



OFFICE OF THE AUDITOR-GENERAL

ANNUAL REPORT

2007

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FOREWORD FROM ACTING AUDITOR GENERAL

This is the second annual report for the Office of Auditor General and reflects the outcomes and results of OAG activities for the year ended 31 December 2007. The year was one of significant growth in terms of both audit coverage and capacity building.

The financial statements of all Provincial Government Administrations (PGAs) were brought up to date and each Province was provided with a Report outlining the issues that were noted during the audit and a series of recommendations for the way forward. The responses from PGAs has been most gratifying as greater accountability is gradually implemented and opportunities emerge for incentives from donors to ensure even greater accountability.

The intense audit activity in all of the Ministries whereby all major systems were reviewed and reported upon has enabled a whole new relationship to develop with permanent secretaries and other senior officials.

At last the vision and dream of the former Auditor General, the late Floyd Augustine Fatai, has really taken hold as the audits are being more and more driven by the local staff and reviewed, critiqued and quality controlled by the Audit Advisors.

The final area for attention is in relation to the outstanding audits of statutory bodies and State Owned Enterprises. OAG is working closely with a donor funded initiative to bring all outstanding financial statements up to date and once a tender process is concluded teams will arrive to assist in the preparation, audit and training associated with the various entity accounts.

The year has been one of significant progress and one which reinforced the faith that RAMSI and the former Auditor General had in the capacity building process employed.



ERIC MUIR
Acting Auditor General

OBITUARY



Floyd Augustine Fatai commenced with the Office of Auditor General (OAG) in December 1978 and rose through the various ranks of audit inspector until being promoted to the position Auditor General of Solomon Islands on 9 April 2002. He remained in this position until his unfortunate and unexpected death on 3rd July 2008.

When Floyd assumed leadership of the OAG, the Solomon Islands Government was suffering from terrible accountability as a result of an ongoing internal conflict known as the ‘ethnic tensions’ or ‘tensions’. The Government had ceased to be effective and the OAG had been undermined, with staffing levels cut to just three employees, compared to a staffing level of 29 at the time of the country’s independence in July 1978. Following the intervention of the Regional Assistance Mission to the Solomon Islands (RAMSI) in July 2003, the Auditor General commenced the massive task of rebuilding the OAG with RAMSI assistance. The challenge of rebuilding the OAG as a viable institution was enormous, requiring strong leadership and vision, as well as long-term strategies that would restore the country’s accountability regime going forward.

As Auditor General, Floyd met this challenge head on. Under Floyd’s leadership, the revitalized OAG began undertaking special audits of Ministries’ major expenditure and revenue programs.

Some 14 special audit reports were finalized and tabled in the National Parliament in 2005 and 2006.

These special audits have resulted in major reforms across government, with over 500 recommendations made to the Parliament to address a range of major shortcomings as well as deal with the fraudulent activities identified. The Reports have, in effect, provided a blue print for public service reform in the Solomon Islands, enabling the government to better prevent corruption and improve accountability through improving the basic systems of internal control. The special audit reports identified hundreds of millions of dollars of lost revenue and inappropriate expenditure.

It was, however, Floyd’s vision for developing a self-sustaining OAG that drove the expansion of the OAG with further recruitment and training of staff. Floyd was also actively encouraging staff to attain higher studies through university degrees, and was instrumental in championing development of robust study policies and processes that provided the platform for ongoing staff capacity development. During 2007 the OAG introduced intense training for all staff in audit methodologies and processes, supplemented with practical on the job application of learnings by participating in the auditing of various Ministries across government, statutory bodies and provinces.

With Floyd’s unfortunate death at the age of only 50 years, the Solomon Islands and the Pacific Islands more broadly have lost one of their most successful and committed anti-corruption champions. Floyd’s passing has created a huge void that will take a generation to fill. The OAG continues to grieve but is determined to continue Floyd’s legacy of a better and corruption free Solomon Islands. As a mentor, friend, fatherly figure and boss, he will be sadly missed by all at OAG.

