



**SOLOMON ISLANDS GOVERNMENT**

**Special Audit Report into the Affairs of the**

**CIVIL AVIATION DIVISION OF THE MINISTRY OF  
INFRASTRUCTURE AND DEVELOPMENT**

Reported By

**Auditor General**

Office of the Auditor General

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## FOREWORD

### Background

I have pleasure in presenting this Report on a Special Audit into the financial affairs of the Civil Aviation Division of the Ministry of Infrastructure and Development.

The Ministry is responsible for the delivery of a range of civil aviation services and collects a range of revenues in the discharge of these responsibilities. In view of the importance of these services and a perception that revenues were not meeting targets, the Office of the Auditor General undertook a special audit of affairs of the Division.

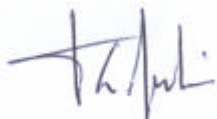
Under an agreement between Airservices Australia and the Solomon Island Government dated 27 April 1998 and a subsequent ten year contract from 21 May 2003 the former provided services in the management of upper air space for the Solomon Islands Government. Previous media and other referrals indicated a number of concerns in relation to the management of these contractual services.

### Audit

The audit disclosed many significant issues in the manner in which the Division had operated during the period of the agreement until late in 2005 when revised arrangements were introduced to provide a tighter control environment.

The Report contains numerous recommendations which have been accepted by the Division and where possible remedial action has either been taken or the matter is proposed to be taken up by an interdepartmental group.

This Report has taken a significant time to conclude and involved the coordination of several areas within the Ministry and matters emanating from the Government's contractual partner in Australia. The lack of adequate systems and processes and documentation to evidence and support key payments and decisions was a major concern and I have made a number of recommendations to provide a framework going forward for the Division.



Floyd Augustine Fatai  
**Auditor General**

**4 October 2006**



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## OVERVIEW

### Background

The audit of Civil Aviation Division of the Ministry of Infrastructure Development was in recognition of the important role it plays in regulating and supervising all matters connected with civil aviation within the Solomon Islands. It also, amongst other things:

- controls and manages aircraft and equipment necessary for the conduct of government aviation services;
- considers and advises the Minister on regulations as may be necessary for the control or operation of civil aviation in Solomon Islands and for the control or operation of aircraft registered in Solomon Islands;
- carries on after consultation with the Minister, such activities as appear to be necessary or desirable for or in connection with the exercise and performance of its functions.
- prescribes aerial routes;
- co-operates with the aviation authorities or staff of other governments or countries for any purposes pertaining to civil aviation.

The Audit was also in response to a perception that potentially fees and charges due under Civil Aviation Legislation, particularly the upper air space charges should have earned greater revenue than that reported and furthermore payments for goods and services had been lawfully made.

### Audit Objective and Scope

The principal objective of the audit was to perform sufficient audit work to obtain an assurance that fees and charges such as upper airspace charges, boarding, lighting and landing fees are being duly collected and brought to accounts in accordance with the legislation.

In addition expenditure in relation to the engagement of contractors and consultants by the Civil Aviation Division were examined encompassing the agreements and ensuring that the contracting processes were duly followed and payments made were lawful.

This Audit was prolonged due to the lack of supporting documents and records at Civil Aviation Division which made it necessary to obtain documents relating to upper airspace charges from Airservices Australia. In other cases cheques were required from various banks to reconstruct some records while it was necessary to carry out an intensive search for travel documentation at Solomon Airlines.

**Key Findings**

The Audit found:

**Upper Airspace Charges Agreement**

- ***Under an Agreement for the Supply of Services between Airservices Australia and the Solomon Islands Government dated 27 April 1998, Audit estimates that Airservices Australia:***
  - *Upper Airspace Charges processed contrary to the Constitution* - From records available to Audit the following table estimates the flight charges collected as from 27 April 1998 to 30 April 2005 and the areas the funds have been disbursed:

<b>Details</b>	<b>Amount \$ A</b>	<b>Estimated SBD \$</b>
Flight Charge Revenue	10.20M	51.00M
Interest on Investments	0.08M	0.40M
Funds Transferred to SIG Bank Accounts	3.45M	17.25M
Airservices Australia Management fees	3.88M	19.40M
Estimated Third Party Payments	2.2M	11.00M
Balance Airservices Account (Held in Australia)	0.725M	3.625M

The above funds were not processed through the Consolidated Fund and therefore were not in accordance with the Constitution.

- *Paid to Third Parties AUD\$2.2 Million (Est SBD\$11.00 M) as at 30 April 2005* based on requests from Solomon Island Government Officials and were either paid to individuals (in cash) or transferred to bank accounts either within the Solomon Islands or overseas. The practice effectively obscured visibility of the payments from Auditors and Treasury Officials in the Solomon Islands Government and in most cases Audit could not locate supporting documentation for these payments. This resulted in these funds being widely abused, resulting in suspected fraud and misuse of public monies. (See Section 11 Irregularities).

- *Offsetting of Debt by Solomon Airlines AUD\$36,500 (SBD\$182,500 est.)* – the aim was to set up a charge account for Civil Aviation at Solomon Airlines to offset the above amount – no evidence could be found at Civil Aviation or Solomon Airlines that this amount has been accounted for. The Charge Account at Solomon Airlines is now in the vicinity of SBD \$1 Million but no offset of the AUD\$36,500 had been made – the accounting treatment of offsetting these charges is contrary to the Public Finance and Audit Act and as a result revenue in the Government Accounts has been understated by AUD\$36,500, whilst expenditure was understated by SBD\$1M.
  
- *Non Compliance of Upper Airspace Agreement* - Payments to third parties were made on the basis of the Solomon Island Government issuing instructions to the Airservices Australia Representative who executed these instructions without a formal variation in writing being obtained under clause 10.8 of the Upper Airspace Agreement. These requests effectively changed the arrangements for payments of revenues specified at clause 3.2 (a) (4) of the Agreements (1998 & 2003) requiring Airservices to remit the remaining funds collected after deducting the Airservices Fees. In effect, Airservices should have acknowledged the request in writing and handled it as a formal variation. This has had the effect that:
  - While the Airservices Australia Representative obtained written authorities before making these payments he should have arranged for formal variations to the agreements in accordance with the relevant clauses in the agreement, and arranged for the relevant delegates to sign the variations. Furthermore, he had no formal financial delegation and did not have authority to authorise payments from the Solomon Islands Account held by Airservices Australia.
  - The Airservices Australia Representative changed the banking arrangements at the request of the Managing Director of Aviation Consultants International to have his fees paid into his personal bank account rather than the Company's Account without referring the matter to a relevant Solomon Islands Government Official for clarification, particularly as the initial request from the Solomon Islands Government was to have it paid into the Aviation Consultants Account.
  - The Solomon Island Government may have a claim against Airservices Australia particularly if it can be proved that the monies paid out were not strictly in accordance with the Agreement and that losses have been incurred by the Government.

**Director General Civil Aviation (DGCA) Solomon Islands Trust Accounts**

- *DGCA Solomon Islands Trust Accounts* – The undermentioned is a table reconstructed by Audit from available records of a summary of deposits and payments from 24 January 2002 (#4144289) and 14 February 2002 (#4146990) to March 2005.

<b>TRUST ACCOUNT REVENUE / EXPENDITURE SUMMARY</b>			
	<b>Account 4144289 (SBD\$)</b>	<b>Account 4146990 (SBD\$)</b>	<b>Total (SBD\$)</b>
<b><u>Deposits</u></b>			
Airservices Australia	7,331,460	4,314,648	11,646,108
Transfers from Account 4146990	1,860,044	0	1,860,044
Transfers from Account 4144289	0	212,825	212,825
Other Receipts	295,335	14,518	309,853
<b>TOTAL</b>	<b>9,486,839</b>	<b>4,541,991</b>	<b>14,028,830</b>
<b>TOTAL (minus Account Transfers)</b>	<b>7,626,795</b>	<b>4,329,166</b>	<b>11,955,961</b>
<b><u>Payments</u></b>			
Transfers to Account 4144289	0	1,860,044	1,860,044
Transfers to Account 4146990	212,825	0	212,825
Expenditure	8,752,516	1,829,003	10,869,539
<b>TOTAL</b>	<b>8,965,341</b>	<b>3,689,047</b>	<b>12,942,408</b>
<b>TOTAL (minus Account Transfers)</b>	<b>8,752,516</b>	<b>1,829,003</b>	<b>10,869,539</b>
<b>BANK ACCOUNT BALANCE</b>	<b>521,498</b>	<b>852,944</b>	<b>1,086,422</b>

- *Trust Accounts operated illegally* outside Section 100 (1) of the Constitution in that the funds were not processed through the consolidated fund and as such the government accounts for the period under review were understated by the revenue received and payments made.
- *The payments of SBD\$10.8M* are largely unsupported by relevant documentations with SBD\$2.1M from Account 4146990 not having any supporting documentation whatsoever and as such these monies are unaccounted for. The process has been left open to abuse and possible fraudulent activities.
- *Absence of trust deed or trust statement* - did not provide a clear authority for setting up the trust accounts nor state the necessary requirements of the trust accounts.

- *Inadequate financial management of Trust accounts* - Since the creation of the Solomon Island Trust Accounts a mechanism for financial management of the accounts has not been established such as cashbooks had not been maintained, no bank reconciliations were carried out and the operations were carried out by various parties with both accounts being overdrawn on a regular basis and attracted significant bank charges and of much greater concern millions of dollars worth of transactions cannot be supported by requisitions and payment vouchers and consequently have been subject to abuse.
- ***Director General Civil Aviation, (DGCA) Solomon Island Trust Account*** was opened by the DGCA in February 2002 and it was noted:
  - He authorised by fax for Airservices Australia to direct monthly AUD\$20,000 from the DGCA SI Account (#4144289) nominated in the Ministry of Culture, Tourism & Aviation letter dated 7 February 2002 to the Director General Civil Aviation SI (“Operations”) Account (#4146990). SBD\$4.5M was received as revenue into this account (SBD\$4.3M was transferred from Airservices Australia) that was not authorised to exist;
  - DGCA did not maintain accounting or supporting records and was basically controlled by him representing a complete breakdown in internal control procedures leaving the Account open to abuse and misappropriation of funds;
  - Audit obtained a sample of cash cheques (no supporting documentation) from this Account amounting to SBD\$66,500, whereby the DGCA had signed as having received SBD\$50,500 in cash and in one instance the DGCA was the only signing officer for a cheque amounting to SBD\$15,000 for which he collected the cash.

### **Engagement of Consultants**

- ***Overpayment of Contract Fees AUD\$70,000 (Est. SBD\$364,000)*** – Incorrect application of Annexure B of the “Terms of Agreement – Contract Fees and mode of payment” - while the overpayment was the responsibility of ACI and the Solomon Island Government it was exacerbated by many payments being made by Airservices Australia without full knowledge of the contract conditions;
- ***Lack of Supporting Documentation for AUD\$277,457 (Est. SBD\$1,387,285)*** - Clause 2 of the Agreement of Service provides for extra costs to be incurred by ACI in fulfilling the contract (as agreed by CAD) to be met and paid in full to ACI. Most of these costs were paid through Airservices Australia without identifying the expenses incurred or evidence of supporting documents.

