG (FY 2008 – 2012) KPMG Fiji (FY 2013 – 2017)
Solomon Islands National Provident Fund	Deloitte PNG (FY 2009 – 2013) KPMG Fiji (FY 2014 – 2018)
Solomon Islands Water Authority	KPMG Fiji (FY 2008 – 2012) Ernst & Young Fiji (FY 2013 – 2017)
Solomon Islands Electricity Authority	KPMG Fiji (FY 2008 – 2012) Ernst & Young Fiji (FY 2013 – 2017)

Solomon Islands Ports Authority	Morris & Sojnocki Accountants (FY 2010 – 2014)
Solomon Airlines Limited	KPMG Fiji (FY 2012 – 2016)

Table 6 below shows the status of all financial statement audits for SOE's and statutory bodies as at 31 December 2013 for which audits were still in progress.

**SOE and Statutory Body audits in progress as at 31 December 2013**

<b>Auditee</b>	<b>Latest Financial Statements Received</b>	<b>Signed Off by Auditee</b>	<b>Signed Off by Auditor-General</b>
Commodities Export Marketing Authority	2012 - 2013	Not yet signed off	Not yet signed off
Solomon Islands Broadcasting Corporation	2012 - 2013	Not yet signed off	Not yet signed off
Solomon Islands Electricity Authority	2013	Not yet signed off	Not yet signed off
Solomon Islands Water Authority	2013	Not yet signed off	Not yet signed off
Central Bank of Solomon Islands	2013	Not yet signed off	Not yet signed off
Solomon Islands National Provident Fund	2013	30/9/2013	30/9/2013
Investment Corporation of Solomon Islands	2009 - 2013	Not yet signed off	Not yet signed off
Solomon Airlines Limited	2013	Not yet signed off	Not yet signed off
Solomon Islands Port Authority	2011 - 2013	Not yet signed off	Not yet signed off
Solomon Islands Postal Corporation	2012 - 2013	Not yet signed off	Not yet signed off
Solomon Islands Colleague of Higher Education	2012 - 2013	Not yet signed off	Not yet signed off
Solomon Islands Visitors Bureau	2009 - 2013	Not yet signed off	Not yet signed off
Honiara City Council	2011 - 2013	Not yet signed off	Not yet signed off

The majority of SOEs and Statutory Bodies have a 31 December year-end with the exception of SIPA which has a 30 September year-end and SINPF which has at 30 June year-end. The statutory deadline for audit certification of SOE financial statements is within three months of year end or 31 March. Different Statutory Bodies have different statutory dates for submitting their financial statements to the Auditor General for audit depending upon their enabling legislation. It should be noted that 11 sets of financial statements received audit certification within the first six months of 2014. Many of these certifications relate to those that have 31 March certification deadlines.



## Central Bank of Solomon Islands

The audit of the Central Bank of Solomon Islands (CBSI) was outsourced to Deloitte, Papua New Guinea, under a five year contract agreement to audit the 2008 to 2012 accounts. Limited staff skill capacity in this Office necessitated the contracting out of this audit. The CBSI financial statements in 2011 received an unqualified audit opinion as they were assessed as having complied with the International Financial Reporting Standards.

In relation to the Bank's published 2012 financial statements, the International Monetary Fund required that the audit opinion be issued under the banner of the outsourced auditor [Deloitte, Papua New Guinea] rather than this Office.

This was considered to be a significant undermining of the Auditor General's independence. The Office also had concerns regarding the CBSI Act which gave the Bank the ability to appoint its own auditor. This was despite a Constitutional mandate that the Auditor General issue his own opinion in respect of the Bank's financial statements. In future years, it has been agreed that the Auditor General include a paragraph in his audit opinion acknowledging that the audit had been undertaken by a professional, qualified and credible audit firm.

During 2013, with the conclusion of the existing Deloitte PNG audit services contract, a tender process was undertaken to again contract out the audit of CBSI. The winning tenderer was KPMG (Fiji) who will audit CBSI for the five year period 2013 to 2017.

A summary of the 2011 and 2012 high risk issues identified at the Central Bank comprised:

- controls over destruction of soiled notes including issues with the reconciliation of different registers during 2011
- variances identified as part of various cash counts
- 2011 record keeping of personnel files
- 2011 fixed assets register reconciliations to the general ledger
- stock takes of all fixed assets for the 2011 financial year
- outstanding personal loans to former employees
- errors in the 2012 reconciliation of currency-in-circulation
- errors in the 2012 work-in-progress asset account

Whilst these issues were identified by our contract auditors, they did not materially impact the presentation of the 2011 and 2012 financial statements. The accounts were assessed by our contract auditor to be true and fair and in compliance with International Financial Reporting Standards. It was pleasing to note that CBSI received unqualified audit opinions for both the 2011 and 2012 financial years.

## **Commodities Export Marketing Authority**

The financial statements of the Commodities Export Marketing Authority (CEMA) for the financial years ended 31 December 2009, 2010 and 2011 were certified by the Auditor General during 2012 and 2013.

The Auditor General issued a disclaimer opinion on the financial statements for CEMA for both 2009 and 2010 financial years. The basis for issuing these disclaimers of opinion was because the financial statements had not been prepared in accordance with recognised financial reporting standards.

In addition, due to lack of or unreliable accounting records there was not sufficient appropriate audit evidence with respect to fixed assets, accounts receivables, trade creditors, loans and borrowings, revenue, expenses, bank balances, payroll and advance balances for 2009 and 2010. In addition, CEMA had not complied with Section 14 of the SOE Act which required audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year.

An emphasis of matter was issued in respect of the 2010 and 2011 financial statements over CEMA's ability to continue operating as a going concern. The Authority's current liabilities exceeded its current assets by \$1,321,700 as at 31 December, 2010 and \$61,492 as at 31 December, 2011. This means that CEMA was unable to pay its current liabilities with current assets.

Issues identified included:

- Poor record keeping and internal controls over payments where the audits failed to locate a material number and value of payment vouchers or supporting documentation to validate their description for all three years. If these errors were extrapolated to the rest of the population of transactions, there would be a significant error rate indicating a systemic breakdown in internal controls.

- The last independent valuation of CEMA's land and buildings was undertaken in 2003 and there was lack of evidence to support that these assets were reported at fair value as required by international financial reporting standards.
- Poor payroll controls because there was no proper filing of personnel files and a lack of approved source documentation to support payroll increases which resulted in some staff being paid salaries significantly higher than the approved salary rate, as well as instances where NPF deductions had not been accounted for.
- A material value of receipts in 2008 and \$609,469 in 2009 were recorded in the general ledger but were unable to be traced to bank statements
- A material value of receipts In 2010 were not recorded in the general ledger
- Poor safeguarding of primary source documents such as receipt books, invoice books, deposit books and agreements were not properly maintained or safeguarded
- Non-disclosure of one bank account in the general ledger or the 2008 and 2009 financial statements
- Bank reconciliations were not performed monthly and the end of year reconciliations failed to balance for both the 2009 and 2010 financial years
- A material number and value of cash payments were unauthorised or unsupported for 2009 and 2010:
- Loan agreements with two companies were not available to be provided to our auditors for examination. Furthermore, there was no confirmation provided in relation to the full settlement of one of these loans. As a result our auditors were not able to verify the calculation of the loan balance and interest charge for the year
- Long Service Leave Benefits and gratuities not substantiated by a listing and supporting calculations for employees' long service leave benefits and gratuities to substantiate carrying balances within the 2010 financial statements
- Payables Listing not provided to support the balance of payables reported in the 2008, 2009 and 2010 financial years. Furthermore, for 2010, no invoices and supporting documentation were provided for the audit sample of trade payables totalling \$367,610 which represents 37% of total trade payables
- Outdated revaluation of land and buildings which were last revalued in 2003 despite the significant change in the property market in Honiara in subsequent periods
- Fixed Asset Register was not maintained during 2009 or 2010
- Assets Held for Sale were not substantiated by a detailed listing

- Non Current Assets classified as being held for resale despite remaining unsold for more than two years, rather than being categorised as a fixed asset and resulting in current assets being overstated and non-current assets understated by equivalent amounts. In 2010, the assets were sold but the accounting treatment of the gain / loss on asset disposal was materially misstated and non-current assets were materially understated
- Rental properties which received significant rental income in 2011 only had a minimal carrying value and consequently was materially undervalued and not correctly classified as investment property
- No physical stock-take was performed on assets during 2011
- Receivables listing and prepayments listing not provided for end of 2011
- Staff advance accounts were not up-to-date and had no opening balances thereby preventing management from determining when the advances had been repaid

## **Investment Corporation of Solomon Islands**

The financial statements of Investment Corporation of Solomon Islands (ICSI) for the years ending 31 December 2009, 2010 and 2011 were still being audited by this Office at the end of this reporting period. These audits are on-going as efforts and discussions are being held in an effort to correct the balances of various investments held by ICSI.