OAG Staff

CHAPTER 1 - OVERVIEW

1.1 Background

The previous Report of the performance of the Office of the Auditor General for 2002-2006 provided valuable background to the re-emergence of the OAG under the Machinery of Government (MOG) Program of RAMSI.

1.2 Mandate

Pursuant to section 108 of the Solomon Islands Constitution there shall be an Auditor General whose office will be a public office. The public accounts of Solomon Islands, of all Ministries, offices, courts and authorities of the Government, and all provincial governments shall be audited and reported on annually by the Auditor General.

In addition, the Public Finance and Audit Act (CAP 120) outlines the powers and responsibilities of the Auditor General including the requirement to certify the accounts of the Solomon Islands Government and report on the outcome of such audits to the National Parliament through the Speaker and/or the Speaker and the relevant Minister(s) within twelve months after the end of the financial year.

There has been a concerted effort to catch up on the outstanding financial statement sign offs within Ministries and in the Provinces. There is a current emphasis on the outstanding accounts for statutory bodies and State Owned Enterprises. At present there are 54 audit entities and 34 annual certifications required on financial statements for public sector entities and projects. These are summarized below:

- SIG National Accounts (1)
- Ministries (25)
- Provincial Governments (9)
- Local Government (1)
- Statutory Bodies and SOEs (14)
- Special Sign offs (4)

1.3 Special Investigations

Several audits have been scheduled in the annual audit plan as part of the normal cyclical audit coverage and others were included following representations from Ministers and the public.

During initial audit investigations performed in 2005 and 2006 as part of the institutional capacity building program, some ten Reports were tabled in the Solomon Islands Parliament and the following common key findings were noted and referred to the Public Accounts Committee (PAC):

- Widespread non-compliance with the *Public Finance and Audit Act* and Financial Instructions;
- Serious breakdowns in critical management and accounting systems and procedures;
- A lack of proper financial and non-financial records;
- Millions of dollars of uncollected arrears in fees and licences;
- Millions of dollars lost through poor management, corruption and fraud;
- Corrupt officials using positions of influence to assist family and friends;
- Conflicts of interest not being declared by officials; and
- Lack of overall monitoring by senior management to enable issues to be identified and addressed internally.

It is clear that the OAG has some enormous challenges ahead from a number of different perspectives. Not the least of which is to make a significant contribution to the strengthening of financial management practices within government agencies and assisting to identify areas where institutional capacity building programs are required as a priority.

With the assistance of the RAMSI capacity building program, the foundations have been laid for the path to recovery, with significant early progress being made towards realising the strategic outcome of reinstating the OAG as an effective supreme audit institution. There is a long way to go yet however.



Late Auditor General with RAMSI MOG Officials

1.4 2007 Performance

In the previous Annual Report for the period 2002-2006 OAG Executive Management Team identified the major direction that OAG would need to take in 2007 and beyond to enable it to position itself as a viable Audit Office and continue to grow its capacity. During 2007 OAG responded well by addressing the following major initiatives that were set for that period:

- a) **Backlog of accounts** – OAG worked closely with the Ministry of Finance and finalized the SIG National Accounts for the period 1998-2003 by 30 June 2007 and introduced a revised audit methodology and composite approach for the audit of the SIG National Accounts for 2004-2006. This represents a significant achievement and has resulted in major issues detected in the audits being the subject of a consolidated report to Parliament containing recommendations to address the many identified concerns. In addition the audits were performed using OAG recently recruited staff and the audits became a live training opportunity for these staff under the direction of the RAMSI advisors. Whilst not finalizing the audits of all three years, the accounts for 2004 and 2005 have been received for certification in conjunction with the 2006 accounts once these have been received by OAG.
- b) **Capacity Building Model, Implementation and Monitoring** – Using the staff skills capacity development framework OAG developed an internal skills framework whereby the skill requirements for all staff and positions were identified to enable their individual skills development and facilitate capacity development as OAG moves slowly towards self sufficiency.
- c) **Comprehensive skills training program** – OAG developed a comprehensive financial statement audit training program using the assistance of a dedicated RAMSI Training Advisor allocated to OAG for a nine month period. The development and delivery of a modular style workshop was a significant challenge and all Solomon Islanders were given the training over the nine month period. The training was of a practical nature and reinforced by actual performance through audit testing within the various public sector entities of the systems that were the subject of the training modules.

