



SOLOMON ISLANDS GOVERNMENT

**REPORT ON MATTERS ARISING FROM FINANCIAL
STATEMENT AUDIT**

Makira Ulawa Provincial Government

01/10/2013 – 31/03/2014

Reported by:

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EXECUTIVE OVERVIEW

Background

The Makira Ulawa Provincial Government submitted its financial statement for the financial year ended 31 March 2014 to this Office on 30 December 2014 as required under s.39(2) of the *Provincial Government Act 1997*. Makira Ulawa Provincial Government is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the *Provincial Government Act 1997* and the devolution order.

An audit pursuant to s.108(3) of the Constitution, s.35(1) of the Public Finance and Audit Act 1978 and s39(3) of the *Provincial Government Act 1997* was conducted on the Makira Ulawa Provincial Government accounts and records in order to be able to form an opinion on the financial statements when they are received from the Provincial Government.

Audit Objectives and Scope

The principal objective of the audit was to review the accuracy of the financial statements and adequacy of processes for the financial management, accounting and reporting controls managed by the Makira Ulawa Provincial Government in terms of compliance with the relevant statutes governing such processes, as well as in order to form an opinion on the reliability of the accounting information incorporated into the financial statements for the year ended 31 March 2014.

This report focuses on the findings arising from the review of financial management processes being practiced by the Makira Ulawa Provincial Government as at 1 October 2013 to 31 March 2014.

Findings

The audit identified that the Makira Ulawa Provincial Government has made improvement over its record keeping of expenditures and revenue for the 2013/14 financial year. However, there a major reforms over its financial management, accounting or reporting controls, particularly in relation to its revenue, assets and liabilities; as well as continued efforts to improve its expenditure controls, need to be implemented, In addition, all investments and assets are encourage to be taken up in the financial statements.

As for the financial reporting, the overall presentation of the financial statements is materially correct to IPSAS and OAG acknowledges the slight improvement in the financial statement presentation as required by the Provincial Government Act 1997.

A summary of these audit issues identified is described below.

The Table 1 below lists risk ratings that have been assigned to each audit finding to help identify which audit observations should be given priority:

Table 1 – Risk Rating

Risk Rating	Description
High	<ul style="list-style-type: none"> • Matters which may pose a significant business or financial risk to the entity; and / or • Matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity; and / or

	<ul style="list-style-type: none"> Moderate risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Moderate	<ul style="list-style-type: none"> Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year; and / or Matters that may escalate to high risk if not addressed promptly; and / or Low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	<ul style="list-style-type: none"> Matters that are isolated, non-systemic or procedural in nature; and / or Matters that reflect relatively minor administrative shortcomings and require action in order to improve the entity's overall control environment.

• **Breakdown of MYOB system**

Risk Rating – High

It was discovered that the MYOB system for the Provincial Government was not functioning for approximately six months which made it difficult to verify whether the data has been captured in the general ledger for 2013/14 financial year. This deficiency increases the risk of incompleteness of revenue and inaccuracy of payments.

• **Financial statement is too detailed**

Risk Rating – Moderate

It has been noted that the 2013/14 financial statement is too detailed which makes it difficult for readers to understand the information provided. It is vital for the financial statement to be in a summarized form for readers willing to read it and make better decisions. Too much detail information increases the risk of readers not willing to read the report and missing out vital information for desirable decision making.

• **Need for colouring consistency in the financial statement**

Risk Rating – Moderate

OAG found that there is inconsistency in the presentation of the 2013/14 financial statement where some information are in red colour while the rest are in black colour. It is essential that the presentation of the financial statements should be in consistent colouring and professional look to attract the attention of the readers. This deficiency increases the risk of confusion among the readers that may leads to undesirable decision making and ligations against the Provincial Government.

• **Unreliable accounting software for payments**

Risk Rating – High

It was revealed that the accounting software (MYOB) for payments were unreliable due to the continuous breakdown of the system for the audited period. This has made it difficult to determine the completeness and accuracy of the transactions. The lack of reliable accounting software increases the risk of uncontrolled spending of provincial funds, budget over-run, potential fraud occurring and misuse of funds.