## **Solomon Airlines Limited**

The Solomon Airlines Limited financial statements for the financial year ended 31 December 2012 and 2013 were audited by our contract auditors KPMG, Fiji.

The types of issues identified during our audit included the following:

- Lack of timely preparation and review over general ledger account reconciliations during 2012 including evidence of review of the bank reconciliation and checking of bills to ensure correct rates are charged to customers and the reconciliation of actual passenger boarding against the revenue processing system.
- Deficiencies were identified in relation to controls around revenue received from customers in advance including revenue per the general ledger not reconciling to the subsidiary revenue system. The scale of these deficiencies was such that they resulted in the Auditor General issuing a qualified audit opinion with respect to the completeness and accuracy of revenue and revenue received in advance.

- Inventories not being recorded correctly. This was identified as inventory unit costs not being kept up-to-date, physical counts did not agree to final inventory listings and lack of an assessment made as to inventory obsolescence.
- Deficiencies in the recording of annual revaluations of aircraft, property, plant and equipment resulting in the overstatement of accumulated losses and the asset revaluation reserve. The total of this misstatement was \$12.7M which required subsequent correction to the financial statements. There were also other asset related issues in regards to the costing of overhauls training.
- Information technology control deficiencies. These included the airline not having a formal IT policy in place, concerns around disaster recovery procedures, secure storage of daily data backups and system administration issues relating to user access to various systems.
- Supporting documents for general journal entries had not been maintained throughout the period.
- Evidence of expenditure being recorded in the incorrect financial period which had been subsequently corrected.

As a result of these issues, the 2011 financial statements received a qualified audit opinion in relation to the completeness of revenue, the accuracy of revenue received in advance and the accuracy of inventory at year-end. The 2012 financial statements received a qualification over the completeness and accuracy of revenue and revenue received in advance as well in relation to the completeness, existence, accuracy and valuation of inventory at year-end.

## **Solomon Islands Broadcasting Corporation**

The financial statements of the Solomon Islands Broadcasting Corporation (SIBC) for the financial year ending 31 December 2010 and 31 December 2011 were audited by this Office. However due to lack of, or unreliable accounting records, our auditors were unable to obtain sufficient appropriate audit evidence in respect of trade and other receivables, revenue, cash, payroll, imprest and staff advances to complete an audit in accordance with auditing standards. Consequently the Auditor General was unable to express an opinion on the 2010 and 2011 financial statements.

The Auditor General also drew attention to the fact that the SIBC did not comply with Section 14 of the State Owned Enterprises Act which requires audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year.

It was also noted that in 2010, the Corporation's current liabilities exceeded its current assets by \$1,632,715 and in 2011, the Corporation's current liabilities exceeded its current assets by \$6,796,952. As a going concern, the Corporation was dependent upon the continued support of the Solomon Islands Government, its bankers and creditors during these years.

## **Solomon Islands College of Higher Education**

The Solomon Islands College of Higher Education (SICHE) financial statements for the years ended 31 December 2010 and 31 December 2011 were audited by this Office. Due to the annual accounts not being prepared in accordance with an applicable financial reporting framework and lack of sufficient appropriate audit evidence relating to revenue, property, plant and equipment, grants and school fees receivable, the Auditor General issued a disclaimer of opinion for each year.

Of particular note, there were incomplete records for property, plant and equipment owned by SICHE and no independent valuations had been performed by registered and independent valuer to substantiate that these assets were recorded at fair value.

## **Solomon Islands Electricity Authority**

The audit of the Solomon Islands Electricity Authority (SIEA) accounts was outsourced to KPMG, Fiji under a five year contract agreement for the years ending 2008 to 2012.

The Authority's 2011 statement of comprehensive income, statement of changes in equity and statement of cash flows received a disclaimer of opinion due the unknown affect of any potential misstatements on the brought forward balances which had been disclaimed in 2010.

The 2011 statement of financial position received an unqualified opinion as it gave a true and fair view of the financial position of the Authority and complied with International Financial Reporting Standards.

An emphasis of matter was raised in respect of the 2011 financial year as the Authority did not comply with Section 14 of the State Owned Enterprises Act which requires audited financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year.

In comparison, the Authority's 2012 financial statements received an unqualified audit opinion for the first time. This is an important achievement for the country and is an indicator that Solomon Island public bodies are starting to meet international standards for financial reporting and are actively trying to comply with legislative deadlines. In 2012, the Authority met the statutory deadline being the first SOE to do so in the Solomon Islands.

Despite meeting these achievements however, our audit also identified issues that required action and implementation. These issues did not materially impact the fair presentation of the 2012 financial statements and included:

- difficulties in reconciling customer accounts when transferring them from the standard accounts system to the Cashpower system
- difficulties with reconciling balances from the meter reading system to the general ledger
- management of long outstanding customer debtors
- bringing up to date the fixed asset register
- ensuring regular performance of reconciliations between the asset register and general ledger
- ensuring regular performance of customer deposits
- improvements required to strengthen existing IT controls
- ensuring reconciliation of customer receipts against invoices and customer accounts
- lack of segregation of duties in relation to the payroll function
- record keeping issues associated with employee personnel files and meter reading records

None of these issues resulted in material misstatement of the financial statements but do indicate that SIEA management needed to continue on improvements to its financial management systems.

## **Solomon Islands National Provident Fund**

The audit of Solomon Islands National Provident Fund (SINPF) accounts was also outsourced to Deloitte, PNG under a five year contract for audit of the 2009 to 2013 financial statements. SINPF financial statements for both years ending 30 June 2012 and 30 June 2013 received unqualified audit opinions as they were found compliant with the International Financial Reporting Standards.

During 2013, with the conclusion of the existing Deloitte PNG audit services contract, a separate tender process was undertaken to again contract out the audit of SINPF. The winning tenderer was KPMG (Fiji) who will audit SINPF for the five year period 2014 to 2018. The decision to again tender

out this audit was made because of the complexity of the auditee and continued need to develop capacity of our staff.

It was pleasing to note that both the 2012 and 2013 SINPF financial statements received an unqualified audit opinion and were found to be compliant with international financial reporting standards. An emphasis of matter was disclosed in our opinion highlighting that SINPF may still be affected by continuing social and economic uncertainties for those enterprises operating in Solomon Islands which SINPF invests in. However this was an improvement from 2011 where SINPF received a qualified audit opinion in relation to a lack of sufficient and appropriate audit evidence being available to substantiate the Members Contribution Liability.