- ***Non performance of contract*** - From Audit examination and independent advice of Government Officials there was a lack of performance by ACI in terms of Annexure A. This indicated poor contract management by the Government. It did lead to a temporary termination of the Contract which was subsequently reinstated, however, it resulted in the replacement of the Director of Civil Aviation (ACI Associate). This situation was exacerbated as most of the fee payments were made to ACI through Airservices Australia without determining whether the services had been performed.
- ***Deficiencies in Agreement of Services*** – the Agreement was not referred to the Attorney General and from Audit’s point of view should have contained aspects such as reporting requirements, contractor’s time input and monitoring processes.
- ***The appointment of Director General Civil Aviation*** – the appointment of a person who was seconded from ACI and was allegedly a Director of ACI (as suggested by the ACI website and other material) was contrary to Agreement of Service Annexure B- Paragraph 6 which states, among other things, that “the Consultant will be required to be independent of any potential supplier”. Audit was also concerned that:
  - ***Conflict of interest*** - in that Managing Director of ACI was reporting to the Director General Civil Aviation on operational matters while in many cases was requesting payments for the Managing Director of ACI through Airservices Australia and in some case authorising payments to ACI;
  - ***Irregular appointment process*** - was irregular in that the Public Service Department was notified only after the appointee was notified that he had been appointed as Director General of Civil Aviation;
  - ***Public Service Commission not notified*** - At the time of the Audit no evidence could be found that the appointment has been referred to the Public Service Commission (as the employing authority);
  - ***Funding of Director General’s Position*** - An amount of **SBD\$723,123** was paid to Director General even though it was stated that his package would be met by Overseas Funding Donors (although Audit was unable to identify who these donors were). However, according to the Permanent Secretary’s letter to the Managing Director of ACI dated 10 October 2002, it was indicated that the AUD\$4,000 monthly living allowance paid to the DGCA by the Solomon Island Government should be reimbursed from ACI’s monthly payments. Audit, however, found no evidence of the monthly allowance being reimbursed by ACI;
  - ***Director General’s Qualifications.*** - The post of Director General (Level13/SS1) requires a person to be holder of a Master of Bachelor of Aviation Degree or a Degree in Aviation Management from a recognised institution or equivalent. Audit could not locate evidence that the appointee held such qualifications;

- *Excessive Travel/Absence from Duty* - From evidence presented to Audit, the Director General often only spent three (3) days a week within the Solomon Islands undertaking his role as the Director General and the other days in Brisbane. This was evidenced in that Audit identified fifty (50) trips mainly (Honiara - Brisbane) amounting to an estimate of SBD\$268,284 being paid for by the Solomon Island Government which were outside any of the arrangements made and also contrary to the General Orders and Public Service Arrangements.

### **Airport/Airfield (Aerodrome) Maintenance**

- Mismanagement of Aerodrome Maintenance indicates that from available records SBD\$6.4M have been spent over budget between 2001 – 2005. Audit has noted that there is a serious breakdown in controls over this process together with a lack of relevant documentation supporting payments and contracts. A number of serious allegations have been made including:
  - Most contracts have been awarded by Civil Aviation Division prior to being submitted to the Ministry Tender Board for the formality of approving them;
  - Allegations of collusion, use of wantoks and demanding payments from contractors by Civil Aviation employees;
  - Allegations of collection of payments from Treasury by Civil Aviation employees instead of contractors.
- The Audit has recommended a number of cases be referred for investigation in relation to determining whether criminality is involved. It has also led to numerous overpayments being made and many suspicious contracts being let. The following are some of the issues noted:
  - SBD\$423,980 was transferred from Airservices Australia (Solomon Islands Trust Account) in Australia to commercial bank accounts of individual contractors in Honiara and Australia without determining whether services were performed and in some cases resulting in duplicate payments.
  - Contract agreements were not obtained in the engagement of many contractors, for example some 50 contractors were engaged at Henderson Airport with only 22 of them had contract agreements and as such around SBD\$2.0M dollars worth of aerodrome expenditure (both maintenance and infrastructure) were not supported by any contract agreement.
  - No guidelines for the maintenance of aerodromes could be located nor was there evidence that Civil Aviation Division or Provincial Governments monitored the maintenance to ensure that it had been conducted to an acceptable standard.
  - Awarding of Contracts and the Engagement of Contractors in most part did not comply with the Financial Instructions requiring quotations and tenders to be obtained. This has resulted in some suspected fraudulent activities and has left the system open to abuse.

- Changeover of contractors prior to the existing contract agreement ceasing, requires the contracting organisation to demonstrate unsatisfactory provision of service by the original contractor. Instances were noted where contracts were terminated prior to expiry date with another contractor engaged, and/or another contractor was appointed whilst an existing contractor's agreement remained valid. This has led to inadequate contract management, from improper or fraudulent undertakings, has resulted in either duplication of contract (and payment) or payment of compensation for breach of contract. Furthermore there are serious allegations against Civil Aviation officers that they utilised their positions for personal gain.
- Contract Register should be maintained to enhance management and payment of contracts; review of rates indicates an inconsistency in the application of rates (without utilisation of standard formula) is viewed as bias towards some contractors; inconsistencies and inadequacies in the format and content of contracts with no review process through the Attorney General.
- Approval of contracts and authority to incur expenditure in many cases were not signed by the Permanent Secretary (Accounting Officer) most approvals for contracts were signed off by former Directors General without the relevant authority; under Financial Instruction 529 (4) five copies of the contract agreements should be distributed to, amongst others, the Accountant General and Auditor General for scrutiny, however, this was not carried out.
- Inadequate payment and accounting controls; misallocation/mis-posting to the airfield account; contractor paid without evidence confirming that the airfield maintenance has been satisfactorily performed; no supporting documentation; general payment vouchers could not be found at Civil Aviation and Treasury for 2003 and many other vouchers could not be located for 2001, 2002, and 2004.
- Arrears Payments to contractors were as follows:

<b>Airports</b>	<b>2004 SBD\$</b>	<b>2005 SBD\$</b>	<b>2006 SBD\$</b>
Henderson Airport	231,000	553,200	516,367
<b>Provincial Contractors</b>	243,502	255,350	35,000
<b>TOTAL</b>	<b>474,502</b>	<b>808,550</b>	<b>551,367</b>

#### **Civil Aviation Staff Welfare Fund**

- Staff Welfare Fund was established from a SBD\$30,000 cheque from the DGCA SI Trust Account to provide staff with advances due to the non payment of salaries. The following aspects were noted:
  - No authority to establish the account could be located from CAD records or the ANZ Bank, nor could Audit identify the approved signatories;

- SBD\$30,000 advanced to pay staff for the non payment of salaries; there was not evidence that this was repaid although further advances were made in a form of loans to the staff and to date SBD\$28,700 is outstanding but promissory notes to repay loans to the value of \$24,450 have been obtained while the rest is unaccounted for;
- SBD\$595,000 Harassment Claims were paid in accordance with a Cabinet decision dated 19 March 2003, however, no proper records were maintained of the distribution of these funds and the Police are investigating complaints that some employees did not receive their entitlements.

### **Revenue**

- Control over the collection and recording of revenue within Ministry of Infrastructure and Development (MID) Civil Aviation is inadequate in that:
  - Appointment of Collector in accordance with Financial Instruction 99 has not been carried out;
  - Register of General Treasury Receipts (GTRs) has not been maintained in accordance with Financial Instruction 109;
  - Original copy of cancelled receipts are not retained and attached in sequence to the appropriate pay-over slip to Treasury;
  - Delays in recording revenue onto the GTRs and entry into the Cashbook;
  - Significant delays occurred in the pay-over of revenue to the Central Revenue Collection (CRC) point;
  - Refunds of revenue have been paid over the counter in cash if the funds have yet to be paid to CRC – Treasury contrary to Financial Instructions 94 – 97.

### **Boarding Charges**

- Controls over the collection of SBD\$40.00 boarding charges fees for each passenger are deficient and are open to abuse and fraudulent activities in that:
  - Collection of boarding charges are carried out on some occasions by unappointed collectors, funds collected from airport are not receipted, nor entered into a cashbook in a timely manner, pay-over to central Treasury in most cases are seriously delayed; the cashier has no facility to keep cash at the airport and there is a complete lack of supervision over these processes;
  - Register of Boarding passes was not properly maintained by the responsible officers resulting in stickers not being properly accounted for;
  - There has been no reconciliation of the General Treasury Receipts (Collections) against the stickers issued on a regular basis to ensure that both the stickers and cash are properly accounted for.

## Lighting Fees

- Control breakdowns in the collection of Lighting Fees:
  - Incompleteness of CAD raising CA5 Forms (Notification of Provision of Aerodrome Lighting and Charges) for aerodrome lighting fees and Audit has estimated that SBD\$41,520 between November 2002 and December 2004 should have been collected but was not;
  - CA 5 Forms were originally pre-numbered which enabled the series of forms to be regularly accounted for, however, more recently CA 5 Forms do not have any serial numbering which could result in uncharged lighting fees;
  - There is no mechanism in place to ensure that all CA5 Forms raised have been incorporated in the compilation of debit notes resulting in charges not being raised; there has been significant delays (some up to 17 months) in debit notes being raised for the provision of the lighting fees, there is no debit note register and a general lack of proper record keeping, resulting in a lack of follow-up action to recover outstanding debts;
  - Lighting fees collections within the budget estimates of SBD\$7.6M between 2001 – 2004, which Audit considers to be very excessive and as such proper, budgeting mechanisms should be put in place.

## Landing Fees

- Landing charges collections is a responsibility of Customs and the following deficiencies were noted:
  - Customs are required to maintain an Aircraft file for each aircraft (for both landing and take off), however, many files were not available for Audit review for the period 2001 – 2005, thus impeding the calculation of landing charges;
  - Aircraft Registers for 2001 and for the period September – December 2002 were not available for examination;
  - Invoices are not issued based on the sequence of the Port Rotation Numbers – PRN (i.e. aircraft landing sequence) as a result flights might be invoiced twice or not invoiced at all and
  - Outstanding Landing Charges amounting to SBD\$420,440 has been outstanding since 2004.

## Irregularities

- Payments made to third parties by Airservices Australia, at the request of Civil Aviation Division personnel, into private bank accounts and in cash have been widely abused with funds being unaccounted for including purchase of vehicles.
- Maintenance Contracts for Henderson and Provincial Airports have critical management breakdowns resulting in significant overpayments and suspected fraudulent activities.
- Inadequate management of Trust Accounts have resulted in a lack of proper documentation and appropriate controls resulting in overpayments and unaccounted for funds.

- Engagement of consultants lack proper monitoring with an overpayment amounting to AUD\$70,000 together with a number of irregular payments.

### **Conclusion**

The audit of Civil Aviation Division revealed many serious shortcomings in procedures and practices as well as deficiencies in internal controls. Many critical records were not available to Audit and this has led to a lack of transparency and accountability in a number of key areas within the Civil Aviation Division. Some of these areas included:

- Third party payments from the collection of Upper Airspace charges by Airservices Australia;
- The poor management of the Director General's Trust Accounts;
- Widespread irregularities in the management of maintenance contracts for Henderson and Provincial Airports;
- Engagement of consultants were badly managed which has led to a lack of evidence that they have performed the contracted services as required; overpayment of fees and a lack of transparency and accountability in a number of financial transactions;
- Leakages in the collection of fees and charges under the Civil Aviation Legislation

Due to the lack of and incomplete records, Audit has had to reconstruct, where possible, many records so as to identify an audit trail and to assess a wide range of transactions.

Audit has estimated for the period 1998 to 30 April 2005 a total of AUD\$10.5M (Est. SBD\$52.5M) upper airspace charges have been collected by Airservices Australia and of that AUD\$2.2M (Est. SBD\$11.0) was expenditure paid directly to third parties by Airservices Australia either directly to the bank accounts or by cash. In the main, Audit could not account for a large proportion of these funds, with cases of suspected fraud in this area outlined in the Report. These payments lacked transparency and accountability and were contrary to clause 3.2 of the Agreement to the Supply of Services Agreement. In the absence of a formal variation to the contract required by 10.8 of the Agreement, it is considered that the Solomon Island Government may have a claim against Airservices Australia. Third party payments by Airservices have now ceased.