- d) Provincial Audits** – OAG was a major contributor to the first phase of the stocktake of the preparedness of Provincial Governments for their financial reporting, resulting in a comprehensive report on the current position for each Province. In addition OAG was also heavily involved in the subsequent Phase of the PFMIP whereby OAG staff joined the composite teams that visited each Province to prepare Financial Accounts and undertake audits. This has resulted in an up-to-date position for each Province and a sign off on 100 of the 130 outstanding provincial accounts in December 2007.
- e) Statutory Body Audits** – OAG took a leading role in the oversight and performance of audits of the various State Owned Enterprises (SOEs) and Statutory Bodies and was significantly involved in the development of the initial arrangements for the AusAID SOE Finance Strengthening initiative. Visits were made to each entity and agreement reached on the best way forward to address each entity's financial reporting requirements. The entities are now going forward as part of the new arrangements wherein financial statements will be prepared and audited using donor funded teams. OAG is continuing to work closely with this initiative.

An integral part of the development of OAG is also the recruitment of suitable local staff to perform the duties of various levels of auditor. During 2007 OAG was successful in recruiting and filling many senior local positions and creating a career structure that facilitates growth. Coupled with the training provided, which will continue as all staff gain exposure to the financial statement processes for a range of clients, OAG is in a unique position of professional standing in the Solomon Islands.

1.5 Relationship with Parliament

2007 witnessed an unprecedented level of activity by the Public Accounts Committee (PAC) of the National Parliament with hearings into seven Reports on special audits of the Auditor General tabled in late 2006 into selected Ministries' affairs. In addition, the PAC held hearings in to the Draft Estimates of Expenditure for 2007 and the Supplementary Estimates for 2007. This collectively represented a significant increase in Committee activity during 2007 necessitating close working relationship between my Office and the UNDP supported Parliamentary support team to enable presentation of the nine Reports to Parliament within a few days of each hearing.

The Committee has grown significantly during the period as new members were appointed and inducted to undertake their detailed enquiries into the public finances. The secretariat provided detailed briefings to members to enable a smooth flow of the hearings. There were occasions, however, during Budget deliberations where Ministries were not afforded adequate feedback on their bids prior to the PAC hearings, resulting in disruptions to the hearings and rescheduling to enable proper de-briefings from the Ministry of Finance and Treasury prior to Committee hearings.

1.6 Legislation Upgrade

The need for a legislative review has been acknowledged by the Public Accounts Committee and MOG for some years and is included in the current MOG Plan. The nature of such a review requires unique skills to understand the Supreme Audit Institutions (SAI) environment and the Public Accountability regimes in the Pacific and generally. During 2007 through RAMSI a project was approved for the development of the necessary legislation for the establishment of a National Audit Office. Two legislative reviewers Professor Colin Clark, and Dr Kenneth Levy were employed and these experts drafted legislation and presented a draft report for consideration by the SIG.

1.7 OAG Building Renovations

During 2007 the current OAG building was inadequate to provide a suitable working environment for the enlarged professional team and through support from the SIG a major refurbishment took place which provided excellent working stations for the current 35 staff and an enlarged Training Room facility. The total cost of the building renovations was some \$530,000 and the outcome is a much improved work environment including clean toilet facilities. In addition RAMSI provided significant modern training furniture and computing support equipment.

CHAPTER 2 - OAG PERFORMANCE DURING 2007

2.1 Status of Financial Statement Audits

As previously noted OAG has been actively involved in audits of the financial statements of the various auditees to gradually address the backlog in reporting on their accounts. The following Table provides a summary of the current status of audits as at 31 December 2007.