Some management controls issues identified in the SINPF audits included:

- Fair value measurement of Investments: although SINPF obtained independent valuations for two of its equity investments, namely Solomon Telekom and South Pacific Oil Limited, the remaining portfolio had not been revalued to determine the fair value as at 30 June 2013 and establish if any of the investments may be impaired. However, the values of the remaining portfolio were considered to be unlikely to impact on the accuracy of the financial statements
- Concentration risk of SINPF's investment portfolio is considered to be of high risk in that, as a result of the revaluation carried out on South Pacific Oil Limited during 2013, SINPF's shareholding increased in value from \$40m to \$196.37m. This represents 59% of total un-listed shares and 53% of total shares holdings as at 30 June 2013, and results in a breach of Prudential Guidelines issued by the Central Bank under the Financial Institutions Act stipulating that one investment cannot exceed 10% of the total portfolio. However, it is acknowledged that the very limited investment market in Solomon Islands makes it difficult to comply with the guidelines for an investor the size of the SINPF.
- Provisioning for Doubtful Debts where 60% of the debtor balances over 3-11 months were mainly from the SI Government and 32% were from related entities such as SPOL. However, from experience the rent receivable from SIG is eventually paid and SINPF may have over provided for the non-receipt of SIG monies in respect of rental revenues
- Employer excess contributions arising from the failure of employers to submit their employee registration forms to allow NPF to allocate the unidentified contributions to the respective members' accounts. This is a chronic problem which requires NPF to continually educate employers on following proper registration procedures



- There were also a number of other internal control issues identified in respect of the 2012 audit relating to balances not reconciling or members accounts being in debit or credit after processing of contributions and payouts however these balances were not material to the overall financial statements and it was also pleasing to note from our 2013 audit, that SINPF had made improvements by resolving many of these issues

## **Solomon Islands Postal Corporation**

The financial statements of the Solomon Islands Postal Corporation (SIPC) for the financial periods ending 31 December 2010 and 31 December 2011 were audited this Office.

The 2010 financial statements received a disclaimer opinion due to a lack of sufficient appropriate audit evidence with respect to revenue, expenditure, imprests, trade receivables, trade payables, property, plant & equipment and investment property balances.

The 2011 SIPC financial statements also received a disclaimer of opinion. The basis for disclaimer of opinion was attributed to not being able to rely on the opening balances as at 1 January 2011 given the 31 December 2010 financial statements were disclaimed and closing balances could not be relied upon. There were also material errors identified with revenue balances and instances of missing documentation meaning our auditors were unable to obtain sufficient and appropriate audit evidence over the existence, completeness and accuracy of trade receivables and trade payables. Investment properties had also not been revalued to fair value at year-end and there were material discrepancies over the inventory balance.

An emphasis of matter paragraphs were also issued in the Auditor General's audit certificate for both 2010 and 2011 because Solomon Islands Postal Corporation did not comply with Section 14 of the State Owned Enterprises Act which require audited financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. Further, a going concern issue was raised over both financial years as the Corporation had a deficiency in current assets over current liabilities.

Other matters disclosed by the audit comprised:

- Unreconciled foreign currency sales and purchases between the general ledger and the detailed foreign currency cash trading records for the 2011 year. The discrepancy resulted in an understatement of foreign currency sales in the financial statements and an understatement of foreign currency purchases

- Missing payment vouchers could not be located
- Unsupported overtime payments and understatement of PAYE in 2010 and 2011
- Missing payment vouchers totalling for 2011 bulk payroll payments could not be located
- Long outstanding receivables and lack of evidence to support provision for doubtful debts. Aged receivable balances greater than 90 days as at end 2011 increased of 45% from 31 December 2010. The bad debt provision as at end 2010 remained the same as the provision at 31 December 2009
- Lack of supporting documents for trade debtors relating to Australasian Mail Services, Ministry of Agriculture and Livestock, Ministry of Commerce, Ministry of Finance and Treasury, SI Water Authority and United States Postal Service
- Missing supporting documents for payables as at end 2010
- Material variance between fixed asset register and general ledger; and no evidence that an impairment assessment was carried out on Property Plant and Equipment
- Missing supporting documents for fixed asset additions
- No recent valuation of investment property which was last valued in December 2007 at \$2,775,000
- Inventory items were not fully reflected in the financial statements which only showed 21% of the value of the stock. Also there was no review of slow moving stock.
- Unapproved sitting allowances and inappropriate sitting allowances paid to employees

## **Solomon Islands Ports Authority**

The audit of Solomon Islands Ports Authority is outsourced to Morris & Sojnocki under a five year contract agreement for audit of the 2010 to 2014 financial statements.

A disclaimer of opinion was issued on the profit and loss statement, statement of changes in equity and statement of cash flows for the year ended 30th September 2010 and a qualified opinion was issued on the Balance Sheet.

The disclaimer of opinion on the profit and loss statement was attributed to the fact that the balance sheet at 30 September 2009 was disclaimed on and, as a result, the Auditor General could not determine the accuracy of the opening balances as at 1 October 2010, and the effect of any misstatements therein on the profit and loss statement, statement of changes in equity and statement of cash flows for the year ended 30 September 2010.

The qualification on the Balance Sheet was attributed to a lack of third party confirmation or alternative audit procedures to confirm an ADB loan balance which is payable to the Solomon Islands Government under a subsidiary loan agreement.

It is extremely unfortunate that the Auditor General was required to issue a disclaimer of opinion over SIPA's 2010 financial statements. SIPA is a major revenue earner for the Solomon Islands. If the governance issues can be resolved and management of internal controls and financial reporting can be improved, there is much greater potential that the Authority can contribute more to the nation and eventually start distributing dividends to the Solomon Islands Government benefitting the wider Solomon Island community.

The significant issues identified during the 2010 SIPA audit included the following:

- Lack of review over general ledger account reconciliations
- ADB Loan No.2 balance unable to be confirmed
- Non-compliance with regulatory requirements in relation to sales tax charges on leased equipment, contractors' withholding tax deductions, understated PAYE deductions and personnel files not properly maintained
- Issues identified with creditors management included a failure to conduct monthly general ledger reconciliations of trade creditors to ensure their accuracy and completeness; not checking that goods ordered were actually received; and not conducting supplier reconciliations to ensure correct account payments including a material understatement of outstanding water charges
- Issues identified with trade debtors and other receivables included a lack of documented checks of revenue documents prior to sending for processing; uncontrolled petty cash advances totalling a significant amount, which were provided to employees on the proviso that the full amount was to be fully recovered in the next pay period, not being collected; Union subscriptions were not supported by any reconciliation or detailed listing; a failure to follow up the dishonoured cheques clearing account at year-end resulting in approximately 83% of the dishonoured cheques relating to prior years; and the balance for the Staff Loan Scheme Clearing Account at year-end included an instance where the loaned amount was not fully recovered when the staff member ceased employment
- Provision for doubtful debts was insufficient to reasonably reflect the collectability of aged receivables
- Issues identified in relation to payroll comprised PAYE deductions being understated without valid explanation; deficiencies in payroll system access controls which could allow unrestricted

access to create and amend employee records; the employee attendance book did not record details such as the employees' start and finish times; no evidence that timesheets were being reviewed or checked by a responsible officer; no evidence that payroll processed was checked or reviewed for any errors or irregularities before forwarding to the Accounts Payable section to process payments; and premature advances of gratuity payments for senior staff being made without evidence of them being approved by the Board of Directors

- An issue was identified relating to advances given to senior staff against their impending Long Service Benefits where amounts advanced far exceeded their LSB entitlements
- Annual budgets were produced and details of these budgets were included in the quarterly reports for board meetings. However there was no effective monitoring of the budget against actual results with explanation for significant variances

It was pleasing to note that SIPA had an Internal Audit Department. However, it was noted that the primary objective in monitoring internal controls and assisting management in providing an effective oversight function was yet to be fully utilised because the Internal Auditor was very involved in performing accounting tasks which should be performed by the Finance Department. This created a conflict of interest in the Internal Auditor's role and contributed to a diminishment of the actual internal audit function.