It has been estimated by Audit that SBD\$11.96M has been processed through the Director General Civil Aviation Accounts (DGCA) (# 4144289 & #4146990). The sources of the funds for these Accounts mainly came from Airservices Australia (SBD\$11.65M) with these Accounts operating outside of the Consolidated Fund, which is contrary to the Constitution. In the main, payments made from the Trust Accounts were not supported by the relevant documentation and as such were unaccounted, with a number of overpayments (resulting from duplicate payments) identified, together with suspected frauds. It is of note that DGCA Trust Account (#4144289) has been legalised (renamed Aviation Special Fund) by the Parliament and gazetted on the 31 October 2005, however, Trust Account 4146990 has not been legalised and should be closed.

The management of maintenance contracts for Henderson and Provincial Airports (Estimated to be SBD\$9.8 M – 2001 - 2005) was very unsatisfactory with widespread non compliance of the Public Finance and Audit Act and a complete lack of accountability with suspected corrupt and fraudulent activities by government officials.

The engagement of consultants by Solomon Islands Government were inadequately managed which has led to a lack of evidence that they have performed the contracted services as required; overpayment of fees and a lack of transparency and accountability in a number of financial transactions.

Leakages in the collection of fees and charges under the Civil Aviation Legislation, such as boarding charges, landing fees and lighting fees have been noted due to the lack of proper accounting records and internal control procedures. It is considered a significant increase in charges and fees would be collected with the enhancement of internal controls and the maintenance of proper accounting records.

### **Overall Recommendations**

It is considered that a special team (with assistance of a donor agency) from Civil Aviation Division should be established to:

- address the recommendations made in the Report;
- recover overpayments made to various payees estimated to be in the vicinity of SBD\$1.5 to \$2M;
- examine the contractual arrangements (through the Attorney General's Office) with Airservices Australia and Aviation Consultants International to determine whether any claims can be made against these Organisations or whether any other action should be taken;
- refer matters to the relevant authorities to determine whether criminality is involved with regards to some of the irregularities.

### **Permanent Secretary's Response**

In a response dated 8 June 2006 the Permanent Secretary advised that the effort made by the Audit team is worth commending, given the lack of documentation or materials to support the payments from the Trust Account.

The seriousness of the irregularities contained in Chapter 11 of the report will be further pursued and where criminality is suspected those will be referred to the appropriate authorities to further investigate, namely the Office of the Director of Public Prosecution.

As discussed, a three person committee to comprise of Public Service, Finance and Attorney Generals Chambers will need to be established to deal with some of the recommendations that can be dealt with to strengthen the practices and procedures within Aviation.

A copy of the response is included at Attachment A to this Report.

## **1. INTRODUCTION**

### **1.1 Background**

The Auditor General, pursuant to the provision of Section 108 (3) of the Constitution as read with Section 36 (2) (b) of the Public Finance and Audit Act has authorised the staff of Internal Audit (Ministry of Finance) and Office of the Auditor General to conduct the audit of Civil Aviation. This audit was in recognition of the urgent need for the Solomon Islands Government to improve revenue collection and in response to a perception that there are significant leakages of Civil Aviation revenues due to the inadequacies of internal procedures.

### **1.2 Mandate**

The Public Finance and Audit Act provide that the Auditor General “shall have and may exercise all the powers and authority and shall perform the duties conferred and imposed upon him by this Act and by section 108 of the Constitution.”

### **1.3 Legislation**

Civil Aviation is part of the Department of Communication, Aviation and Meteorology and operates under the Civil Aviation Act (Cap 47). It also includes the National Regulations and Requirements as prescribed in the “Aeronautical Information Publication”.

### **1.4 Audit Objectives and Scope**

The principal objective of the audit was to perform sufficient audit work to ensure that proper administration of Solomon Island Civil Aviation Laws were being implemented and that all the fees and charges were being duly collected and brought to account in accordance with the Legislation.

In the case of Upper Airspace Charges it was necessary for Audit to visit Airservices Australia to obtain necessary records and documents to support payments made directly to various stakeholders by Airservices Australia.

## 2. AIRSERVICES AUSTRALIA – UPPER AIRSPACE AGREEMENT

### 2.1 Background

On 27 April 1998, Airservices Australia and the Solomon Islands Government entered into an Agreement for the Supply of Services. Pursuant to the Agreement, in paragraphs C and D of the Recitals, the following was stated:

- “C *The Solomon Islands Government desires that Airservices Australia manage Solomon Islands airspace above flight level 245 and collect charges on its behalf from the Aircraft.*
- D *Airservices Australia intends to carry out further works for the Solomon Islands Government to promote and advance aviation expertise in the field of airspace management in the Solomon Islands. It is intended that this Agreement will be the initial phase of those works.*”

The Agreement covered a period of five (5) years from the date the parties agreed as commencement date which was 27 April 1998. This contract was extended on 21 May 2003, for a period of ten (10) years (with these two agreements hereby referred to as the Agreement unless specified otherwise).

Clause 2.2 of the Agreement provides that Airservices Australia will, for payment and any other consideration required under the Agreement:

- (1) *provide the Services;*
- (2) *collect the charges from the Aircraft on behalf of the Solomon Islands Government;*
- (3) *provide and maintain all necessary facilities for the effective conduct and management of its obligations under the Agreement; and*
- (4) *fulfil all other obligations under the Agreement.*

Clause 3.2 of the Agreement provides, amongst other things, that:

- (a) *Airservices Australia will:*
  - (1) *collect the Charges from the Aircraft in the manner and in the form provided for at Schedule 2 (of the Agreement);*
  - (2) *render to the Solomon Islands Government within seven days of the last day of each month:*
    - (A) *a financial report including a summary of charges invoiced to individual operators; and*
    - (B) *an invoice for Services provided during all or part of the month;*

- (3) *deduct from all Charges collected, amounts invoiced pursuant to clause 3.2 (a) (2) (B):*
- (4) *remit the remaining funds collected amounts pursuant to clause 3.2(a)(1), if any, to the Solomon Islands Government not later than 60 days after the Charges have been collected for the relevant month:*
  - (A) *in the form as set out at Schedule 4; and*
  - (B) *to the account specified in Schedule 5.*

Clause 6.1 of the Agreement nominates the Airservices Australia Representative and discusses the relationship between Airservices and the Solomon Islands Government.

Revenue derived from upper airspace charges approximate AUD\$1.5 million per annum, which is partially offset by Airservices Australia service provision fees currently totalling AUD\$540,000 per annum. Revenue collected by Airservices Australia from the international air-carriers is deposited into a Commonwealth Bank of Australia (CBA) bank account held by Airservices (named the Airservices Australia – Solomon Island bank account).

#### **Airservices Australia**

The Office of the Auditor General would like to thank Airservices Australia for their assistance during the Audit and note that it has offered any further assistance to trace evidence of payments and/or assistance in recovering losses of public money.

It is of note that the payments to third parties were identified by Airservices Australia through their internal control procedures in 2003 and was stopped immediately at that time.

## 2.2 Summary of Audit Findings and Recommendations

A summary of Audit findings and recommendations are noted below:

### 2.2.1 Collection and Disbursement of Upper Air Space Charges

From available records the undermentioned is a summary of Airservices financial transactions and the amount Audit considers that have been paid to third parties:

<b>Transaction Type</b>	<b>Total to 30 April 2005 (AUD\$)</b>
Flight Charges Revenue	10,446,785.99
Interest from Investments	80,665.45
Credits and write offs	(255,185.53)
Bank Charges	(2,778.95)
Funds Transferred to SIG Bank Accounts	(3,451,186.00)
Airservices Australia Fees	(3,888,975.00)
<b><i>Sub Total</i></b>	<b><i>2,929,325.96</i></b>
Bank Balance at 30 April 2005	725,412.22
<b><i>Estimated other Expenditure from Airservices Account</i></b>	<b><i>2,203,913.7</i></b>

At the commencement of the Agreement, Airservices Australia was incurring expenditure directly from the CBA bank account at the request of Civil Aviation (on behalf of SIG). These funds, as shown in the above table, approximating AUD\$2.2 million, were either provided to individuals (in cash) or transferred to bank account(s) either within the Solomon Islands or overseas. As a result of the uncertainty over the flow of funds, an Internal Inquiry Committee was instigated to investigate allegations of misappropriation of these funds. The report highlighted several specific recommendations for implementation, including opening an account with a commercial bank within the Solomon Islands, in which funds requested from Airservices Australia (by Civil Aviation) would be paid into so as Civil Aviation Division (CAD) could incur their own expenditure.

The implication is that the collections as per Agreement for the Supply of Services were not forwarded to Solomon Island Government and therefore not paid into the Consolidated Fund in accordance with the Constitution. This process has led to a substantial loss of Government funds.

**Recommendation 1**

The processing of payments through Airservices Australia has now ceased but a substantial amount of the AUD\$2.2 M was open to abuse and we recommended that CAD, where possible, follow up matters outlined in the Report in order to recover monies and ensure that any abuse is referred to the appropriate authorities for investigation.

### 2.2.2 No Formal Variation in Writing Obtained under Clause 10.8 of the Agreement for the Supply of Services.

The undermentioned are the bank accounts the above transactions were processed through:

Bank Accounts	Details
Airservices Australia's Commonwealth Bank Account (# 064008 – 10010010887)	This is the Airservices Australia main operating account and was referred to in both the April 1998 and May 2003 Agreements.
Airservice Australia's Commonwealth Bank Solomon Islands Account (# 064008 – 010515959)	Used to collect and disburse revenues collected under the Agreement but this is not listed in either April 1998 or May 2003 Agreements – the account is based in Brisbane.
Central Bank of Solomon Islands (CBSI) Government Revenue Deposit Account (# 0260 – 002)	A Honiara based account designated in the April 1998 agreement in which revenues for the Solomon Island Government were to be paid. Payment to this account ceased in February 2002.
DGCA SI Trust Account (# 010950 – 414289) with the ANZ Bank	A Honiara based account in which monthly payments of AUD\$20,000 were made following a request by the Honourable the Minister (signed by Permanent Secretary) on 7 February 2002 not to make payments to the Central Bank of the Solomon Islands Government Revenue Deposit Account (# 0260 – 002), after initial letters from the PS and DGCA on 16 January and 22 January respectively.
Director General Civil Aviation SI Trust ("Operations") Account (# 010950 – 4146990) with the ANZ Bank	A Honiara based account into which monthly payments of AUD\$20,000 were made following a request by the Director General not to make these payments to the DGCA SI Trust Account (# 010950 – 414289).
Third Party Bank Accounts	These are payments made by Airservices Australia to private banks accounts at the request of Solomon Island Government officials.

The above changes in arrangements were the result of the Solomon Islands Government issuing instructions to the Airservices Australia Representative who executed these instructions without a formal variation in writing being obtained under clause 10.8 of the Agreement.