Table: 1.0 Status of Audits of Financial Statement Audits

Auditee	Last Year(s)	Sign off by Auditee	Sign off by OAG
SIG and Ministries			
SIG National Accounts	1998	30 November 2000	26 June 2007
	1999	15 January 2002	26 June 2007
	2000-03	18 May 2007	26 June 2007
Post Conflict Rehab Project	2006	26 July 2007	27 July 2007
Civil Aviation Special Fund	2005	22 May 2006	8 September 2006
Provinces			
Malaita Province	1996-07	28 Sep 2007	20 Dec 2007
Western Province	1993-07	Oct 2007	20 Dec 2007
Guadalcanal Province	2004-07	20 Sep 2007	20 Dec 2007
Makira Province	1989-07	17 Oct 2007	20 Dec 2007
Isabel Province	2004-07	28 Sep 2007	20 Dec 2007
Temotu Province	1989-07	5 Nov 2007	20 Dec 2007
Renbel Province	1989-00	29 Oct 2007	20 Dec 2007
	2006-07	29 Oct 2007	20 Dec 2007
Choiseul Province	1992-07	9 Nov 2007	20 Dec 2007
Central Province	2007	16 Nov 2007	20 Dec 2007
Honiara City Council	1994	Unsigned	5 Aug 1997
Statutory Bodies			
Central Bank of SI	2006	21 Jun 2007	26 June 2007
Development Bank of SI	2005	5 Sep 2007	28 Sep 2007
SI Broadcasting Corporation	1997	Undated	17 March 1999
SI Electricity Authority	1996	Undated	25 June 2001
SI Water Authority	1998	Undated	14 September 2006
SI National Provident Fund	2007	3 Oct 2007	8 Oct 2007
Investments Corporation of SI	2001	Undated	16 August 2004
SI College of Higher Education	1998		##
SI Port Authority	2001	Undated	15 November 2004
SI Visitors Bureau	1994	30 Apr 1996	27 November 2008
CEMA	1998	2 Nov 1999	2 November 2008

Accounts prepared for subsequent periods but not submitted to OAG

2.2 Special Audits

Following a series of special audits undertaken in 2005 and 2006 OAG tabled ten Reports in Parliament and provided a blue print to the various Ministries on the way forward to address the many matters identified in these Reports. Those reports were fundamental to the re-growth of OAG capacity as new staff became more involved in these audits.

The next phase in capacity development targeted the audits of the financial accounts of the various auditees to address the backlog and provide fundamental training for all staff in this mandated area of OAG's audit responsibilities. Despite the major emphasis turning from special audits to financial audits, there was no shortage of matters being referred to the Auditor General by concerned Ministers, bureaucrats and members of the public.

Whilst receiving prompt attention these special audits were done concurrently and the results are tabled progressively in composite yearly Reports to the Parliament.

The Following Table provides an overview of the significant reports tabled in the Solomon Islands Parliament or issued during the last year.

Topic	Tabled	Reviewed by PAC
Ex-Special Constables Payroll Information Audit	7 Aug 2007	No
Public Service Rental Scheme	7 Aug 2007	No
Government Housing Rental Deductions	7 Aug 2007	No
Housing Allowances and Utilities Expenses	7 Aug 2007	No
NZ AID Imprest Accounts	7 Aug 2007	No
Ministry of Education – Cash Management	7 Aug 2007	No
Grants Administration – Departments of Agriculture, Commerce and Tourism	7 Aug 2007	No
Honiara City Council Education Program	7 Aug 2007	No
Ministry of Fisheries – Tuna Export Duty	7 Aug 2007	No
Rennell and Bellona Provincial Government	7 Aug 2007	No

2.3 SIG National Accounts

Reports were also issued by the Auditor General on the Solomon Islands Government Accounts for the years ended 31 December 1998-2003 representing the backlog of National Accounts signed in June 2007. The detailed Report tabled in Parliament in August 2007, as part of the composite Report, outlined the many common matters noted by OAG which led to the significant qualifications to the Reports issued by the Auditor General.

These audits laid the foundations for the audits of the next three years of the SIG National Accounts for the period 2004-2006, a period which reflects a time since the RAMSI intervention where record keeping is expected to have gradually improved as resources and skills increased.

During 2007 OAG introduced a comprehensive risk based audit approach for the audits of the SIG National Accounts following a period of intensive training of all staff in financial audits. Presentations of the new audit approach and methodology were provided to all Permanent Secretaries by the Auditor General and Deputy Auditor General and were further outlined at opening interviews held in the respective Ministries.