## **Solomon Islands Visitors Bureau**

The signed financial statements of Solomon Islands Visitors Bureau for the years ending 31 December 2009, 2010, 2011 and 2012 had not been received by this Office as at end of year. The audit of SIVB for 2009, 2010 and 2011 commenced in 2013 but will not be completed until 2014. The results of these audits will be reported in the Auditor General's 2015 Annual Report highlighting issues identified from audits finalised during the 2014 financial year.

## **Solomon Islands Water Authority**

The audit of the Solomon Islands Water Authority (SIWA) accounts was outsourced to KPMG, Fiji under a five year contract agreement for the years ending 2008 to 2012.

The 2011 SIWA financial statements received a disclaimer of opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows. The basis for the disclaimer was due to significant limitations on the scope of our work in relation to:

- property, plant and equipment

- inventories
- trade and other receivables
- revenue and expenses.

Consequently the Auditor General was unable to satisfy himself as to the appropriateness of the loss for the financial year ended 31 December 2011 and the accumulated losses. The results and cash flows of the Authority for the year ended 31 December 2011 would be affected to the extent of any misstatement or omission within property, plant and equipment, inventories, trade and other receivables, trade and other payables, revenue and expenses and accumulated losses as at 31 December 2010.

The Statement of Financial Position as at 31 December 2011 was found to give a true and fair view and was in accordance with International Financial Reporting Standards. An emphasis of matter was raised in relation to the Authority continuing to operate as a going concern given it was still heavily dependent upon obtaining external financing and ongoing support from the Solomon Islands Government.

Our audit also found that SIWA had not complied with aspects of the Public Finance and Audit Act and the State Owned Enterprises Act which require certain documents to be presented to the Minister during the year and final certification of the financial statements to be presented on or before 31 March.

In respect of the 2012 financial year, it was pleasing to note a considerable improvement in SIWA's internal controls. Many of the 2011 audit issues identified were resolved. Unfortunately, the Auditor General was still required to issue a qualification over SIWA's revenue as he was unable to obtain sufficient and appropriate audit evidence regarding the completeness and accuracy of revenue.

In addition, an emphasis of matter was included on the basis that SIWA's ability to continue operating on a going concern basis was heavily dependent upon its ability to obtain appropriate financing and the ongoing support of the Solomon Islands Government to meet its obligations. Furthermore, SIWA did not comply with the State Owned Enterprises Act and the Public Finance and Audit Act which required the audited financial statements to be presented to the Minister within three months of its financial year-end.

The significant issues identified included:

- Debtors and Impairment
  - 80% of debtors had outstanding accounts older than 60 days and there were no enforcement controls in place to collect outstanding revenue
  - There was also no formal process in place to provide a guide on how to assess assets for impairment and what thresholds would require Board approval for write-off
  - It was pleasing to see that as at 31 December, 2011, 70% of the trade receivables had been provided for and that SIWA was implementing measures to improve collections
- Unallocated Receipts: The debtors aged listing maintained a suspense account that had a material accumulated balance as at 31 December, 2011 which management believed comprised unallocated receipts received from customers, probably due to the difficulty SIWA faces reconciling receipts against bills as customers make part payments
- Assets not recorded at fair value because, although an independent valuation was conducted in 2007 management did not recognise this valuation
- Accruals at year end not were correctly accounted for as the Authority did not accrue for utility expenses. An accrual for electricity was subsequently taken up in the financial statements given it was material.
- Neither an IT Policy or Disaster Recovery Plan were in place for the safe operation of a crucial utility
- Revenue oversight did include a review of key reports; however the authorised personnel did not sign-off or initial the document as part of that review. Such documentation included new connections application forms, PBR reports and sales reconciliations
- Incorrect recognition of income received from interest on term deposits and an IWRM project
- Failure to review journal postings affecting the General Ledger by authorised personnel
- Inventory stock cards were not updated on a regular basis and inventory items with significant value (water system material) were not stored appropriately to prevent damage from the elements

## **Telecommunications Commission of Solomon Islands**

The 2011 and 2012 Statements of Cash Receipts and Payments for the Telecommunications Commission of Solomon Islands were audited by this Office and received unqualified audit opinions for both financial years. These financial statements were prepared under International Public Sector Accounting Standards - Cash Basis rather than under full International Financial Reporting Standards.

Reconciliation of several 2011 bank reconciliations was not performed before the financial statements were submitted for audit. These were however subsequently prepared allowing the Auditor General to provide an unqualified audit opinion over the 2011 financial statements.

As a result of our 2012 audit, two key issues arose between the Auditor General and the Commissioner. The first related to the scope of audit about which the Commissioner has made a case that he as Commissioner is a separate entity to the Commission, and that the Auditor General does not have the authority to audit matters directly pertaining to his role as Commissioner such as authorised business travel. Although we believe that this would need to be tested in the courts, because the Commissioner subsequently amended his internal controls to enhance the transparency of his business travel, the Auditor General did not propose to take the matter further at this stage.

The second issue related to an international standard requirement that the financial statements needed to reflect the actual Solomon Dollar equivalent of foreign currency transactions as and when they occurred. The Commissioner has not accepted the validity of the requirement despite it being prescribed under international reporting standards as adopted by his Commission. Nevertheless, the Commissioner has amended his financial statements to comply with the standards.

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## **CHAPTER 6 - AUDITS OF DONOR GRANTS**

During 2012 and 2013 audits were conducted by this Office on the statement of cash receipts and payments for donor funded projects. Audit opinions were issued for the following projects:

- Rapid Employment Project statement of cash receipts and payments for the year ended 31 December 2011
- Domestic Maritime Support (Sector) Project statement of cash receipts and payments for the year ended 31 December 2011
- Solomon Islands Road Improvement Project 2 statement of cash receipts and payments for the year ended 31 December 2011
- Solomon Islands Rural Development Program statement of cash receipts and payments for the year ended 31 December 2011
- Solomon Islands Sustainable Energy Project statement of cash receipts and payments for the years ended 31 December 2011
- Tina River Hydropower Development Project statement of cash receipts and payments for the year ended 31 December 2010

### **Discontinuation of audits of donor grants**

This Office had originally commenced audits of donor projects as a means of exposing staff to audit techniques as part of the recovery of the Office to full operations after years of absence of staff or operational resources.

However, as the number of projects grew in subsequent years, the staff were also becoming increasingly involved in the mandated tasks of the Office which reduced the amount of time available to undertake project audits.

Accordingly, the Auditor General made the decision in 2013 to cease undertaking such audits and requested all donor partners to arrange for their own auditors to do the work for financial years 2012 forward. The only project audits continued into subsequent years were two World Bank projects relating to support to the SIEA as well as a mining project managed by the Ministry of Mines.

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## CHAPTER 7 – AUDITS OF ECONOMY AND EFFECTIVENESS

### Introduction

Under the Public Finance and Audit Act 1997, the Auditor-General may report on instances of waste and inefficiency that are revealed in the course of his work. When audits uncover such examples or when instances are brought to his attention, the Auditor-General may undertake a special investigation to allow him to report more fully to the Parliament and to make recommendations as to how this poor performance may be managed.

In 2010, and as part of this Office aligning itself with international auditing standards and expectations, the Auditor General introduced a new function to undertake performance audits of Solomon Islands Government (SIG) organisations. The objective of the program is to improve the efficiency and effectiveness of the administration of SIG operations and entities by undertaking independent performance audits and assurance reviews for the information of Parliament, the SIG executive, interested stakeholders and the public.