• **Lack of verification to budget**

Risk Rating – High

There is weak control over verification to budget line items performed for each department which is a breach of the Financial Management Ordinance 2008. This deficiency increases the risk of over spending on goods and services, unauthorized payments, conflict of interest and misstatement of the financial statements.

- **Failure to properly maintain the imprest register (C/fwd from 2010/11)**

Risk Rating – High

It still being noted that there is failure in maintaining the imprest register for 2013/14 financial year as shown in note 19 of the financial statement. In addition, it was noted that there is no serious recovery actions taken to reduce the outstanding imprests for 2013/14 financial year compared to prior year. The lack of proper control over imprest register increases the risk of officers misusing the provincial funds, conflict of interest and loss of provincial funds,.

- **Staff advances register not kept properly**

Risk Rating – Moderate

OAG found that the staff advances register book was just laid on the table in the finance department rather stored in a secured location from unauthorized persons having access to it. The lack of proper storage of the staff advances register increases the risk of staff destroying the content of the book without notice that may lead to doubts over the reliability of the records and assurance over the advance payments and repayments.

- **Poor controls over trade payables (C/fwd from 2012/13)**

Risk Rating – High

It was still noted that the Provincial Government did not maintain a proper trade payable register to show the outstanding monies it owed to the suppliers for the audited period. The weak control over trade payable increases the risk of ineffective budgeting, outstanding debts not being paid to appropriate suppliers, possibility of liability being understated and cash on hand being overstated.

- **Poor controls over trade receivables (C/fwd from 2012/13)**

Risk Rating – High

OAG continued to note that there is weak controls over trade receivables which made it difficult to verify the amount of revenue that is outstanding as at 31 March 2014. The lack of trade receivables listing increases the risk of ineffective budgeting, outstanding revenue not being collected and possibility of revenue is understated.

Conclusion

The audit of the Makira Ulawa Provincial Government's accounts and records disclosed similar but serious shortcomings in the procedures and practices as well as deficiencies in internal controls in the management of expenditure, imprest, trade payables and trade receivables as highlighted in the 2012/13 audit report. However, OAG acknowledges that Makira Ulawa Provincial Government has been continually addressing the recommendations highlighted in the 2012/13 audit reports. Some improvements were made on the maintenance of proper filing system for payment voucher records.

Overall Recommendations

OAG's key recommendations for the Provincial Government are as follows:

- Ensure that there is back-up MYOB file maintained and hard copy excel documents used as a back-up for verification purpose;
- Should keep a track on the date for renewal of MYOB licences to avoid restricted access;
- Ensure that finance department staff to undertake a refresher course in MYOB to help improve and maintain the level of skills needed;
- Make sure backup MYOB file s should be kept in a secured location from public access;
- Ensure that budget is strictly controlled and monitored by the finance department and permanent secretary on daily basis;

- Ensure to properly monitor the imprest register and regularly update it;
- Make sure recovery action through salary deduction is implemented for outstanding imprest that is more than 30 days;
- Should establish a proper trade payables register and regularly update it and;
- Should establish a proper trade receivables register and must regularly update it.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

AUDIT FINDINGS AND RECOMMENDATIONS

1.0 FINANCIAL REPORTING AND PRESENTATION

1.1 Breakdown of MYOB system

Risk Rating – High

It was discovered during the audit that the MYOB system was not functioning for almost six months. As a result, OAG could not verify whether every data for those months had been inputted into the MYOB when it is up and running again. Furthermore, OAG was unable to determine whether back up of data was stored for the transactions for the audited period.

Implication

Non-verification on whether data had been inputted or not increases the risk of incompleteness in revenue and inaccuracy of payments. This reduces the reliability and assurance over the financial statement, trial balance and general ledgers.

Recommendation 1

OAG recommended that the Province Government:

- Ensure that there is back-up MYOB file maintained and hard copy excel documents used as a back-up for verification purpose.

Executive Response

MYOB has been re-activated because of availability of internet connection. Back-up is now done almost on a daily basis after working with MYOB. The MYOB back-up files are saved in a separate external drive kept by the Treasurer. We have also just obtained a server and the MYOB back-up files are stored in the server as well.