OAG performed audit testing in each of the Ministries on all key accounting and management systems and the results of these audits were conveyed in draft management reports which were discussed with the relevant Permanent Secretary. Comments were formally sought on all matters raised and Audit Action Plans were requested from Ministries. These audits were substantially completed at 31 December 2007 but the final signed accounts for 2006 from the Ministry of Finance were still awaited.

2.4 Corruption in the Solomon Islands

Following the issue of the ten special audit reports in 2006 and 2007 the Auditor General expressed his concern about the lack of attention being given to the many issues raised in the Reports. He issued a Report titled "An Auditor General's Insights into Corruption in the Solomon Islands Government" which was tabled in October 2007. This report provides an excellent summary of the ten previous reports and the recurring themes which include:

- Widespread non-compliance with guiding legislation, Financial Instructions and General Orders;
- Serious breakdowns in financial management and accounting systems and procedural controls;
- General lack of adequate and proper records maintenance;
- Officials using positions of influence to assist associates to receive benefits;
- Millions of dollars of revenue lost;
- Conflicts of interest not declared;
- Delays in acquittals;
- Lack of action for recovery of overpayments;
- Lack of action to pursue suspected criminal activity;
- Lack of discipline of public officers by responsible authorities;
- Lack of action by departments to address weaknesses identified in the audits;
- Lack of overall monitoring and oversight by senior management;
- Officials acting outside authority or acting without appropriate authority;
- Proliferation of unauthorised Government accounts and financial transactions occurring outside of authorised processes;
- Serious shortcomings around asset management and procurement;
- Lack of division of responsibility in key institutional functions and controls;
- Lack of proper management monitoring and control over contracts;
- Procedural weaknesses relating to payroll management; and
- Management override of internal controls outlined in Financial Instructions and General Orders.

The report has not as yet been reviewed by the Public Accounts Committee and although action plans are being reviewed the many global recommendations contained in the summary report are yet to be considered by Parliament.

CHAPTER 3 – CAPACITY BUILDING OF OAG

3.1 OAG Staffing

The previous Report referred to the significant growth in staff during 2005 and 2006 resulting in a staff of 23 as at 31 December 2006 including the six Audit Technical Advisors. A targeted recruitment drive during early 2007 resulted in the selection/promotion of a further five staff at the senior level and six at the junior level. These results are encouraging as staff gain experience and enhance their skills through external studies and internal training.

However, it has been of concern that the recruitment for the specially created middle management positions of Audit Principal at the classification level 10/11 failed to attract applicants with the required experience and qualifications. Similarly the recently created position of Manager Corporate Services at the classification level 9/10 failed to attract any suitable applicants.

These results reinforce the difficulty within the SIG to attract suitable senior experienced staff to take on key responsibilities. I believe that in regard to OAG this will create a major barrier as a professional office requires the highest level of skills to perform the responsibilities and duties to the required professional accounting standard dictated by the international bodies.

Table 3-1 OAG Staffing

Year	Audit Staff Establishment	Actual	Management	Senior	Junior
2006	33	23	4	6	13
2007	38	33	4	10	19

Note: The above figures include 5 Technical Advisors in 2007 (6 in 2006).

3.2 OAG Capacity Growth

Existing staff within OAG continue to grow through comprehensive training associated in terms of the Audit Risk Based Methodology and targeted reinforcement of technical issues using workshop examples at weekly sessions. Further OAG is participating in IPAM and other formal training to develop key staff and enhance awareness of OAG within SIG.



OAG Staff on Job Training from Supervisor

In addition all staff are assessed each four months to review their progress against the OAG Skills Framework which sets out the relevant skills and criteria for each level in OAG, and identifies improvements and development opportunities for individual and peer group levels. The outcomes of these reviews in conjunction with the SIG Public Service Staff Reports will result in internal promotions in consultation with the Ministry of Public Service.