The following examples relate to the details of these changes in relation to government accounts:

Agreement	Change of Arrangements	Comments
<p>Clause 3.2 of the April 1998 Agreement required Airservices to remit the remaining balance of the Airservices Account (# 064008 – 010515959 to Solomon Islands Government Revenue Deposit Account (# 0260-002 with CBSI.</p>	<p>On 27 October 1998, Walter Ramo, the Permanent Secretary of the Ministry of Transport, Works, Communication &amp; Aviation forwarded a fax to the Airservices Representative. The fax requested that the disbursement of revenue under the contract be amended as follows:</p> <ul style="list-style-type: none"> <li>▪ that Airservices deduct its monthly fee;</li> <li>▪ that Airservices transfer AUD\$20,000 each month to the Solomon Islands Government Revenue Account and</li> <li>▪ Airservices Australia retain all revenue remaining after deducting its monthly fee and the payment to the nominated government bank account against the cost of goods and services to be provided by Airservices Australia under the contract being developed for the GPS domestic airways system.</li> </ul> <p>On 16 January 2002 the Permanent Secretary authorized the payment of AUD\$25,000 into the newly established Aviation Trust Account which was supported by a letter from the DGCA with the bank account details. These letters were further reinforced by a letter on 7 February 2002 from the Minister - signed by the Permanent Secretary providing authorization to redirect AUD\$20,000 from the Central Bank of the Solomon Islands into the DGCA SI Trust Account (# 010950 – 414289).</p>	<p>The request effectively changes the arrangements for payment of revenues specified at clause 3.2(a) (4) of the April 1998 Agreement, requiring Airservices to remit the remaining funds collected after deducting Airservices fees.</p> <p>The request should have led to a formal contract variation in accordance with Clause 10.8 of the Agreement.</p> <p>The request should have led to a formal contract variation in accordance with Clauses 10.8 of the Agreement.</p>
<p>Clause 3.2 of the May 2003 Agreement required Airservices to remit the remaining balance of the Airservices Account (# 064008 – 010515959 to DGCA SI Trust Account (# 010950 – 414289) with ANZ.</p>	<p>On 5 November 2002, the DGCA on behalf of the Civil Aviation Solomon Islands forwarded a fax to the Airservices Representative providing authority to make payment of standard AUD\$20,000 into the Director General Civil Aviation SI (“Operation”) Account (# 010950-4146990) in lieu of the DGCA SI Trust Account (# 010950 – 414289). It was noted that after the Agreement was negotiated in May 2003, funds transferred from Airservices continued to be deposited to the Director General Civil Aviation (“Operation”) Trust Account (# 414 6990), not the DGCA SI Trust Account (# 4144289).</p>	<p>The request should have led to a formal contract variation in accordance with Clauses 10.8 of the Agreement. It was noted that after the new agreement was negotiated in May 2003, these remittances continued to go to the DGCA “Operation” Account (#4146990), not the DGCA SI Trust Account (# 4144289) as specified in the Agreement.</p>

It was noted that Airservices Australia was incurring expenditure directly to third parties from the CBA bank account (# 064008 – 010515959) at the request of Civil Aviation, in addition to fund transfers to bank account(s) within the Solomon Islands.

Audit has estimated that AUD\$2.2M has been paid by Airservices Australia to third parties either in cash or into private banks accounts (individuals/businesses) contrary to Clause 3.2 of the Agreement.

Airservices Australia Representative in some instances made withdrawals utilising his corporate credit card to make cash payments to individuals (eg. cash was paid to three persons of AUD\$2,100, AUD\$400 and AUD\$500 respectively from his corporate credit card whilst they were in Brisbane). These withdrawals were subsequently reimbursed from the Airservices Solomon Islands Account.

The table below shows the type of payments made to Third Parties:

Recipients of Payments	Contrary to the Agreement for the Supply of Services	Comments
Aviation Consultants International (and Associates)	Contrary to Clause 3.2 of the Agreement and no formal variation in writing obtained under Clause 10 of the Agreement.	The Managing Director of ACI and the DGCA – ACI received direct payments without supporting documentation apart from the payment request; the former changed the arrangements for his consulting fee to be paid into his personal account and not ACI's account; contributing factor (not the main reason) in substantial overpayment to him for consulting fees (See Section 4); from correspondence there appeared to be close working relationship between Airservices Representative and the Managing Director of ACI and the DGCA.
Solomon Island Students in Australia, New Zealand, Fiji and Vanuatu for tuition, living and other expenses.	Contrary to Clause 3.2 of the Agreement and no formal variation in writing obtained under Clause 10 of the Agreement.	Tuition, living and other expenses were paid to a number of students, with little control over the payments.
Solomon Island Officials for travelling and other purposes.	Contrary to Clause 3.2 of the Agreement and no formal variation in writing obtained under Clause 10 of the Agreement.	Many payments were made to Solomon Island Government Officials for travel and in a number of cases these were abused.
Other entities (individuals and businesses).	Contrary to Clause 3.2 of the Agreement and no formal variation in writing obtained under Clause 10 of the Agreement.	Involved contractors and others with these funds also abused.

The above requests effectively change the arrangements for payment of the revenues specified at clause 3.2(a) (4) of the Agreements (1998 & 2003), requiring Airservices Australia to remit the remaining funds collected after deducting the Airservices fees. These instructions should have led to a formal contract variation in accordance with Clauses 10.8 of the Agreement. That is, Airservices Australia should have acknowledged the request in writing and handled it as a formal variation.

Furthermore the implications resulting from these changes in arrangements stated in the Agreements have resulted in controls being lost over these funds in particular by the Solomon Islands Government:

- These practices have effectively obscured the transparency of the payments made to third parties, from the view of Government Officials and Auditors located within the Solomon Islands Government; and
- Contributed to irregular transactions taking place resulting in a loss of Government funds.

It is Audit's view that the non-compliance of Section 10.8 of the Agreement for the Supply of Services by Airservices Australia may warrant action to be taken by the Solomon Islands Government to recover monies from Airservices Australia that were lost through payments made to third parties etc. It is of note that clause 10.5 provides for a dispute resolution.

### **Recommendation 2**

We recommended that:

- This matter be referred to the Attorney or Solicitor General to determine what action might be taken, if any, against Airservices Australia to recover losses of public monies; it is of note that Clause 10.5 provides for a dispute resolution. It is of note that Airservices Australia has indicated that it is willing to engage in discussions in an attempt to resolve any issues.
- Any variations in the terms and conditions of the current Agreement be in writing and signed for and on behalf of both Airservices and the Solomon Islands Government in accordance with clause 10.8 of the Agreement. It is of note that third party payments ceased in September 2003 and since then any variations have been documented in accordance with the Agreement.
- Payments by Airservices Australia be deposited to the DGCA SI Trust Account (# 4144289) as reflected in the Agreement.
- In relation to financial matters that Civil Aviation deals directly with the delegated person within the Accounts Section of Airservices Australia rather than the Business Development Manager.
- In the view of the establishment of the Aviation Special Fund (See Section 3) some aspects of the Agreement between Airservices Australia and the Solomon Island Government may need to be reviewed.

### 2.2.3 Upper Airspace Charges AUD \$36,170 Offset by Solomon Airlines

On 9 July 2003, discussions were held between the Department of Civil Aviation Solomon Islands and Solomon Airlines Chairman and board members to offset the current debt of AUD\$36,170 owing by Solomon Airlines to Department of Civil Aviation (collected by Airservices Australia) for upper airspace charges.

Through discussion with Solomon Airlines personnel it was indicated that the Civil Aviation Division (CAD) Account with Solomon Airlines was authorised by the former Chairperson of Solomon Airlines and according to the Solomon Airlines Debtors System, the CAD Account (Customer No CAD01) was created on 15 August 2003.

Correspondence between Airservices Australia and the Director General Civil Aviation during July 2003 indicates that the Upper Airspace Charges owing by Solomon Airlines to Airservices Australia (on behalf of Civil Aviation) amounting to AUD\$36,170.18 (on 9 July 2003) were to be transferred into a charge account operated jointly by the Department of Civil Aviation and Solomon Airlines solely for the benefit of Departmental travel (i.e. offset the Solomon Airlines debt for Civil Aviation travel). Although the amount of AUD\$36,170.18 was to be written-off by Airservices Australia, there is no evidence that this amount had been transferred into the CAD Account with Solomon Airlines.

The current amount identified to be outstanding by Civil Aviation in the Solomon Airlines CAD Account is SBD\$1,015,019.32. Audit has noted that this account has a number of irregular transactions in it and these are set out at Section 11 - Irregularities.

The implication is that the upper airspace charge of AUD\$36,170 does not appear to be accounted for by Civil Aviation and Solomon Airlines. Furthermore, the accounting treatment (offsetting) of these charges were contrary to the Public Finance and Audit Act and as a result the revenue in the Government Accounts has been understated by AUD\$36,170, whilst the expenditure has been understated by SBD\$1M.

#### **Recommendation 3**

At the time of the Audit an amount of SBD\$1,015,019 was owed by Civil Aviation, however, there was no indication that the AUD\$36,170 (SBD\$182,500 approximately) had been taken into account. We recommended that Civil Aviation ensures that this amount is accounted for before paying the outstanding account.

#### 2.2.4 Irregularities

Audit noted a number of irregularities where Airservices Australia had paid money into third parties bank accounts and relating to various activities including:

- Air travel and parodies;
- Contractors for Airport/Airfield Maintenance;
- Sponsorship Training
- Purchase of Equipment;
- Payments to Aviation Consultants International (ACI)

Details of these irregularities and contained in Section 11 Irregularities.

### **3. OPERATION OF THE DIRECTOR GENERAL CIVIL AVIATION (DGCA) SI TRUST ACCOUNTS**

#### **3.1 Introduction**

A Trust Account was set up based on the recommendation by the Internal Inquiry Committee formed by Public Service Department of the Office of the Prime Minister. This followed allegations of mismanagement or abuse of funds that were paid to third parties, at the request of Civil Aviation officials, from funds held by Airservices in Australia.

The Internal Inquiry Committee recommended that only the Permanent Secretary should request funds from the Trust Account on the approval of the Honourable Minister responsible for Civil Aviation.

On the 21 September 2001, the then Permanent Secretary of Public Service Department wrote to the Airservices Representative, stating that the Trust Account would be administered by the Accountant General, the Chief Accountant for the Ministry responsible for Aviation Division, Director of Civil Aviation, and Permanent Secretary for Civil Aviation.

On 24 September 2001, the former Permanent Secretary of the Public Service Department advised the Ministry of Culture, Tourism and Aviation to liaise with Ministry of Finance for permission to open and operate a bank account with any commercial bank. The signatories to this account were stated to be the Accountant General, the Chief Accountant for the Ministry responsible for Aviation Division, Director of Civil Aviation, and Permanent Secretary for Civil Aviation with any three of the above four signatories to sign at one time to enable the release of funds.

On 16 January 2002, the former Permanent Secretary of the Ministry of Culture, Tourism & Aviation forwarded a fax to the Airservices Representative. The fax authorized Airservices to pay AUD\$25,000 to a bank account to be operated by the Solomon Islands DGCA. The bank account details were to be advised. On 22 January 2002, the Civil Aviation Solomon Islands forwarded a fax to the Airservices Representative confirming the account details for the payments. On 7 February 2002, the Minister for Culture Tourism & Aviation forwarded correspondence to the Airservices Representative confirming the arrangements. The correspondence was signed on behalf of the Honourable Minister by the Permanent Secretary.

In summary:

- This Trust Account commenced operations on 24 January 2002 and it was not formally authorised;
- The Agreement of Service signed on 21 May 2003 provided for Airservices Australia to remit, after approved costs, all remaining revenues to this Trust Account, however, Audit noted that funds from Airservices Australia were remitted to this account prior to the signing of the Agreement of Service;
- On 7 February 2002 the former Minister authorized to redirect monthly payments of AUD\$20,000 to this account.