Responsible Officer: Treasurer/Deputy Treasurer

Target Date: 30/11/2014

1.2 Financial statement is too detailed**Risk Rating - Moderate**

Office of the Auditor General (OAG) noted that the 2013/14 financial statement is too detailed where some rows and columns with zero balances should be omitted to make it easy for readers to understand the information provided. However, OAG acknowledges the improvement made in the preparation of the financial statement in accordance with IPSAS cash basis reporting framework.

Implication

Financial statement is meant to be in summarized form so with too detailed information will make readers unwilling to read the hundred pages that may leads to missing vital information for better decision making.

Recommendation 2

OAG recommended that the Province Government:

- Ensure to classify the transactions under category or function for better understanding.

Executive Response

Whilst we appreciate the OAG's findings, our view at that time of the preparation of the 2013/2014 FS was that we need to show everything to our readers even if they have zero balances. This is to show our readers that we are not missing or omitting anything out or to show actually that we do not receive or pay anything out under those areas. We also want to show how we arrive at the figures in the FS so that OAG can see how we got the figures, despite this we will try to comply with OAG's recommendation.

Responsible Officer: Deputy Treasurer/Treasurer

Target Date: 30/09/2015

1.3 Need for colouring consistency in the financial statement**Risk Rating - Moderate**

OAG found that the Provincial Government's 2013/14 financial statement does have some information in red colour while the rest are in black which is not consistent in the presentation of the financial statements to the end-users. The presentation of the financial statements should be in consistent colouring and professional look so that readers can feel excited to read the information provided in order that they make useful and better decisions.

Implication

Lack of consistency in colour increases the risk of confusion among the readers that leads to undesirable decision making and ligations against the Provincial Government.

Recommendation 3

OAG recommended that the Province Government:

- Must make sure to use black colouring in the presentation of the financial statements.

Executive Response

The colouring was done during the preparation of the FS so that we can differentiate some of the figures and how we arrive at them, however, we will comply with OAG's recommendation when preparing the next FS. We should have removed the colouring before we send over the FS but we just forgot to do that.

Responsible Officer: Deputy Treasurer

Target Date: 30/09/2015

2.0 RECURRENT EXPENDITURE

2.1 Unreliable accounting software for payments

Risk Rating - High

It was identified during the audit that the Provincial Government's accounting software (MYOB) is not reliable due to continuous breakdown of the computer for the audited period. This has made it difficult to collect the data for expenditure in order to conduct testing on them for completeness and accuracy. The financial statement disclosed total expenditure of \$10,862,224, however, OAG could not rely on the figure because of the unreliable accounting software noted during the audit.

Implication

The lack of reliable accounting software increases of uncontrolled spending of provincial funds, budget over-run, potential fraud occurring and misuse of funds.

Recommendation 4

OAG recommended that the Province Government:

- Should keep a track on the date for renewal of MYOB licences to avoid restricted access;
- Ensure that finance department staff to undertake a refresher course in MYOB to help improve and maintain the level of skills needed and;
- Make sure backup MYOB file s should be kept in a secured location from public access.

Executive Response

At the moment the date for renewal/re-activation of files pops up automatically when MYOB files are required to be up-dated so we think that access will not be restricted this time.

With regard to refresher courses on MYOB we can do on-the-job training on areas that are within our knowledge, however, for in-depth knowledge of MYOB we will need the assistance from the Ministry of Provincial Government to take on a MYOB expert to do the training for Treasurers of all the nine provinces. Back-Up of MYOB files are now done as and when one works on the file and is stored in a server in the finance division and also in an external drive kept by the Treasurer.

Responsible Officer: Deputy Treasurer/Treasurer

Target Date: 31/11/2015

2.2 Lack of verification to budget

Risk Rating - High

Audit noted weak control over verification to budget line items been performed before the payment process commenced for the audited period. It was identified that there is lack of monitoring and controlling of each departmental budget within the finance department as required in the Financial Management Ordinance 2008. It is vital that control over expenditure to the budget is strong in order that each department is spending their allocations within the financial year.

Implication

The lack of control over budget verification increases the risk of over spending on goods and services, unauthorized payments, conflict of interest and misstatement of the financial statements.

Recommendation 5

OAG recommended that the Province Government:

- Ensure that budget is strictly controlled and monitored by the finance department and permanent secretary on daily basis.