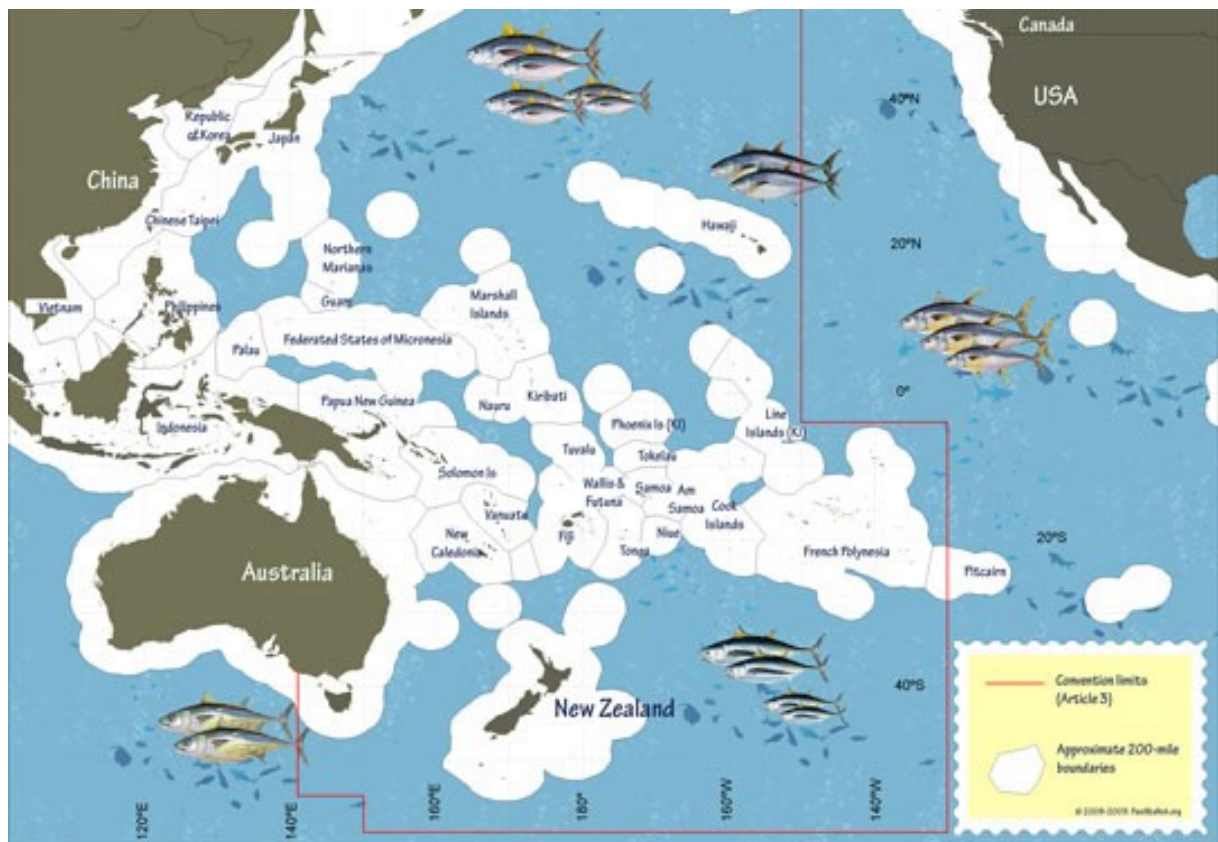
Performance audits examine governance arrangements, information systems, performance measures, monitoring systems and legal compliance. All performance audits are conducted in accordance with international auditing standards and the audit reports are tabled in Parliament. The Auditor General conducts his performance audits pursuant to the provisions of section 108 of the Constitution, as read with sections 35(1)(d), 35(1)(e) and 39(3) of the Public Finance and Audit Act.

Performance audits have many techniques and procedures which are similar to financial audit but there are also some significant differences between the two. The objective of our first few performance audits was not just to complete the audits and prepare useful and relevant reports, but also to capacity build our staff to competently undertake performance audit methodology and processes.

During the reporting period for this Annual Report, this Office completed two major performance reports - Managing Sustainable Fisheries in Solomon Islands Exclusive Economic Zone in 2012, and Tertiary Scholarships Management in 2013.

The findings of these reports are described below.

## Managing Sustainable Fisheries in Solomon Islands Exclusive Economic Zone



**Figure: Exclusive Economic Zones of Western and Central Pacific (Ocean) Countries**

A performance audit of the Management of Sustainable Fisheries (tuna fishery) in the Solomon Islands Exclusive Economic Zone and the high seas was commenced in August 2011. This was the first audit that this Office conducted as a co-operative performance audit under the auspices of the Pacific Association of Supreme Audit Institutions (PASAI), along with member Auditors General from Palau, Tonga, Nauru, Cook Islands, Federated States of Micronesia, Fiji, Tuvalu, Kiribati and Samoa.

The Auditor General and his cooperating PASAI members were assisted by the International Organisation of Supreme Audit Institutions [INTOSAI] through its International Development Initiative (IDI), an important training function of INTOSAI of which this Office is a member.

The objective of the audit was to assess the effectiveness of the management of off-shore fisheries (in particular the tuna fishery) by national fisheries authorities in accordance with national fisheries policies and framework. Fish and fish products is one of the main exports and revenue earners of the

Solomon Islands. While the export value of tuna is variable, it consistently contributes between 20-46% of the total value of exports for the Solomon Islands.

Our audit concluded that:

- there was a lack of up-to-date legislation and Tuna Management Plan to adequately address Solomon Islands regional fisheries responsibilities and the current western pacific fisheries environment prevented the Ministry from adequately planning the appropriate management of off-shore fisheries.
- It was not clear that the Ministry was focussed on addressing economic returns to the Solomon Islands from off-shore fishing licences and access agreements, and assessing whether they are appropriate to the value of tuna taken by vessels from the Solomon Islands Exclusive Economic Zone each year.

However, the Office noted that during 2011 the Ministry had participated in a number of negotiations and discussions aimed at increasing the revenue to the Solomon Islands from fishing in the Solomon Islands Exclusive Economic Zone.

- The Ministry did not have a formal fishing licence policy and guidelines appropriate for addressing new developments in the fishery sector, including the Vessel Day Scheme, and to meet its regional obligations
- Fishing licenses were not being issued in accordance with the requirements of current legislation, particularly the Tuna Management and Development Plan 1999 under the Fisheries Act 1998. This legislation was recognised as being out of date but until new legislation was passed by the Solomon Islands Parliament and a new Tuna Management Plan approved, the Ministry needed to comply with legislative requirements.
- The Ministry had not formalised its procedures for renewal of fishing licences and made them readily available to staff to ensure renewals are processed on time and in accordance with requirements.
- There was lack of evidence of appropriate review and assessment of information for off-shore fishing activities in Solomon Islands waters which raised the risk of Ministry decision-making not being informed and changes in off-shore fishing activities not being adequately monitored and reported.
- The Ministry had access to information through its participation with regional agencies in monitoring and reporting on fishing activities within the Solomon Islands Exclusive Economic Zone and in the Western and Central Pacific Ocean, but the non-commercially sensitive

information was not made available to the Parliament and the Solomon Islands people through more comprehensive reporting in and more timely reporting in the Ministry's annual reports.

The Ministry agreed with most of the findings and recommendations of the report.

However, the Ministry did make two points to qualify its agreement – in summary the Ministry advised that, firstly, tuna are a highly migratory species and, therefore, effective management can only be achieved through cooperation with other countries through regional organisations to which Solomon Islands provides information and then works with other countries to make management decisions based on analyses and recommendations from the agencies. Collective decisions are then given effect by the Ministry.

Secondly, the 1999 Solomon Islands National Tuna Management & Development Plan was never fully implemented and had not been used in the management of Solomon Islands tuna fisheries for a number of years, leaving management of tuna fisheries to be governed only by the Fisheries Act as a consequence.