The undermentioned findings were noted in the operations of the Trust Account:

### 3.2 Summary of Audit Findings and Recommendations

The following is a summary of audit findings and recommendations:

#### 3.2.1 Transactions Outside the Consolidated Fund

The following is a summary of transactions in relation to the two Trust Accounts until March 2005:

<b>TRUST ACCOUNT REVENUE / EXPENDITURE SUMMARY</b>			
	<b>Account 4144289 (SBD\$)</b>	<b>Account 4146990 (SBD\$)</b>	<b>Total (SBD\$)</b>
<b><u>Deposits</u></b>			
Airservices Australia	7,331,460	4,314,648	11,646,108
Transfers from Account 4146990	1,860,044	0	1,860,044
Transfers from Account 4144289	0	212,825	212,825
Other Receipts	295,335	14,518	309,853
<b>TOTAL</b>	<b>9,486,839</b>	<b>4,541,991</b>	<b>14,028,830</b>
<b>TOTAL (minus Account Transfers)</b>	<b>7,626,795</b>	<b>4,329,166</b>	<b>11,955,961</b>
<b><u>Payments</u></b>			
Transfers to Account 4144289	0	1,860,044	1,860,044
Transfers to Account 4146990	212,825	0	212,825
Expenditure	8,752,516	1,829,003	10,581,519
<b>TOTAL</b>	<b>8,965,341</b>	<b>3,689,047</b>	<b>12,654,388</b>
<b>TOTAL (minus Account Transfers)</b>	<b>8,752,516</b>	<b>1,829,003</b>	<b>10,581,519</b>
<b>BANK ACCOUNT BALANCE</b>	<b>521,498</b>	<b>852,944</b>	<b>1,374,442</b>

Section 100(1) of the Constitution provides that all revenues or other moneys raised or received by or for the purposes of the Government shall be paid into and form part of the Consolidated Fund.

From early 2002, the DGCA and Director General Civil Aviation (“Operation”) SI Trust Account(s) were established to transfer upper airspace revenue funds collected by Airservices Australia to Civil Aviation in which expenditure was to be undertaken primarily within the Solomon Islands. Review of Airservices expenditure schedules and transactions through the Solomon Islands Trust Accounts, noted that expenditure was undertaken concurrently from the Trust Accounts in both Australia and in the Solomon Islands.

Details of the two Solomon Island Trust Accounts (cheque operated) opened in 2002 to enable the transfer of funds from Airservices, are as follows:

Account Name	Account #	First Operated
DGCA SI Trust Account	4144289	24 January 2002
Director General Civil Aviation SI Trust Account	4146990	14 February 2002

The operation of these two Trust Accounts currently falls outside the Consolidated Fund, are not regarded as “special funds” under the Constitution and have not been formally authorised.

As these Accounts do not comply with the Financial Framework, it was intended to bring them within the provision of the Public Finance and Audit Act by way of an administrative directive by the Minister for Finance pursuant to the Act. However, advice from Attorney General is that Parliament can only validly create Special Funds and the Public Finance and Audit Act only delegates vesting powers (setting aside funds) to the Minister.

The implication is that the operation of the Trust Accounts are illegal in that they are contrary to Section 100 of the Constitution and the Public Finance and Audit Act and all the transactions mentioned in the summary of expenditure and revenue have not been processed through the Consolidated Fund and has therefore not been included in the Government Accounts.

#### **Recommendation 4**

We recommended that although the DGCA SI Trust Account (#4144289) has subsequently been legalised (renamed as the Aviation Special Fund) through gazettal on the 31 October 2005, the Director General Civil Aviation SI Trust Account (#4146990) had not been legalised at the time of the Audit and the bank account should be closed.

### 3.2.2 Absence of Trust Deed or Trust Statement

In setting up of the Trust Account there should have been a Trust Deed or Trust Statement outlining the purpose and administration of the Account.

Audit noted that:

- A Trust Deed or Trust Statement was not prepared;
- The Internal Inquiry Committee recommended that only the Permanent Secretary on approval of the Minister responsible for Civil Aviation was able to request funds from the Trust Account, which primarily was not followed;
- On 6 April 2004, the former Acting Director of Civil Aviation wrote to Accountant General stating that the purpose of the account was to control and manage remittances or transfers of funds from the Airservices Australia Trust Account;
- The Internal Inquiry Committee merely recommended that proper guidelines are put in place on the use of the funds; however, they failed to specify examples of any proposed guidelines.

Audit noted that on 6 April 2004 the former Permanent Secretary responsible for Civil Aviation wrote to the Accountant General indicating the areas that should be funded by this account. These include the following:

- Air Traffic Services;
- Navigational Aids and Technical Services;
- Civil Aviation Division Training for both local and overseas;
- Airport Facilities and Up-keep of Airports;
- Aviation Security;
- Rescue and Fire Fighting;
- Aviation Consultants International Fee;
- Motor Vehicles/Fleet Maintenance/Fuel and Lubricants;
- Aeronautical Information Services, Publications, Flight Standards and Licensing/Airfield Inspections;
- Administration and Miscellaneous meeting costs.

The implication is that there is no trust deed or statement that provides clear authority for the setting up of the account, nor stating the necessary trust account requirements.

**Recommendation 5**

It is recommended that in the past a Trust Deed or Statement should have been initiated clearly stating the guidelines for the establishment and operation of the Trust Account. These guidelines should include, amongst other things:

- Commercial Bank and Trust Account Details;
- Cheque Signatories;
- Purpose of the Account/Funds;
- Financial Management and Accounting Practices (including cashbook, payment vouchers/receipt, bank reconciliations, etc).

It must be noted, however, that with the renaming of DGCA Trust Account to the Aviation Special Fund (through The Civil Aviation (Amendment) Act 2005 – effective 31/10/05), Guidelines have been drafted for the Operation and Financial Management of the Aviation Special Fund.

A trust deed or trust statement has not been established for the Director General Civil Aviation SI Trust Account (#4146990) and this Account should be closed.

### 3.2.3 Trust Account (#4144289) –Expenditure - Lack of Supporting Documentation

The following sources of income funded the total expenditure in this trust account from the commencement of the trust accounts up until March 2005.

Source of Funds	Period	Amount (SBD\$)	Amount (AUD\$)
Airservice Australia	24 January 2001 - 13 January 2005	\$7,331,460.38	\$1,565,901.07
Civil Aviation Trust Account 4146990	25 February 2003 - 25 February 2004	\$1,860,044.00	
Other Unidentified Deposits	29 January 2002 - 10 October 2004	\$295,335.25	
<b>TOTAL</b>		<b>\$9,486,839.63</b>	

The table below was reconstructed from incomplete records and illustrates the expenditures from this Account:

Name	2002 (SBD\$)	2003 (SBD\$)	2004 (SBD\$)	2005 (SBD\$)	Total
Contractors	985,056.13	344,621.00	727,705.60	64,750.00	2,122,132.73
Special Imprest	123,758.40	47,656.00			171,414.40
Office Expenses	36,981.03	8,538.10	114,438.94		159,958.07
Vehicle Parts	26,020.00	27,663.00	42,625.80		96,308.80
Fuel	28,872.94	45,747.19	13,897.91	16,452.55	104,970.59
Airfare	56,161.40	29,602.70	38,721.00	30,516.40	155,001.50
Vehicle Hiring	54,450.00				54,450.00
Accommodation	5,539.50	9,812.32			15,351.82
Training Expenses	11,566.00	646.00	18,799.93	17,988.93	49,000.86
Cleaners Wages	34,374.84	15,950.00			50,324.84
Per diem Allowances	31,978.04	38,068.70	129,749.58	23,206.03	223,002.35
Purchase of Vehicle	114,500.00				114,500.00
Telephone Bills	172,971.80	282,673.34			455,645.14
Cleaning Material & Equipment for Henderson Airport	59,398.42	15,509.70			74,908.12
Aviation Consultants International (ACI)			1,057,359.80	239,117.46	1,296,477.26
DGCA	181,905.37	206,744.85	68,737.90		457,388.12
Membership Fees			1,367,612.68	352,894.33	1,720,507.01
Bank Charges	7,287.71	8,599.72	4,937.84	110.00	20,935.27
Other	181,444.65	75,237.14	30,159.41		286,841.20
Unidentified	238,107.56	282,910.37	815,205.15		1,336,223.08
<b>TOTAL</b>	<b>2,350,373.79</b>	<b>1,439,980.13</b>	<b>4,429,951.54</b>	<b>745,035.70</b>	<b>8,965,341.16</b>

The above expenditure paid from the Trust Account should have been paid through the Consolidated Fund and in most cases did not have the supporting documentation nor did it comply with the payment procedures as prescribed in the Public Finance and Audit Act.

In addition, as a result of there being no Trust Deed or Trust Statement, Audit was not able to determine the type of expenditure that was to be paid from the this Trust Account. The following are some comments on specific expenditure items:

- **Telephone Bills** – The records reveal that for years 2002 and 2003 the Civil Aviation Division spent a total of SBD\$455,645 on telephone bills. Audit was not able to determine whether the telephone accounts were for office or private use due to the absence of invoices. The only supporting documents sighted were cheque butts and Solomon Telekom receipts.
- **Fuel** – It was noted apart from issuing of Special Imprests for fuel supply, CAD also issued cheques to fuel suppliers for fuel requirements of the Division. There were also cheques made out to cash and to CAD. According to available records the total amount drawn from the Account to meet fuel requirements apart from use of special Imprests amounted to SBD\$104,971.
- **Per diem Allowances** – The records show CAD had used funds from the Trust Account to meet Minister, Permanent Secretary and other official's per diem allowances. Due to absence of supporting documents Audit was not able to verify whether the officials were entitled to receive the allowance. From the records it appears that SBD\$223,002 was paid from the Trust Account.
- **Purchase of Vehicles** – The cheque butts show CAD has purchased two Toyota Hiluxes costing SBD\$114,500 for flight service officers from the Trust Account in July 2002. Audit was not able to locate documents like invoices and receipts supporting the payments of the vehicles. Audit noted CAD did not follow the required procedures for purchasing motor vehicles as laid down in General Order Chapter T and the Financial Instructions.
- **Vehicle Hire** – The cost of vehicle hire amounted to SBD\$54,500. Audit was not able to locate Government Vehicle Hire Agreement for most vehicle hire paid from the Trust Account. Due to absence of such records, Audit was not able to verify the genuineness of the vehicles being hired.

The implication is that there was little or no control exercised over the payments. The breakdowns in the appropriate controls have left these payments open to fraud and misuse of funds.

**Recommendation 6**

We recommended that in the future, revenues and expenditures are processed in accordance with the Public Finance and Audit Act.

**3.2.4 Inadequate Financial Management of the Trust Accounts**

Financial Instruction 382 provides for, amongst other things, that no Government Bank Account shall be opened without the prior written approval of the Permanent Secretary. Furthermore, Financial Instruction 396 provides for a cash book to be maintained and Financial Instruction 397 provides for obtaining bank statements at least monthly and carrying out monthly bank reconciliation.

Since the creation of the Solomon Islands Trust Accounts, a mechanism for financial management of funds has not been established. At no stage during the operation of the Trust Accounts has a cashbook been maintained, nor a bank reconciliation conducted. Furthermore there was not supporting documentation relating to payment made from this account as required by Financial Instruction 231 and 243.

During the existence of the Trust Accounts, their operation has been undertaken by various parties including:

- Department of Commerce – Chief Accountant
- Department of Works – Chief Accountant
- Civil Aviation Division – Director General
- Treasury Division - Accountant General

One of the outcomes of inadequate financial management by all parties involved, is that both Accounts have been overdrawn on a regular basis, in some instances significantly (without prior arrangement with the bank), which have attracted SBD\$13,154 (SBD\$11,375 – 4144289 and SBD\$1,779 – 4146990) in unarranged overdraft bank charges.

Of much greater concern is the fact that, in the absence of financial management, there is uncertainty over the legitimacy of transactions undertaken through each Trust Account. This uncertainty is compounded by the fact that many transactions cannot be supported by requisitions or payment vouchers, and where payment vouchers do exist, many of these cannot be supported by third party documents (i.e. invoices and receipts).