Executive Response

The management agreed with the findings of OAG and has introduced a system whereby each division is responsible to maintain its own commitment records and to manage its own budget. Each division is required to manage its budget by ensuring that there is a budget provision available before making any request for good or services.

By introducing this we hope to have budget management control and reduce the risk of over-spending. This system has been effected this as from 1st April 2015 and will be monitored by the finance division.

Responsible Officers: Deputy Treasurer/Treasurer/All divisional heads

Target Date: 1/4/2015

3.0 IMPRESTS AND ADVANCES

3.1 Failure to properly maintain the imprest register(C/fwd from 2010/11)

Risk Rating - High

OAG continued to note that there is failure in maintaining the imprest register for 2013/14 as note 19 of the financial statement disclosed un-acquittal imprests of \$517,483.36 compared to \$104,619.00 for prior year. This implies that there is poor recovery measures in place to recover the funds from the un-acquitted imprest holders through salary deductions as required in FMO 56 (1) (2) and (5). In addition, staff has been issued with new imprests even though there are outstanding imprests which is a clear breach of the Financial Management Ordinance 2008.

Implications

The lack of proper control over imprest register increases the risk of officers misusing the provincial funds, conflict of interest and loss of provincial funds.

Recommendation 6

OAG recommended that the Province Government:

- Ensure to properly monitor the imprest register and regularly update it and;
- Make sure recovery action through salary deduction is implemented for outstanding imprest that is more than 30 days.

Executive Response

The management agreed with the findings of OAG. It will try and adhere to the recommendations especially FMO 56 (1) (2) and (5).

Attempts will be made not to issue new imprests when an officer still has an outstanding imprest.

Responsible Officers: Provincial Secretary/Deputy Treasurer/Treasurer/Imprest holders

Target Date: 1/4/2015

3.2 Staff advances register not kept properly

Risk Rating - Moderate

Audit noted during observation that the register for staff advances was not kept in a secured and safe place as it was seen laying on the table in the finance department. It is essential that staff advances register book is stored in the Provincial Treasurer's locked room from public or unauthorised person(s) access.

Implication

The lack of proper storage of staff advances register increases the risk of staff destroying the content of the book without notice that may lead to doubts over the reliability of the records and assurance over the advance payments and repayments.

Recommendation 7

OAG recommended that the Province Government:

- Ensure that the staff advances register book is kept in a secured place with only the person responsible for reconciling the advances has access to it. If it is kept in an electronic file then a password is necessary.

Executive Response

The advance register was not being maintained over the years apart from the advance record in the Personal Record Sheet (PRS) kept by the salary officer.

We will commence introducing an advance register this financial year effective as from 1st April 2015.

Responsible Officers: Deputy Treasurer/Treasurer/Salary Officer

Target Date: 1/4/2015

4.0 TRADE PAYABLES

4.1 Poor controls over trade payables (C/fwd from 2012/13)

Risk Rating – High

OAG still noted that the Provincial Government did not maintain proper trade payable register of outstanding monies it owed to parties for the years 2013/14 financial year. It is vital that the Provincial Government maintained a trade payable register so that they can disclose the information under the encouraged additional optional disclosure for transparency and accountability.

Implication

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. Also, an indication of poor controls and creditors cannot be tracked appropriately to confirm the creditors whose payments are still outstanding. There is a possibility of liability being understated and cash on hand being overstated.

Recommendation 8

OAG recommended that the Province Government:

- Should establish a proper trade payables register and regularly update it.

Executive Response

The management agreed with the findings of OAG. A trade payables file was created in MYOB but it is also not being used and maintained. The management has decided that it will create and commence using the file with effect from 1st April 2015.

Responsible Officers: Deputy Treasurer/Treasurer/Cashier/Expenditure Clerk

Target Date: 1/4/2015

5.0 TRADE RECEIVABLES

5.1 Poor controls over trade receivables (C/fwd from 2012/13)

Risk Rating - High

OAG observed and noted that the Province still did not have a register of outstanding monies yet to be received for the 2013/14 financial year. OAG has made a request during the time of audit for the debtors listing for audit examination but was not provided. It is important that the Provincial Government has a proper trade receivable register to provide the information under the encouraged additional optional disclosure for the IPSAS cash basis reporting framework.