3.3 Staff Training

All field staff have a base diploma qualification in Accounting or Administration through the Solomon Islands College of Higher Education. In addition OAG provides various training and development opportunities for staff including attendance at external and internal courses, scholarships to local University of South Pacific or overseas universities to pursue accounting or related degree studies and SIG training through IPAM and other providers. Given the professional nature of auditing OAG requires a high level of technical skills for all audit staff. To attain the positions of Audit Manager and above it is essential that staff have recognized accounting qualifications.

As a member of the South Pacific Association of Supreme Audit Institutions (SPASAI) the OAG has access to international courses and conferences to enable it to keep in touch with the developments in the public sector audit environment. In addition the OAG is a member of the Australasian Conference of Auditors General (ACAG) which is a most useful forum to discuss emerging issues in our Region and internationally. Also as the secretary for the Public Accounts

Committee the Auditor General is required to attend meetings of the Commonwealth Parliamentary Association (CPA) from time to time.



Staffer using modern equipment at OAG

OAG promotes and encourages staff to pursue further studies and at the end of 2007 OAG had three local qualified staff and some ten others advancing through studies at the USP Centre. In addition OAG has one staff member on a full time scholarship at the USP in Fiji. OAG is pursuing a range of opportunities to fast track the development and up-skilling of staff including scholarships and secondments.

The above strategies aim to eventually reduce the dependency on expatriate audit advisors currently fulfilling the Audit Manager roles. Recent promotion action has been positive with several staff demonstrating excellent leadership skills during 2007. The local senior staff are now encouraged to lead teams on audits at both the Ministries and Provinces and the various statutory bodies and State Owned Enterprises.

The following is a list of some of the more significant training and development activities attended by OAG staff in recent years:

Date	Officer	Institution	Location
Feb 2007	Walter Malau	CPA Parliamentary Financial Scrutiny Workshop	La Trobe University
17-18/4/07	Floyd Fatai & Eric Muir	OECD Workshop	Paris
09-16/9/07	Floyd Fatai, Robert Cohen & Wilson Suhara	11 th SPASAI Congress and Workshops	Port Moresby
May – August 2007	All OAG Field Staff	Financial Statement Auditing Course	OAG/IPAM
September – October 07	All OAG Field Staff	OAG Skills Framework	OAG

CHAPTER 4 - FINANCIAL PERFORMANCE OF OAG

4.1 Performance against Budget

OAG continues to perform well against budget. The Table below shows the actual versus budgeted performance for the past five years.

Table 5-1 Budget Versus Actual Costs

Details of Expenditure	2007		2006	
	Budget	Actual	Budget	Actual
Statutory Salaries	114,834	140,167	103,970	125,811
Other Allowances	40,000	24,300	0	23,097
Civil Service Salaries	917,071	616,452	759,569	266,311
Housing Allowance	85,834	44,813	91,281	14,834
Overtime Allowances	0	0	0	0
NPF	88,747	17,494	73,738	16,529
Other Allowances	0	40,027	28,355	48,068
Wages & Allowances	20,173	24,770	18,322	27,158
Payroll Total	\$1,266,659	\$908,023	\$1,075,234	\$521,808
Repairs of Buildings	711,599	786,549	59,805	4,200
Repairs of Houses	156,090	23,477	103,000	38,147
Office Expenses	237,492	195,402	110,235	86,344
Electricity, Fuel & Gas	99,522	89,491	72,478	76,494
Water	56,424	25,508	6,237	53,144
Telephone & Faxes	96,217	74,218	73,997	38,414
Printing	47,742	13,864	76,350	33,420
Staff Travel	214,566	141,508	91,812	62,677
Special Expenditure	0	0	0	0
Overseas Visits - State	0	0	0	0
Capital Expenditure	35,872	33,200	34,827	28,978
IT Equipment costs	251,527	214,313	136,191	102,096
Motor Vehicles	195,609	13,053	0	0
House Rent	155,632	185,500	374,400	113,759
Training	53,045	38,571	51,500	20,640
Conference & Seminars	103,045	102,117	171,500	144,831
Audit Fees	346,477	322,500	1,050,514	493,366
Subscriptions to Orgs	7,055	0	35,850	30,248
Contract Audit Fees	770,000	23,789	250,000	46,234
Other Expenses	0	-3,850	15,026	5,854
Other Charges Total	\$3,537,914	\$2,279,210	\$2,713,722	\$1,378,846
Expenditure Total	\$4,804,573	\$3,187,233	\$3,788,956	\$1,846,072