**Recommendation 7**

We recommend that, although the Aviation Special Fund has now documented the Operational and Financial Management practices for the Account, the Civil Aviation Division and Treasury need to ensure that the following are appropriately implemented in accordance with the Financial Instructions:

- A Cashbook be established and maintained;
- A Bank reconciliation be prepared and reviewed monthly;
- Third party documentation be received prior to payment;
- Internal documentation prepared/completed prior to payment.

**3.2.5 Contractors - SBD\$2.1M**

From August 2002 to March 2004 the total amount paid from the Trust Account to contractors for maintenance of Henderson Airport, other airfields and other urgent repairs was SBD\$2.1M. Contractor payments have also been made from Solomon Island Government Recurrent Budget and Airservices Australia (Solomon Islands Trust Account). An analysis, of findings and recommendations based on the payments to contractors from all sources is documented at Section 5.

**3.2.6 Special Imprests - SBD\$171,414 – Not Acquitted**

Financial Instruction 311 states that an Imprest is a sum of money advanced to an officer, as prescribed by Section 13 (d) of the Act, in order to meet expenditure connected with the public service, but for which it is impracticable or inconvenient to make payment in accordance with Financial Instructions 231 to 280.

Financial Instruction 312 (b) states that a Special Imprest, which is advanced for a specific purpose and which must be accounted for in full within the period allowed or when the purpose has been fulfilled, whichever is the sooner. Furthermore, Financial Instruction 313 (2) provides, amongst other things, that an application for a Special Imprest must be made to the Treasury Division or to a sub-accountant as allowed for in Financial Instruction 315 (1) as prescribed by the Permanent Secretary and they must be registered and followed up in accordance with Financial Instruction 318.

From available records, Special Imprests issued from the Trust Account (#4144289) between 8 February 2002 and 24 July 2003 amounted to SBD\$171,414 and these were issued to cater for fuel, official tours, petty cash expenses, airfares, compassionate travel expenses and various office expenses.

Audit noted that:

- Applications for special Imprest to the Treasury Division or Sub – Accountant could not be sighted as required under Financial Instructions 313;
- There was no evidence that the Special Imprests were registered in accordance with Financial Instruction 318, nor could Audit identify a number of Imprest Holders;
- In many cases there was no evidence of documentation supporting the acquittal of the Special Imprests, nor was any action taken under Financial Instruction 325 to charge interest on overdue Imprests.

It is evident to Audit that the Imprests have been open to abuse and fraud with a significant proportion of the SBD\$171,414 being unaccounted for.

### **Recommendation 8**

We recommended that special Imprests are not issued from Trust Accounts and acquittals should be pursued.

#### **3.2.7 Unaccounted for payments - Cheques made out to cash - 4144289**

The under mentioned table shows a sample of cheques provided by the ANZ Bank that were made out to cash:

<b>Date</b>	<b>Cheque No.</b>	<b>Details</b>	<b>Amount (SBD\$)</b>	<b>Comments</b>
13.02.02	123320	Special Imprest issued to cater for fuel requirement	2,000	- No signature on back of cheque - Imprest hasn't been acquitted
22.02.02	123325	Special Imprest issued to Dir. CAD for fuel requirement	2,000	- No signature on back of cheque - Cannot identify the other authorized signature - Imprest hasn't been acquitted
22.02.02	123327	Special Imprest issued to Dir. CAD for fuel requirement	3,000	- No signature on back of cheque - Cannot identify the other authorized signature - Imprest hasn't been acquitted

27.02.02	123330	Special Imprest issued to Dir. CAD for fuel requirement and stationeries	3,000	- DGCA signed at the back of the cheque - Cannot identify the other authorized signature - Imprest hasn't been acquitted
26.03.02	123343	Special Imprest issued to cater for fuel requirement	2,000	- No signature on back of cheque - Imprest hasn't been acquitted
10.04.02	123346	Special Imprest issued to Dir. CAD for fuel requirement and other sundry expenses	2,500	- DGCA signed at the back of the cheque - Imprest hasn't been acquitted
17.04.02	123355	Special Imprest issued to cater for fuel requirement	1,500	- DGCA signed at the back of the cheque - Imprest hasn't been acquitted
13.06.02	123399	Advance to workers for non payment of salary (balance to Staff Welfare Account))	30,000	- DDGCA signed at the back of the cheque - Supporting documents not attached
10.07.02	256724	Special Imprest issued to Dir. CAD for fuel requirement	3,000	- DGCA signed at the back of the cheque - Imprest hasn't been acquitted

Audit noted that:

- Three cheques were signed by the former Director General of Aviation but the second signatory could not be identified, namely Cheque 123325 (SBD\$2,000) and 123327 (SBD\$3,000) dated 22 February 2005, and Cheque 123330 SBD\$3,000 dated 27 February 2005;
- These payments were mostly for Special Imprests that have never been acquitted and therefore are unaccounted for;
- In the case of the payment made on 13 June 2002 (Cheque 123399) for SBD\$30,000 was signed for on the back of the cheque by the former DDGCA which was supposedly for an advance to workers for non-payment of salary – Audit could not verify this due to the lack of supporting documentation and there was no evidence that this amount was repaid to the Government in the event of the relevant officers receiving their normal salary. Refer Section 6 – Staff Welfare Account.

The implication is that the above payments have been made from the Trust Account, however, no supporting documentation is available to support these payments and therefore these funds may have been lost through fraud.

### **Recommendation9**

We recommended that cash cheques are not drawn from the Trust Account.

#### **3.2.8 Fund Transfers to the Director General Civil Aviation SI Trust Account (# 4146990) – Funds Unaccountable**

On 5 November 2002 the Director General Civil Aviation, on behalf of the Civil Aviation Solomon Islands forwarded a fax to the Airservices Representative. The fax authorized Airservices Australia to direct the monthly AUD\$20,000 from the DGCA SI Trust Account (4144289) nominated in the Ministry of Culture, Tourism & Aviation Letter dated 7 February 2002, to the Director General Civil Aviation SI (“Operations”) Account (4146990).

The following table below shows the source of funding of this Trust Account:

Source of Funds	Period	Amount (SBD\$)	Amount (AUD\$)
Airservices Australia	13 November 2002 – 11 May 2004	\$4,314,647.89	\$825,000.00
Civil Aviation Trust Account No 4144289	14 February 2002 – 13 November 2002	\$212,825.16	
Other Unidentified Deposits	21 January 2003 – 14 January 2004	\$14,518.42	
<b>TOTAL</b>		<b>\$4,541,991.47</b>	

A total of SBD\$3,689,047 was paid from this account but SBD\$1,860,044 of this amount was transferred to Account #4144289 leaving SBD\$1,829,003 paid out on expenditure that did not have any supporting records whatsoever for this expenditure.

The implication is that SBD\$4.5 million was transferred into an account that was not authorized to exist, resulting in a source of funds for expenditure occurring outside the recommended DGCA SI Trust Account (#4144289). In

addition the SBD\$1,829,003 could not be accounted for leaving these payments open to fraud and corruption.

Furthermore, at the time of the Audit this account was still left open with a balance of SBD\$852,944 which should be closed and the funds transferred to the Aviation Special Fund.

#### **Recommendation 10**

We recommended that:

- The Director General Civil Aviation SI Trust Account with a balance of approximately SBD\$852,944 should be closed and the funds transferred to the Aviation Special Fund. (Since the Audit it is understood that the Bank Account has now been closed and the balance transferred to Aviation Special Fund).
- Payments made by Civil Aviation are to be made in accordance with Public Finance and Audit Act.

#### **3.2.9 Operational Control of Trust Account (# 4146990)**

According to the undated correspondence of the then Chief Accountant, the Trust Account (#414 6990) was set up by the former Director General Civil Aviation. This Account was established as a holding account for receiving funds from Airservices Australia and to transfer into the DGCA SI Trust Account (#414 4289).

The following points were noted:

- Audit was not able to locate any supporting documents (with the exception of some cheque butts) for all the payments drawn (totalling SBD\$3,689,047) from this Account during the term in office of the former Director General;
- After the Airservices Agreement was negotiated in May 2003, payments from Airservices Australia continued to be deposited into the Director General Civil Aviation SI (“Operations”) Trust Account (#414 6990), instead of the DGCA SI Trust Account (# 414 4289) as prescribed in the Agreement.

The Director General did not follow the Public Finance and Audit Act and the Financial Instructions in the management and administration of this Account, despite the fact that on his appointment this requirement was brought to his attention.

Ministry of Finance took control of the Trust Account and eventually changed the authorised cheque signatories. During this management, a number of cheques were raised by the Assistant Accountant General, with Audit still unable to locate supporting documents relating to these payments.

The implication is that the Trust Account was not established in accordance with the Public Finance and Audit Act, nor was it managed or administered in accordance with the Act. This has left the operations of the Trust Account virtually under the control of one person, with instances noted where the Director General has been the only signature to cheques and at the same time has signed the back of cheques as having received the cash, (representing a complete breakdown in internal control procedures), leaving the Account open to fraud and misappropriation of funds.

### **Recommendation 11**

We recommended that in future any Trust Accounts should be opened in accordance with the Public Finance and Audit Act. These Accounts are then required to be managed and administered in accordance with the Act.

#### **3.2.10 Expenditure - Lack of Supporting Documentation (# 4146990)**

Due to the absence of supporting documents, Audit obtained copies of a sample of cheques from the ANZ Bank. The cheques listed below are those made out for cash and in the most part were signed for and collected by the former Director General Civil Aviation.

<b>Date</b>	<b>Cheque No.</b>	<b>Amount (SBD\$)</b>	<b>Identification Signature Collecting the Funds</b>	<b>Comments</b>
18.02.02	731614	15,000	DGCA	Only DGCA signed for this cheque
26.03.03	731627	15,000	DGCA	Supporting documents not available
31.07.03	720657	10,500	DGCA	Supporting documents not available
23.10.03	720677	10,000	DGCA	Supporting documents not available
25.02.04	720698	16,000		Supporting documents not available

Audit noted that the above payments amounting to SBD\$66,500 is unaccounted for and in particular cheque 731614 (dated 18 February 2005) for SBD\$15,000 was signed only by the former Director General, with the cash subsequently collected by him. As indicated there is no supporting documentation to support this payment.

Also two other cash cheques namely 731609 for SBD\$20,000 (dated 16 January 2003) and 731613 for SBD\$2,900 (dated 16.2.03) were only signed by the former Director General, however, there was no signature on the back of the cheque indicating who collected the cash. No supporting documents could be located.

The implication is that, due to the breakdown in internal controls and the absence of documentary evidence, the whole process is open to fraud and corruption.

#### **Recommendation 12**

We recommended that cash cheques are not drawn from the Trust Account.

## **4. ENGAGEMENT OF CONSULTANTS (AVIATION CONSULTANTS INTERNATIONAL – ACI) AND THE SOLOMON ISLANDS GOVERNMENT**

### **4.1 Introduction**

Aviation Consultants International (ACI) was appointed as Principal Advisers to the Civil Aviation Division of the Solomon Islands in January 2002 by the Permanent Secretary of Ministry of Culture, Tourism and Aviation (MCTA).

An Agreement of Service between the Department of Civil Aviation Solomon Islands and Aviation Consultants International (ACI) was established, whereby Civil Aviation was desirous in obtaining a competent and experienced Consultant to assist in matters relating to the management and supervision of Civil Aviation and matters relating thereto.