## **Tertiary Scholarships Management**

A performance audit was commenced in 2011 to review the scholarship system in the Ministry of Education and Human Resources Development as well as the Department of Training and Development Unit in the Ministry of Public Service and the Department of National Trade Training, Testing and Certification in the Ministry of Commerce, Industries, Labour and Immigration.

The objectives of the audit were to follow-up the audit recommendations from the Auditor General's audit report on the Tertiary Scholarship Program which was presented in June 2006, and to assess the management control framework and management practice in place for tertiary scholarships system and assess whether it is appropriate to ensure compliance, program effectiveness and financial integrity. In addition, the audit assessed whether scholarships are awarded in accordance with the policy statement and guidelines for tertiary education in the Solomon Islands and assess the adequacy of the policy statement and guidelines.

The audit also reviewed the effectiveness of the existing administrative systems and processes for the provision and ongoing monitoring of tertiary scholarships and to ensure sufficient controls are operating over the use of expenditure.

The audit identified the following issues:

*Lack of implementation of recommendations in OAG 2006 Audit Report*

- The Ministry had made minimal progress after five years. Although a policy and guidelines document for tertiary education in the Solomon Islands was released in 2010 it was not clear that all staff involved in the scholarship management system were following its requirements
- In addition, the selection of students to receive scholarships continued not to be based on clear selection criteria and the Ministry continued to exceed approved annual scholarships funding due to inadequate budgeting and failure to manage within the agreed budget
- There were still outstanding debts for student tuition fees owed to tertiary institutions, with payments not being made in a timely manner due to inadequate budgeting and overspending
- There was still no agreed policy on payment of student allowances and there were still delays in the payment of student allowances; and
- There was a continuing lack of adequate supporting documentation for payment vouchers which were inappropriately processed and payments made which were not in accordance with requirements.

*Policy Framework for Tertiary Education*

- The 'Policy Statement and Guidelines for Tertiary Education in Solomon Islands' was developed and issued in 2010, nearly four years after the 2006 OAG report recommended the need for the policy was urgent.

The Ministry failed to take the necessary timely action to put an appropriate policy and guidelines framework in place in order to start to address the many and wide-ranging problems in the management of tertiary scholarships reported in 2006. Therefore these problems in the management of tertiary scholarships were still there at the time of this audit.

*Scholarship Budget and Expenditure*

- The Ministry had failed to take action on addressing the more serious of the 2006 audit findings and recommendations on scholarship budget and expenditure including:
  - pay scholarship invoices from tertiary institutions in a timely manner

- prepare and approve an allowances policy, including for the rates of student allowance paid in each country
  - pay student allowances in a timely manner; and
  - complete a Memorandum of Understanding with USP, including to improve the understanding of the obligations of both parties.
- The Ministry continued to exceed its annual budget for tertiary scholarships in the four years, 2007-2010, with total variance for expenditure exceeding the budget over the four years amounting to SBD\$41,641,676.

#### *Scholarship Selection*

- The February 2010 Policy Statement and Guidelines for Tertiary Education, specifically the SIG Award policy regulations at Annex 4, were not supported by procedures for the processing of scholarship applications by Ministry staff. This resulted in staff not being informed in their handling and processing of scholarship applications which could lead to inconsistent treatment of applications submitted.
- There were many instances where the requirements of the policy statement and guidelines were not complied with:
  - application forms could not be located in the scholar data base or in a search of manual records
  - applications were received after the due date of 31 May, or did not have a received date and staff initials recorded on the form
  - instances where the Grade Point Average (GPA) requirement for the proposed course were not met, where the criteria for the proposed course were not satisfied and where other criteria for awarding a scholarship, such as age limits, were not satisfied
  - a majority of applications did not have a receipt attached for payment of the application fee; and
  - many instances where key documentation could not be located, such as award letters, signed scholarship awardee declaration letters, transcript of results and qualification studied/attained.
- The National Training Committee (NTC) meeting minutes were inadequate to support the selection and approval of tertiary scholarships, representing a major breakdown in the selection and approval of scholarship awardees. Also, NTC meeting minutes were not certified as true and correct by the Chairperson.



### *Monitoring, Evaluation and Reporting processes*

- There is insufficient guidance to Ministry staff to appropriately monitor, evaluate and report to Ministry management on scholarship holders study progress. Existing documents only provided the rationale and approach on matters such as monitoring and evaluation, but they did not provide detailed procedures.
- Monitoring of academic performance of scholarship holders was based on information feedback from the Universities but due to the failure of the SIG to pay up the arrears of tuition fees owed to the various universities there was a lack of up-to-date information from them, mostly.

The Ministry failed to address the matter of arrears of payments to universities for five years and this had the compounded effect of restricting the Ministry's ability to appropriately monitor, evaluate and report on scholarship holders academic progress and therefore to appropriately manage the Tertiary Scholarship Program for the benefit of Solomon Islanders and the Solomon Islands

- The National Training Unit (NTU) records were in a poor state and the lack of a student database impacted on NTU's capability to monitor scholarship holders academic progress, particularly underperforming or 'high risk' students. With no individual file for each scholarship holder and the resulting piles of paperwork to be sorted through, it was not possible for a monitoring and evaluation system to operate effectively.

The poor state of records and supporting documentation also impacted on the Ministry, in particular the NTU, to appropriately implement and manage requirements regarding termination of scholarships and bonding arrangements on completion of studies.

Despite many attempts to obtain responses from the Ministry and the NTU following completion of the draft report, this Office was required to publish and table its final report to the Parliament without any comment from the Ministry.

## **Rural Constituency Development Fund Progress Update**

Although an audit commenced in 2012 is still ongoing on the distribution of Rural Constituency Development Fund moneys to constituencies, I make a comment on it due to the very high public interest in the audit.

An audit on the constituencies' funds has been a priority for the Office of this Office for a number of years from 2009. Within that year an audit was planned but put on hold waiting advice from the

Attorney- General to confirm the Auditor General had the power under the Constitution 1978 and Public Finance and Audit Act 1978. This was eventually provided in 2012 and the audit commenced.

The audit is focused on four funds- ROC funded Micro Development Fund (MDF), ROC funded Millennium Development Fund (MDF), ROC funded Rural Support Constituency Development Fund (RSCDF) and the SIG funded Rural Constituency Livelihood Fund (RCLF) – all of which made up the Rural Constituency Development Fund (RCDF) at the time.

Subsequently, the government passed the *Constituency Development Fund Act 2013* intended to regulate the distribution of the [now] CDF moneys, and commenced drawing up Regulations to operationalise the Act.

The audit involves our staff physically visiting every one of the constituencies. By the end of 2013, eighteen constituencies had been visited under a first phase covering the years 2009 – 2011; and preparations were well advanced to commence the visits of the remaining 32 constituencies at the beginning of 2014 under a second phase covering the years 2010 – 2012.

Much time has been spent tracking down documentation needed to compile the sample of projects to be reviewed in the constituency visits. The documentation was variously held by the Ministry of Rural Development and Indigenous Affairs responsible for the oversight of the distribution of RCDF funds, the Members of Parliament and their Constituency Development Officers responsible for scrutinising and approving funded projects under the scheme, and Constituency Development Committees (where they existed) responsible for identifying and submitting projects for funding.

It is intended that the audit will be completed in 2014 and a report submitted to the Parliament shortly thereafter.