4.2 Future Financial Framework

As OAG gradually recruits staff and begins to function at its full capacity the current level of funding could place significant strain on OAG budget resources. However, to date OAG has been able to manage its resources well within the budget allocation. A significant saving in costs has resulted from RAMSI meeting key salary costs. The necessary staffing costs and associated overheads for an optimum office level of 40 staff will require a considerable adjustment going forward.

4.3 OAG Fee Charging

The current practice within OAG in accordance with section 48 of the Public Finance and Audit Act requires any body corporate to pay audit fees determined by the Auditor General. Following revised arrangements for contract auditors whereby OAG fully manages these audits in partnership with private firms the resultant audit fees will be paid directly to OAG as revenue and OAG will reimburse the firms their costs associated with performing the audit on our behalf. For 2007 the level of fee outlays was estimated as \$900,000 with a corresponding increase in revenue forecast. This did not eventuate as work was taken on board within OAG internal resources and other audits were suspended.

4.4 Provincial Audits

As OAG gears up for more involvement in audits of Provincial Governments from 2007 additional travel and other costs will be necessary to allow teams to travel from Honiara to the various Provincial centres to perform audits. OAG currently has accommodation in Auki and Gizo but these houses require considerable renovations and repairs before staff could use these accommodations. Work is proposed on their refurbishment during the next few years.

CHAPTER 5 – OAG CONTRACTING ARRANGEMENTS

5.1 Background

Each year, as part of the development of the OAG Annual Audit Plan, the Deputy Auditor General in consultation with Group Directors identify audits or parts of audits that are suitable for contracting out and make appropriate recommendations to the Auditor-General. As part of the management of the public sector auditing program, the Auditor-General or Deputy Auditor-General may identify additional or alternative audits to be contracted out in order to meet changed circumstances arising during the course of the year. In considering the suitability of audits or parts of audits for contracting out, regard is given to:

- available resources, including OAG staff and the impact on OAG staffing arrangements;
- the nature, complexity and location of audits;
- special factors (including corporate governance, prior year audit results, training opportunities for OAG staff etc) which dictate a preference for performance of an audit by OAG staff;
- specialist skills or knowledge that can be provided (eg., tax, superannuation);
- history of past performance; and
- the Auditor-General's assessment of the public interest in particular audits.

As a general rule, audits of all government departments, audits with a recent history of adverse findings and those assessed to have a high level of public interest are be audited by OAG staff. However, certain functions e.g. payroll and elements of business units may be contracted out provided close liaison is maintained with the OAG team at these audits.

OAG maintains a Register of individuals and firms who have indicated interest in performing audits for the Auditor General and who meet criteria identified by the Auditor General. The Register represents a database of suppliers deemed suitable to perform audit work on behalf of the Auditor General. Only individuals who are on this register may be engaged within OAG to perform contract audits, unless other arrangements are put in place by the Auditor General eg Tender Process.

During 2007 OAG reduced its contracting base as OAG staff took on more responsibilities and began to undertake audits themselves under supervision of Audit Technical Advisors. In addition the sponsor funded proposed contracting arrangements for a catch up on the backlog of audits of State Owned Enterprises also interrupted some audits that had been earmarked for contracting.

5.2 Recent Activities

During previous years the Auditor General had been dependent upon the private sector to provide resources for his audits in the various sectors. Many of the private firms have built up a knowledge of the public sector audit environment as such services were provided. This has resulted in limited audit skills within Government and a consequential reliance on the private sector firms.

OAG sees this as an essential partnership as OAG rebuilds its skill base but gradually more and more audit tasks will be performed internally. Other opportunities will exist for private sector firms as agencies are required to address their significant backlogs in financial reporting; and the increased effort in the preparation of these accounts will depend upon the private firms, as Ministries, Statutory Bodies and Provincial Governments are pressured through the Public Accounts Committee and other Parliamentary representations to ensure they provide a full accountability and financial reporting on their performance.