The services engaged through ACI were principally those of the Managing Director of ACI (and a lecturer at Griffith University) with an initial contractual fee of AUD\$15,000 per month and increasing to AUD\$20,000 per month. In addition to the monthly contractual fee, extra costs were claimed by ACI for expenses including:

- Accommodation
- Motor Vehicles
- Computer Equipment
- Business Cards
- Air Travel
- Reimbursements

The current Agreement of Service was signed on 1 July 2004, was for a period of twelve (12) months commencing 1 July 2004 ending 30 June 2005. This Agreement of Service appoints Aviation Consultants International to assist in matters relating to the management and supervision of the Department of Civil Aviation Solomon Islands.

## 4 2 Summary of Findings and Recommendations

The following is a summary of audit findings and recommendations:

### 4.2.1 Overpayment of AUD\$70,000 (Est. SBD\$364,000)

The following is a sequence of events leading to the Agreement between ACI and Department of Civil Aviation:

- Letter dated 15 November 2001 from the then Permanent Secretary to Airservice Representative, instructing Airservices to pay ACI a total amount of AUD\$75,000 for the following expenses:
  - Housing and Accommodation expenses AUD\$25,000
  - Provision of Motor Vehicle AUD\$25,000
  - First Monthly Payment 1 Dec 2001 – 31 Dec 2001 AUD\$15,000
  - Final instalment for Report as Agreement AUD\$10,000
- A draft Agreement in Principle from 1 December 2001 to 30 September 2002, drawn up by ACI which was never used, however, it is of note that it contains the same terms of agreement and scope of the project as the signed agreement for the period of 1 July 2002 to 30 June 2004;
- Letter dated 22 May 2002 setting out payment details from 1 July 2002 to 30 June 2003 from the then Minister and Permanent Secretary to the Airservices Representative. The Agreement of Service Contract covered the period 1 July 2002 to 30 June 2004 and Annexure B 'Contract Fees and Mode of Payment' stated the following:
  - This package does not include costs associated with moving/relocation, or initial establishment costs, as they have been absorbed within the contracted figure. The monthly fee is AUD\$20,000. The following percentage and fees apply:

Component	Percentage	Annual Total (AUD\$)	Monthly Total (AUD\$)
Housing and Accommodation	12.5%	\$25,000	\$2,500
Transport	12.5%	\$25,000	\$2,500
Remuneration	75%	\$150,000	\$15,000
<b>Total</b>	<b>100%</b>	<b>\$200,000</b>	<b>\$20,000</b>

- As the provision of Airfares, transport and a motor vehicle (AUD\$25,000) is a large component, it has been agreed that:
  - Full payment of airfares, transport and a motor vehicle (AUD\$25,000) will be paid in the first monthly payment.
  - Full payment of the housing and accommodation component (AUD\$25,000) will be paid in the first monthly payment.
- The First Monthly instalment will therefore comprise the following (AUD\$15,000 (monthly fee) + AUD\$25,000 (airfares, transport and motor vehicle) + AUD\$25,000 (housing and accommodation) = \$65,000). Any motor vehicle therefore, is part of the contract and owned by Aviation Consultants International.
- Total subsequent monthly fees payable from month 2 to 12, after the first monthly fee of AUD\$65,000, amount to AUD\$15,000. Payments for the months 13 to 24 are to amount to AUD\$20,000. All payments are to be paid in advance by automatic instalments into the account as indicated by Aviation Consultants International on or before the 15<sup>th</sup> day of every month for the duration of the contract.
- Aviation Consultants International will provide their own computer and software commensurate with fulfilling terms of the contract.
- The consultant will be required to:
  - Work within the boundaries as described in this document and any instructions provided by the Honourable Minister and/or Permanent Secretary;
  - Be independent of any potential supplier; and
  - Meet the required outcomes within the timeframe and costing as specified.
  - A signed “Agreement of Service” between the Department of Civil Aviation Solomon Islands and Aviation Consultants International from 1 July 2004 to 30 June 2005. This agreement in essence carried the same conditions in that the monthly fee of AUD\$20,000 continued until the 30 June 2005.

Audit noted the following matters:

- Terms of the Agreement (1 July 2002 – 30 June 2004) states the annual total fee was AUD\$200,000 with payments being AUD\$20,000 per months. This was arrived at by dividing the annual fee by 10 instead of 12 months representing one year. Furthermore, the terms of the agreement (1 July 2004 – 30 June 2005) specifies on the basis of the prior agreement that the total monthly fee is AUD\$20,000. Audit calculates the discrepancy as such:

Component	Annual Total (AUD\$)	Monthly Total Paid (AUD\$)	Monthly Total Due (AUD\$)
Housing and Accommodation	\$25,000	\$2,500	\$2,083
Transport	\$25,000	\$2,500	\$2,083
Remuneration	\$150,000	\$15,000	\$12,500
<b>Total</b>	<b>\$200,000</b>	<b>\$20,000</b>	<b>\$16,666</b>

In essence payments (and Overpayments) made were as follows:

Contracts	Annual Total (AUD\$)	Year 1 (AUD\$)	Year 2 (AUD\$)	Year 3 (AUD\$)	Over payment (AUD\$)
Contract – 1.7.2002 to 30.6.2004	\$200,000	\$230,000	\$240,000		\$70,000
Contract – 1.7.2004 to 30.6.2005	\$240,000			\$220,000*	
<b>Total Overpayment</b>					<b>\$70,000</b>

\* AUD\$20,000 payment being withheld at present by SIG.

It is our view that ACI has been overpaid AUD\$70,000 in contract fees.

- It was also noted that at the time of Agreement signing the person in question (according to the ACI website) was a Director of ACI and signed as witness of the signatures for both ACI and SIG delegates. Furthermore, Clause 6 of the Contract states that ACI was to be independent of any potential supplier yet ACI placed this person as Director General of Civil Aviation. (See further details at 4.2.8)
- Under the terms and conditions stated in the Agreement (under Annexure B), provision was made in the package for airfares, transport, housing and accommodation. However, Audit has noted instances where the ACI Managing Director received additional payments from the Solomon Island Government for transport and hotel expenses when in Honiara, even though these costs were included in his package.

The implication is that the fees and allowance set out in the Annexure B of the Agreement were wrongly calculated leading to an overpayment of AUD\$70,000, which is a loss of public monies, unless it can be recovered. There is also evidence that despite the allowances for airfares etc. contained in the package, ACI Managing Director still claimed these from Civil Aviation and has in fact double dipped.

**Recommendation 13**

We recommended that the Agreement for the Supply of Services be examined by the Attorney or Solicitor General and that recovery action be taken regarding the overpayment of fees together with any extra claims outside of the Managing Director of ACI's entitlements.

**4.2.2 Aviation Consultants International (ACI) – Lack of Performance Regarding Terms of Agreement**

As indicated above the same terms of agreement and scope of project for the draft Agreement in Principle commencing on 1 December 2001 would apply up to 30 June 2005. This means ACI has had in the vicinity of four (4) years to complete the Terms of Agreement, however, from Audit's examination little or no evidence could be found supporting that the work required had been carried out, resulting in the poor state of the Division.

While the tension may have been an impediment to the project, ACI has had at least two years of uninterrupted access to implement the Terms of the Agreement. The current Controller of Civil Aviation has verified this situation, with the following Clauses in the Terms of Agreement for 1 July 2004 to 30 June 2005 dealt with below:

- *Clause 3* provides for the Agreement “to parallel the pending International Civil Aviation Organization (ICAO) Safety Oversight Audit”.

The Controller indicated there is no evidence to support that the Aviation Consultants International has facilitated the performance of the International Civil Aviation Organization (ICAO) Safety Oversight Audit. A questionnaire was supposed to have been completed and submitted to ICAO in May 2005, however, the documentation could not be located at Civil Aviation, hence the date has had to be extended for submission in October 2005.

The implications are that ACI has not facilitated the conduct of the Safety Oversight Audit required under ICAO.

- *Clause 4* states, “It is critical that the Civil Aviation Department initiate responses to the ICAO Safety Oversight Audit. It is recognized, as being an important element in seeking to bring the Department in line with acceptable standards as it acknowledged that the Department of Civil Aviation requires urgent support in terms of management, systems development and administration.”

The Controller was unable to identify the urgent support provided by ACI in terms of management, systems development and administration.

Apparently the ICAO Safety Oversight Audit was supposed to be undertaken previously, however, due to the state of the organisation, it could not be performed. It is expected that the Safety Oversight Audit will be performed March 2006.

The implications are that ACI has not provided the urgent support required in Clause 4 and therefore has not supplied the required service.

- **Clause 7** provides that, “a primary reason for this Contract is to develop a fully autonomous Civil Aviation Authority of the Solomon Islands (CAASI) in keeping with International best practice requirements as laid down by ICAO”.

The current Controller of Civil Aviation stated that:

- The Pacific Islands Aviation Safety & Security Treaty set the International best practice requirements and in the future CAD is to follow the New Zealand model, however, this has not been established.
- Recently the Asian Development Bank (ADB) consultants have drafted a proposed Civil Aviation Act for the Solomon Islands, however, this has not been executed under the Cabinet process, and will need to be undertaken through the proper channels.

The implications are that ACI has not fulfilled the requirements of Clause 7 and it is now left for other organizations, such as ADB to assist in developing a fully autonomous Civil Aviation Authority.

- **Clause 8** requires ACI to “provide advice in relation to continuing membership of the Pacific Aviation Safety Office (PASO) and regional integration with other member countries”.

The Controller of Civil Aviation indicated that, Pacific Aviation Safety Office (PASO) membership was recently signed by the present Solomon Islands Minister for Aviation (without input from ACI). The PASO base is in the process of being established (with the location determined at present to be in Vanuatu”).

The implications are that ACI had no input as required by Clause 8 of the Terms of Agreement and as such the Solomon Islands have been denied membership of PASO and regional integration with other member countries on Aviation issues over the past years.

- **Clause 10** provides for ACI to “support development of skill transfers to the current Departmental staff and to institute development of systems and procedures in keeping with international standards and obligations defined by the Chicago Convention 1944 and as laid down by the ICAO General Assembly”.

The Controller of Civil Aviation indicated that:

- He has been unable to identify any evidence of ACI supporting the development of skills transfer or instituting the development of systems and procedures in keeping with international standards and obligations.
- During the period whilst he was appointed the DGCA, restricted Civil Aviation officials from attending the available courses.

The implications are that ACI has not complied with the skill transfers (per Clause 10 of the Terms of Agreement), nor the development of systems and procedures in keeping with international standards and obligations under Chicago Convention 1944.

- **Clause 11** provides the requirement for ACI to “undertake a review and development of recommendations as outlined in the report”.

The Controller is unaware of the “report” referred to in the Agreement. It has been identified by the Deputy DGCA/Acting DGCA that three documents did exist (being a corporate plan and two reports) however, the current location of these documents is undetermined.

It is not clear what report the Agreement is referring to, however, it is evident that little development work has been carried out over the period ACI has been contracted.

- **Clause 12** provides for “inter alia, review and implement changes and procedures in the following disciplines”:
  - Corporate Structure;
  - Aviation safety and procedures;
  - Security;
  - Licensing;
  - Aviation Safety surveillance programme;
  - Human resource training;
  - Review of all positions and tasks;
  - Development of workflow diagrams;
  - Development of procedural manuals;
  - Development of a Departmental Library;
  - Administrative review;
  - Systems review;

- Develop an isolated Departmental Budget;
- Assess lower airspace charges;
- Review Departmental cost recovery procedures;
- Review current aviation legislation;
- Enforcement procedures;
- Amendments and revision mechanisms;
- Information technology (IT);
- Integrated training;
- Quality management procedures;
- Indexing, Filing and Archiving procedures;
- Development of internal precedent document systems;
- Introducing basic computer and software training over the period of the contract;
- Assessment and development of the primary office skills necessary in running the Department;
- Liaise with senior personnel and political leaders, international organizations, and regulatory authorities;
- Foster and engender international business support for the Solomon Islands;
- Support in the development of Budget requirements and long term strategic planning.