# APPENDICES

## Appendix 1 - OAG Unaudited Annual Accounts

Office of the Auditor-General

Statement of cash receipts and payments

For the years ended 31 December 2012 and 31 December 2013

	Notes	31-Dec-13 Receipts / (Payments) \$	31-Dec-12 Receipts / (Payments) \$	31-Dec-11 Receipts / (Payments) \$
<b>Receipts</b>				
Allocations / Appropriations	2	6,514,887	9,565,204	5,930,123
External assistance – Multilateral agencies	3.1	-	-	-
Regional Assistance Mission to Solomon Islands (RAMSI)	3.2	-	-	-
<b>Total receipts</b>		<b>6,514,887</b>	<b>9,565,204</b>	<b>5,930,123</b>
<b>Payments</b>				
Wages, salaries and employee benefits	4	(2,095,497)	(1,360,546)	(1,744,421)
Operating payments	5	(3,218,912)	(3,714,446)	(3,291,715)
Learning and development		(141,079)	(141,031)	(135,194)
Repairs and maintenance		(40,448)	(291,842)	(571,792)
Capital payments		(381,215)	(606,046)	(187,000)
<b>Total payments</b>		<b>(5,877,151)</b>	<b>(6,113,911)</b>	<b>(5,930,122)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>637,736</b>	<b>3,451,293</b>	<b>1</b>

*The accompanying notes form part of these financial statements.*

Office of the Auditor-General

Statement of comparison of budget and actual amounts

For the years ended 31 December 2012 and 31 December 2013

Budget approved on the cash basis

	Actual amounts (2013)  \$	Actual amounts (2012)  \$	Final budget (2013)  \$	Final budget (2012)  \$	Difference: Actual amount and final budget (2013)  \$	Difference: Actual amount and final budget (2012)  \$	Final Budget (2011)  \$
<b>Receipts</b>							
Allocations / Appropriations	6,514,887	9,565,204	44,221	48,360	(6,470,666)	(9,516,844)	7,083,130
<b>Total receipts</b>	<b>6,514,887</b>	<b>9,565,204</b>	<b>44,221</b>	<b>48,360</b>	<b>(6,470,666)</b>	<b>(9,516,844)</b>	<b>7,083,130</b>
<b>Payments</b>							
Wages, salaries and employee benefits	(2,095,497)	(1,360,546)	(2,512,541)	(2,825,520)	(417,044)	(1,464,974)	(2,125,093)
Operating payments	(3,218,912)	(3,714,446)	(3,961,932)	(3,110,419)	(743,020)	604,027	(3,761,096)
Learning and development	(141,079)	(141,031)	(196,362)	(273,418)	(55,283)	(132,387)	(248,124)
Repairs and maintenance	(40,448)	(291,842)	(121,504)	(426,110)	(81,056)	(134,268)	(612,329)
Capital payments	(381,215)	(606,046)	(1,475,430)	(342,782)	(1,094,215)	263,264	(336,488)
<b>Total payments</b>	<b>(5,877,151)</b>	<b>(6,113,911)</b>	<b>(8,267,769)</b>	<b>(6,978,249)</b>	<b>(2,390,618)</b>	<b>(864,338)</b>	<b>(7,083,130)</b>
<b>Net cash flows</b>	<b>12,392,039</b>	<b>15,679,114</b>	<b>8,311,990</b>	<b>7,026,609</b>	<b>(4,080,049)</b>	<b>(8,652,505)</b>	<b>14,166,260</b>

*The accompanying notes form part of these financial statements.*

## **Notes to the financial statements**

### **1. Accounting policies**

#### *Basis of preparation*

The annual accounts have been prepared in accordance with the International Public Sector Accounting Standards Financial Reporting Under the Cash Basis of Accounting (IPSAS - Cash Basis).

The accounting policies have been applied consistently throughout the period.

#### *Reporting entity*

The annual accounts are for the Office of the Auditor-General, a public sector entity. The Office is fully funded by appropriations by the Solomon Islands Government. The Office's principal activity is to provide audit services to the Solomon Islands Government, public bodies, and the Provincial Governments and Honiara City Council. These financial statements cover the Office of the Auditor-General as individual entity.

The Office does not operate its own bank account. The Solomon Island's Government operates a centralised treasury function which administers cash expenditures incurred by all Ministries and Offices during the financial year. Payments made on this account in respect of this Office are disclosed in the Treasury Account column in the Statements of cash receipts and payments.

The Office was established under the Solomon Islands Constitution, complies with the Public Finance and Audit Act 1978 and operates within the Solomon Islands and overseas where the Solomon Islands Government may operate constitutional offices.

The finalisation of the 2012 annual financial statements was delayed due to circumstances beyond our immediate control. Consequently, the financial statements for 2012 and 2013 have been disclosed in addition to the actual 2011 comparative balances.

#### *External assistance*

The Office receives a benefit from payment made by external third parties (entities external to the Solomon Islands Government) for goods and services. These payments do not constitute cash receipts or payment for the Office, but do benefit the Office. They are disclosed in the Payments by external third parties column in the Statement of cash receipts and payments.

### *Reporting currency*

The annual accounts are presented in the Solomon Islands currency and are rounded down to the nearest dollar.

### *Foreign currency transactions*

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate at the date of the transaction.

### **Note 2. Allocations /Appropriations**

Amounts appropriated to the Office of the Auditor-General are managed through a central account administered by the Ministry of Finance and Treasury as described in Note 1 to these accounts. These amounts are not controlled by the Office but are deployed on the Office's behalf by the central account administrator on presentation of appropriate documentation and authorisation. The amounts reported as allocations/appropriations in the Statement of Cash Receipts and Payments is the amount the Ministry of Finance and Treasury has expended for the benefit of the Office.

	<b>31-Dec-13</b>	<b>31-Dec-12</b>	<b>31-Dec-11</b>
	<b>Receipts</b>	<b>Receipts</b>	<b>Receipts</b>
Appropriations	5,877,151	6,113,911	5,538,123
Contract Audit Fee Revenue	637,736	3,451,293	392,000
	<hr/>	<hr/>	<hr/>
	6,514,887	9,565,204	5,930,123
	<hr/>	<hr/>	<hr/>

### **Note 3. External assistance – Multilateral agencies**

#### **3.1 Payments by external third parties**

There were numerous payments or payments in-kind made to the Office of the Auditor-General over the 2012 and 2013 financial years. These included the provision of training, a motor vehicle and photocopier. All payments made by external third parties are made by external third parties that are not part of the Office.

#### **3.2 Regional Assistance Mission to Solomon Islands**

Over 2012 and 2013 financial periods, the Office had a total of three international technical adviser positions in total which were funded by Australian Aid. One of these positions was in-line and two were advisor roles. During 2013, the number of international technical adviser positions was reduced to two. At the time of publishing the unaudited annual accounts, the non-cash benefit to the Office of the Auditor-General for the three positions was not available because it has commercial significance and was confidential. For 2012 and 2013, external third party payroll payments included 8 RAMSI-funded Graduate Auditors who commenced in July 2011 as well as local equivalent salaries for three international technical advisor positions for varying periods during the course of the year. It was not possible to determine the quantum of these costs sufficiently to include them in the financial statements.

**Note 4. Wages, salaries and employee benefits**

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2013</b>	<b>2012</b>
	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Treasury</b>	<b>Treasury</b>	<b>Treasury</b>	<b>Difference:</b>	<b>Difference:</b>
				<b>Account</b>	<b>Account</b>	<b>Account</b>	<b>Actual</b>	<b>Actual</b>
							<b>Amount &amp;</b>	<b>Amount &amp;</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>Budget</b>	<b>Budget</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Wages and salaries	(1,608,046)	(1,880,871)	(1,552,918)	(1,252,542)	(687,882)	(1,046,065)	(355,504)	(1,192,989)
National Provident Fund	(127,366)	(155,374)	(121,497)	(100,293)	(93,042)	(91,831)	(27,073)	(62,332)
Allowances <sup>i</sup>	(777,129)	(789,275)	(450,678)	(742,663)	(579,622)	(606,524)	(34,466)	(209,653)
	<b>(2,512,541)</b>	<b>(2,825,520)</b>	<b>(2,125,093)</b>	<b>(2,095,497)</b>	<b>(1,360,546)</b>	<b>(1,744,421)</b>	<b>(417,044)</b>	<b>(1,464,974)</b>

The under spend in actual wages and salaries compared to budget for both 2012 and 2013 occurred due to delays in receiving approval from the Ministry of Public Service to restructure the number of audit and support staff required as previously budgeted for.