For audits that are, however, contracted out to private firms OAG has introduced a revised policy to ensure that it is responsible for the overall performance and quality of the job and as a result OAG staff will work closely in partnership with the firms and auditees and will liaise at critical times during audit engagements.

5.3 Contracting in 2007

During 2007 the following audits were contracted out to the private sector firms:

Auditee	Firm	Contract	Year	Amount \$
Central Bank of SI	PWC	2002-2007	2007	176,530
National Provident Fund	PWC	2002-2007	2007	142,500
PCERP	PWC	2002-2006	2006	74,200

CHAPTER 6 – CHALLENGES FOR 2008 AND BEYOND

6.0 What is Ahead for 2008

Having created an appropriate structure and recruited suitable staff the main challenge for OAG is to ensure the momentum is maintained as all local staff will require a significant level of training and capacity development before the OAG can move towards self sufficiency. The following particular challenges for 2008 are provided:

- **Provincial Audits** – As the Government emphasis on rural activities takes hold and the Provincial Governments begin to prepare accounts, OAG audit work outside Honiara will dramatically increase necessitating significant travel to the Provinces or eventual presence through an OAG Branch Network. The extent of utilisation of Accounting Firms in the Provincial audits is a further challenge. A strategy for audit coverage outside Honiara will be developed taking into account the cultural and geographical challenges associated with such an approach.
- **Parliamentary Relationships** – Following an enhanced relationship between the Parliament and the OAG through the active review by the Public Accounts Committee of audit reports and Estimates Committee hearings, OAG will work closely with the UNDP parliamentary support team to encourage greater scrutiny and effectiveness of this important Committee to enable the development of greater scrutiny of Ministry and entity performance.
- **SIG Accounts** – With the expected completion of the 2006 accounts in early 2008 the audit of the SIG accounts for subsequent years represents a challenge to OAG to work closely with the Ministry of Finance and Treasury staff to enable a gradual transition to more contemporary accounting presentation of accounts. Audits of all major Ministry systems will be undertaken and reports will be prepared for each Ministry and sub-system.
- **SOEs and Statutory Bodies** – As the SOE Project is expected to be implemented in 2008 the year should witness the commencement of the preparation of modified accounts for all outstanding SOEs for all years up to 2007 which will define the base year for going forward into a more comprehensive financial reporting process for future periods. The audits of the Statutory Bodies are outside this project and will require OAG intervention to achieve a satisfactory way forward for each using the audit resources of both OAG and local firms.

- **Capacity Development and Sustainability** – The intensive training and capacity building using the AusAID Capacity Building Framework has provided a foundation for future follow up training and evaluation during the next few years. The exposure to financial statement audits in a variety of auditees will provide all local staff with learning opportunities as they become more familiar with the audit methodology and systems testing. The detailed audit review process will provide valuable learning feedback for staff and enable continuous technical growth. In addition the encouragement and support of local staff to achieve degree status and beyond will provide foundations for the future OAG. Staff are being targeted for leadership development and will be provided appropriate technical support and mentoring as they take on more responsibilities and demonstrate achievement of the identified skills agreed in the OAG Skills Framework. Regular technical training and development for all staff will be provided to enable an accelerated exposure to contemporary audit practices to enable the identification of suitable staff for targeted advancement to senior positions within OAG.
- **Legislation Upgrade** – As mentioned previously in this Report a significant review was undertaken of the Public Finance and Audit Act and the next phase of the project is the drafting of the final legislation following approval by Cabinet of the main thrust and direction of the Bill. The eventual passing of the Bill and implementation of the ensuing changes will create further challenges ahead.

6.1 What will be different in three years time

What is planned to be different in three years time is that the underpinning institutional capacity development and support systems necessary to achieve strategic objectives will have been established, creating the foundations and environmental setting for a sustainable future. The dependency on RAMSI Technical Audit Advisors will have been significantly reduced.

Beyond the next three years, it will be necessary to consolidate, building on these foundations in a continuing effort to achieve the longer term objectives of reinstating the OAG as a self-sustaining and effective supreme audit institution.