Implication

The lack of trade receivables listing hinders the Provincial Government from effectively budgeting for future income and increases the risk of outstanding revenue not being collected. When no record is kept there is a possibility that receipt or revenue is understated.

Recommendation 9

OAG recommended that the Province Government:

- Should establish a proper trade receivables register and must regularly update it.

Executive Response

The management agreed with the findings of OAG. A MYOB file was created but was not maintained at all. The management has decided that it will commence activating the file as from 1st April 2015.

Responsible Officers: Deputy Treasurer/Treasurer/Revenue Officer/Cashier

Target Date: 1/4/2015

6.0 AUDIT ACTION PLAN

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
1	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Ensure that there is back-up MYOB file maintained and hard copy excel documents used as a back-up for verification purpose. 	MYOB has been re-activated because of availability of internet access. Back-up is done every time after working with MYOB. Back-up files are stored in a server kept in the finance division and copies are also saved in an external drive kept by the treasurer.	Treasurer/Deputy Treasurer	30/11/2014
2	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Ensure to classify the transactions under category or function for better understanding. 	Transactions will be classified under each category/function.	Treasurer/Deputy treasurer	30/9/2015
3	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Must make sure to use black colouring in the presentation of the financial statements. 	If colouring is to be used it should be consistent all throughout, however, black colouring must always be used.	Treasurer/Deputy Treasurer	30/9/2015
4	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Should keep a track on the date for renewal of MYOB licences to avoid restricted access; Ensure that finance department staff to undertake a refresher course in MYOB to help improve and maintain the level of skills needed and; Make sure backup MYOB file s should be kept in a secured location from public access. 	<p>The MYOB has been re-activated and the renewal date pops up automatically as and when a file needs activating. On-the-job training will be done with staff on areas within our knowledge of MYOB, however, for in-depth matter on MYOB we will need assistance from our ministry to have someone train all treasurers in the nine provinces. Back-up of MYOB files are now done straight after one has finished working with MYOB. The back-up files are stored in a server in the finance division and in an external drive kept by the treasurer.</p>	Treasurer/Deputy treasurer/MPGIS	31/11/2014 1/4/2015 30/11/2014
5	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Ensure that budget is strictly controlled and monitored by the finance department and permanent secretary on daily basis. 	To introduce a system whereby all divisions are required to keep their own commitment records of what they want to spend money on. This will enable HODs to see for themselves that they have a budget provision is available before making any request for goods and services. This measure will hopefully alleviate over-spending of budgets because divisional heads will only request for goods/services if they have funding available.	Provincial Secretary/treasurer/deputy treasurer/divisional heads	1/4/2015
6	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Ensure to properly monitor the imprest register and regularly update it and; Make sure recovery action through salary deduction is implemented for outstanding imprest that is more than 30 days. 	<p>Imprests will be monitored more closely and for the register to be maintained and up-dated.</p> <p>Reminders will be sent to imprest holders concern and advise them of the requirements under FMO 56(1)(2) and (5).</p>	Treasurer/Deputy treasurer/Imprest holders/Provincial Secretary	1/4/2015

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
		Long outstanding imprests will be journalised to charge them to staff's advance accounts and recovery would then be effected.		
7	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Ensure that the staff advances register book is kept in a secured place with only the person responsible for reconciling the advances has access to it. If it is kept in an electronic file then a password is necessary. 	Although an advance register was not being kept over the years, records of staff advances are in their Personal Record Sheets (PRS). Myob also have records of individual staff's advances. Management will look into the possibility of introducing a staff advance register as recommended by OAG.	Treasurer/deputy treasurer/Salary Officer	1/4/2015
8	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Should establish a proper trade payables register and regularly update it. 	A trade payable's file was created in MYOB but it is not being updated and maintained. The management has decided that it commence using the file with effect from 1st April 2015.	Treasurer/deputy treasurer/Expenditure clerk.	1/4/2015
9	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Should establish a proper trade receivables register and must regularly update it. 	A trade receivable file was created in MYOB but is not being used and updated. The management has decided that it will commence using this file soon.	Treasurer/deputy treasurer/Revenue Officer	1/4/2015