The under spend in actual allowances compared to budget during the 2012 financial year arose due to the timing of when provincial audit visits occurred.

Note i: Allowances includes staff house rent subsidies paid under Other Charges in the SIG Budget which are usually classified as operating payments.



## Note 5. Operating payments

	2013 Budget	2012 Budget	2011 Budget	2013 Treasury Account	2012 Treasury Account	2011 Treasury Account	2013 Difference: Actual Amount & Budget	2012 Difference: Actual Amount & Budget
	\$	\$	\$	\$	\$	\$	\$	\$
Contracted audit fees	(1,648,919)	(1,268,046)	(2,097,891)	(1,119,374)	(2,325,630)	(2,155,329)	(529,545)	1,057,584
Office expenses	(575,252)	(1,307,696)	(1,094,616)	(353,879)	(570,761)	(773,442)	(221,373)	(736,935)
Utilities	(783,816)	(186,873)	(278,339)	(531,575)	(411,966)	(161,436)	(252,241)	225,093
Staff travel costs	(953,945)	(347,804)	(290,250)	(1,214,084)	(406,089)	(201,509)	260,139	58,285
	(3,961,932)	(3,110,419)	(3,761,096)	(3,218,912)	(3,714,446)	(3,291,716)	(743,020)	604,027

The under spend between actual and budgeted contracted audit fees during 2013 arose due to delays in receipt and subsequent payment of contract audit invoices for work performed over the period.

The overspend in 2012 contracted audit fees compared to budget arose due to the timing of receipt of contract auditor invoices from the prior year. The under spend in office expenses for 2012 and 2013 arose due to tighter monitoring of office costs and repairs made to building utilities.

**Note 6. Cash and Cash equivalents**

The Office does not have any cash balances which are not available for use and there are no cash balances subject to external restrictions. The cash used by the Office is administered centrally by the Ministry of Finance and Treasury.

**Note 7. Original and final approved budget**

In 2010 there was one appropriation for which the actual expenditure exceeded the authorised expenditure by a total of \$1,488. The Office did not make use of the virements called for in the Financial Instructions 2010 to deal with cases where it wished to spend more than the authorised amounts. As such, this payment was unauthorised. It should be noted that the Office did not exceed its overall budget for 2010 and that the submission of the necessary virements would have ensured that expenditure did not exceed the budget of any individual head of expenditure.

In 2011 there were eleven instances where virements do not appear to have been processed by MoFT resulting in actual expenditure exceeding the adjusted authorised expenditure by a total of \$501,490 for those particular instances. This matter will be included in the audit of the 2011 National Accounts to determine the cause/s for such a significant increase in such occurrences. As in 2010, the Office did not exceed its overall budget for 2011 and that the processing of the necessary virements would have ensured that expenditure did not exceed the budget of any individual head of expenditure.

**Note 8. Authorised date**

The unaudited annual accounts were authorised for publication on 17 December 2014 by Robert Cohen, Acting Auditor-General.

## Appendix 2 - Definitions and Technical Concepts

### Risk Ratings

International Auditing Standard ISA 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment" and ISA 320 "Materiality in planning and performing an audit" both discuss audit risk and the risk of material misstatement the financial statements. These require an auditor to assess risk as it relates to the fair presentation of financial statements. The risk definitions are described in the table below.

Risk Rating	Description
High	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	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	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	Matters of a procedural or administrative nature which could improve the efficiency or effectiveness of entity level, systemic or transactional processes.

### Audit Opinions

When providing an audit opinion over a set of financial statements, the Auditor General is required to comply with international auditing standards.

These standards define the type of audit opinion that should be issued depending upon the nature of the audit findings our staff find during the audit. The table below provides details of the different

types of audit opinions that the Auditor General can issue when certifying a set of financial statements.

Nature of matter giving rise to the modification	Auditor's Judgement about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified audit opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified audit opinion	Disclaimer of opinion

The best type of audit opinion to receive is an unqualified audit opinion. Ultimately, it should be a key objective for all Auditees to achieve an unqualified or clean audit opinion. This would mean that their financial statements are free from material misstatement due to error or fraud and that Parliament and members of the public and other stakeholders can have faith that the financial reports are true and correct.

The Auditor General is also required to report on other legal and regulatory requirements. This forms the second part of the Auditor General's audit opinion and details any significant breaches of other legal or regulatory requirements identified in relation to reporting requirements under the applicable act. For example, an Auditee not being able to have their financial certified by 31 March as prescribed by the SOE Act.

### **Emphasis of Matter paragraphs**

In some of the Auditor General's audit opinions, international auditing standards require him to issue an emphasis of matter paragraph. This is not the same as a qualification but the Auditor General is required to alert readers of the financial statements to any matters which whilst they may not result in modification to the financial statements but are important issues that the Auditor General wishes to bring to the readers' attention. A common example when an auditee has issues regarding events that have occurred after balance date (e.g. major damage incurred from a natural disaster or the signing of a contract for material investment in infrastructure) or if an auditee is experiencing difficulties trading as a going concern.

## **Appendix 3: Glossary of acronyms**

ADB: Asian Development Bank

CBSI: Central Bank of Solomon Islands

CEMA: Commodities Export Marketing Authority

CPA: Certified Practising Accountant

DFAT: Department of Foreign Affairs and Trade (Australia)

HCC: Honiara City Council

IAS: International Accounting Standards

ICSI: Investment Corporation Solomon Islands

IFRS: International Financial Reporting Standards

IPSAS: International Public Sector Accounting Standards

ISSAI: International Standards for Supreme Audit Institutions

MALD: Ministry of Agriculture and Livestock Development

MCIE: Ministry of Commerce, Industry and Employment

MCA: Ministry of Communication and Aviation

MCT: Ministry of Culture and Tourism

MDPAC: Ministry of Development Planning and Aid Coordination

MEHRD: Ministry of Education and Human Resources Development

MECM: Ministry of Environment, Conservation and Meteorology

MoFT: Ministry of Finance and Treasury

MFMR: Ministry of Fisheries and Marine Resources

MFAET: Ministry of Foreign Affairs and External Trade

MFAT: Ministry of Foreign Affairs and Trade (New Zealand)

MFR: Ministry of Forestry and Research

MHMS: Ministry of Health and Medical Services

MHA: Ministry of Home Affairs

MID: Ministry of Infrastructure and Development

MJLA: Ministry of Justice and Legal Affairs

MLHS: Ministry Lands, Housing and Survey

MMERE: Ministry of Mines, Energy and Rural Electrification

MPNS and CSSI: Ministry of Police and National Security and Correctional Services Solomon Islands

MPGIS: Ministry of Provincial Government and Institutional Strengthening

MPS: Ministry of Public Service  
MRD: Ministry of Rural Development  
MWYCA: Ministry of Women, Youth and Children's Affairs  
NJ: National Judiciary  
NP: National Parliament  
NPF: National Provident Fund  
OAG: Office of the Auditor-General  
OGG: Office of the Governor-General  
OPMC: Office of the Prime Minister and Cabinet  
PASAI: Pacific Association of Supreme Audit Institutions  
SIAL: Solomon Islands Airlines Limited  
SIBC: Solomon Islands Broadcasting Corporation  
SICHE: Solomon Islands College of Higher Education  
SINU: Solomon Islands National University  
SIEA: Solomon Islands Electricity Authority  
SIPA: Solomon Islands Ports Authority  
SIPC: Solomon Islands Postal Corporation  
SIVB: Solomon Islands Visitors Bureau  
SIWA: Solomon Islands Water Authority  
TCSI: Telecommunications Commission Solomon Islands  
UNDP: United National Development Programme