Audit examined the above areas and found no evidence that ACI carried out work in the twenty eight (28) disciplines listed above. Audit requested information from the Controller of Civil Aviation in order to determine his opinion of what work had been carried out by ACI but he confirmed that there was little or no evidence that any work had been performed. The reply from the Controller of Aviation included written confirmation from two section heads and other verbal reports.

The implications are that ACI did not carry out the required work as prescribed under Clause 12 of the Terms of Agreement.

### **Conclusion**

Audit has concluded that ACI had not carried out the work required under the Agreement of Services for the period 1 July 2002 to 30 June 2005. It would seem that ACI has had some three years to carry out these services but there is very little to show for it. The 2002 Agreement of Services at Annexure B paragraph 6 provided “the Consultant was required to meet the required outcomes with the timeframe and costing as specified”.

Obviously action should have been taken by the Government to monitor ACI performance and were applicable terminate the contract.

**Recommendation 14**

We recommended that although AUD\$20,000 is outstanding, no further payments should be made to ACI and that the Attorney or Solicitor General be requested to explore the opportunity of claiming damages for non performance of contract and whether at this late stage the matter of non performance could go to arbitration as prescribed in Clause 5 of the Agreement of Service.

**4.2.3 Agreement of Services - Weaknesses**

The agreement between the Department of Civil Aviation and ACI did not include normal terms and conditions, which are expected in an Agreement. Audit noted that the following points were not included:

- ***Reporting Requirements*** – There was no mention in the Agreement of ACI's reporting requirements to Senior Government Officials and as such the Government could not determine the work that should have been carried out with the actual work performed.
- ***Contractor's Time Input*** – While there was a monthly fee of AUD\$20,000 per month payable to ACI there was no condition in the contract stating the input time ACI (in particular the Managing Director) was required to perform the service.
- ***Monitoring of Agreement*** – There was no stated mechanism in the Agreement for the monitoring of the Agreement.

The implication is that without the above terms, ACI was not accountable to the Government for reporting the work done, nor the input time into the Project by ACI. These weaknesses, therefore, allowed ACI to be paid as per the contract, however, there was no accounting for the work done.

Audit could not verify whether the Attorney General's Office agreed to this Agreement.

**Recommendation 15**

We recommended that any further project agreements of this nature should be submitted to the Attorney General, contain reporting and input time requirements, so that these agreements can be managed/monitored, hence, the contractors are more accountable.

#### 4.2.4 Outside Donor Funding of Former Director General Civil Aviation.

The appointment of the Director General of Aviation was made by the Solomon Islands Government on the basis that his package would be fully funded by outside sources. However, the following sequence of events indicates that any payments of allowances made to the appointee should be deducted from ACI monthly remuneration, which from Audit's inquiries did not take place. The undermentioned are the sequence of events:

- A letter from Permanent Secretary Ministry of Culture, Tourism & Aviation (MCTA) on 16 January 2002 to the incumbent at Aviation Consultants International which indicated that the salary payment for the expatriate Director General position will be sought from international aid bodies. A housing allowance of AUD\$2,000 would be paid monthly. The contract period was for two (2) years.
- Letter dated 16 January 2002 from Permanent Secretary of MCTA to all staff advising the new appointment as Director General and indicating he would have the full powers of that position. It also noted that Aviation Consultants International would continue to act as special principal advisers to the newly appointed Director General and the Minister (MCTA) as well as the Prime Minister and Cabinet.
- The Chief Administrative Officer of the MCTA on 24 January 2002 in a memorandum to the Permanent Secretary of the Public Service Division seeking approval to appoint the new Director General stated that his package will be met by Overseas Funding donors and also requests for this submission to be passed onto the PSC for their deliberation and approval.
- The Public Service Department appointment letter dated 20 March 2002 to the appointee indicated that the appointment was for the period of two years as Director General Civil Aviation and his salary package was to be fully funded externally, but he would be subject to the Solomon Islands Constitution, General Orders, Financial Instructions and the appropriate Public Service Regulations.

##### *Appointment Issues*

- Audit could not locate any employment contracts, nor could it locate evidence that the appointment was processed through the employing authority being the Public Service Commission.
- MCTA advised the appointee of his appointment on 16 January 2002, prior to requesting approval for his appointment on 24 January 2002 from the Public Service Department.

- The appointment letter dated 16 January 2002 stated that the salary would be funded externally but a housing allowance of AUD\$2,000 was mentioned. A letter sent by the Chief Administration Officer to the Public Service Department on the 24 January 2002 indicated that his package would be fully funded externally. This was also stated to the appointee by the Public Service Department in the appointment letter dated 20 March 2002.
- Audit could not locate any papers indicating which Donor was going to fund the position of Director General, nor could it locate the stated fee.
- The appointee took up his position prior to his appointment letter dated 20 March 2002.

In effect the appointment was made prior to it going to the Public Service Department. It later went through the Public Service Department, however, audit could not obtain evidence that the appointment was processed through the Public Service Commission as the employing agency. In addition, Audit could not identify any donor agency funding the Director General's position, nor could it locate the employment contract.

#### *Funding Issues*

- Audit noted that the Solomon Island Government through the Public Service Division made the appointment on the basis that the package would be fully funded yet according to bank transactions through the trust account the person was paid AUD\$4,000 per month (from Trust Account #4146990) plus a AUD\$30,000 one off payment in lieu of wage paid by Airservices Trust Account.
- The former Permanent Secretary of Ministry of Culture, Tourism & Aviation in a letter to ACI dated 10 October 2002 indicated that the AUD\$4,000 was for monthly living and housing allowance. The Permanent Secretary further stated that due to the fact that the appointee is seconded from ACI, the amount (as deducted from the Director General SI Trust Account (#4146990)) should be reimbursed from the Aviation Consultants International (ACI) monthly remuneration of AUD\$15,170.00. Audit, however, did not find evidence that this amount was reimbursed from ACI's monthly remuneration payments.

The table below shows payments identified by Audit made to the Former Director General for allowances, airfares, accommodation and other expenses. Some of these were in Australian Dollars and estimates in Solomon Dollars were based on available exchange rates. These payments are not necessarily all of the expenses incurred by the Former Director General:

<b>Date/Period</b>	<b>Expenditure Details</b>	<b>Amount (SBD\$)</b>
25 January 2002 – 16 March 2004	Allowances	443,377
30 January 2002 – 3 December 2003	Airfare	268,285
22 March 2002	Accommodation	1,898.
May – November 2002	Other	9,613
<b>Total</b>		<b>723,173</b>

In essence the payments made to the Director General were not valid as they were to be fully funded by outside sources and living and accommodation allowances were to be deducted from ACI monthly payments. In effect ACI was responsible for these payments and Audit estimates this amount to be SBD\$723,173.

The implications are that without the proper appointment processes and the fact that the appointment was based on having the position funded by a donor (which Audit could not identify) then the appointment has been deceptive and not lawfully made resulting in government monies being paid illegally.

#### **Recommendation 16**

We recommended that this matter be investigated to determine Aviation Consultants International's liability in this matter, particularly as the person in question was seconded from ACI. Furthermore, the Ministry should establish whether recovery action can be taken as it was our understanding that donors were to provide for the costs of the Former Director General.

#### **4.2.5 Consultancy Fees (and Extra Costs) Paid By Airservices Australia and from the Trust Accounts – 2001 - 2005**

The following tables include the consultancy fees and extra costs paid by Airservices Australia and the Trust Accounts for the period 2001 to 2005 (for consultancy fees, Airservices Australia covers 2001 – 2003).

*Consultancy Fees*

Name of Source	Period	Details	Account Name	Account No.	Amount (AUD\$)
Airservices Australia	May 2001 to Dec2001	*Consultancy Service	Aviation Consultants International	06 2000 10472593	\$40,385
			X	06 2000 10472606	
Airservices Australia	Jan 2002 to Dec 2002	+Consultancy Service	X	06 2000 10472606	\$180,000
			Aviation Consultants International	06 2000 10472593 (1 transaction)	
Airservices Australia	Jan 2003 to Oct2003	Consultancy Service	X	06 2000 10472606	\$170,000
<b>Sub Total</b>					\$390,385
Civil Aviation Trust Account No4146990	May 2004 to May 2005		Aviation Consultants International	0620001047 2593	\$120,000
Civil Aviation Trust Account No4144289			Aviation Consultants International	0620001047 2593	\$260,000
<b>Sub Total</b>					\$380,000
<b>TOTAL</b>					<b>\$770,385</b>

\* One time payment for consultancy/consultation fees made in 2001

+ Contractual fees increased from AUD\$15,000 to AUD\$20,000 as from July 2003

*Extra Costs*

Name of Source	Period	Account Name	Account No.	Amount (AUD \$)
Australia Airservices	May 01 to Oct 03	ACI/	06 2000 10472593	\$232,658
		X		
		World Aviation/	06 2000 10472606	
		Y	06 4000 00324556	
			06 4000 11044052	
		08 4801 556459706		
Trust Account No. 4146990	Nov 03 to Apr 04	ACI	06200010472593	\$30,000
Trust Account No. 4144289	May 04 to May 05	ACI	06200010472593	\$14,799
<b>TOTAL</b>				<b>\$277,457</b>

Audit noted that:

*Payments made by Airservices Australia were*

- effectively obscured from visibility by the Solomon Islands Government officials in Honiara;
- contrary to the agreement between Airservices Australia and the Solomon Island Government and
- consultancy fees were automatically paid without verifying whether the services required by the ACI Contract had been performed.

▪ *Monthly Fees Deposited into Managing Director's Private Bank Account In Lieu of ACI Account*

- On 12 November 2001, the ACI Managing Director requested the Airservices Representative to pay his fee into his private bank account (# 06 2000 10472606) in lieu of the ACI Account (# 06 2000 10472593).
- As the Airservices Representative was paying these fees on behalf of the Solomon Islands Civil Aviation Department, he should have referred the matter to the relevant Solomon Island Government Official for clarification, as the initial request for payment from the Solomon Islands Government required that the money be paid to ACI, not to a personal bank account.

*Extra Cost Incurred*

- Clause 2 of the Agreement of Service provides for extra costs incurred by ACI in fulfilling this contract (as agreed by CAD) to be met and paid in full to ACI. Total extra costs paid to ACI from both the Airservices Solomon Islands Account and the two Solomon Islands Trust Accounts for the period May 2001 to May 2005 was AUD\$277,457. In most cases these costs did not have supporting documentation and therefore could not be verified by Audit.

*Travel*

- In addition to the above costs Audit identified SBD\$326,321 worth of travel incurred by the Managing Director (ACI) these were incurred between 2001 and 2004 and SBD\$294,623 was put to the Civil Aviation Charge Account.

- It is of note that:
  - ACI charged the following trips to Civil Aviation for personnel other than the Managing Director:

Name	Date	Destination	Cost (SBD\$)
MD +1	27.11.01	Brisbane – Honiara - Brisbane	\$8,598
Miss A	29.7.03	Brisbane – Honiara - Brisbane	\$5,997
Miss A	16.9.03	Brisbane – Honiara - Brisbane	\$5,997
Mr B	23.8.04	Brisbane – Honiara - Brisbane	\$9,001
Mr B		Brisbane – Honiara - Brisbane	\$5,919

In a letter dated 8 November 2001, to Airservices Australia the then Permanent Secretary instructed the Representative to pay for the airfares for the Managing Director plus another person but no other authority could be found for the others and these were paid from the Civil Aviation Charge Account (with Solomon Airlines).

- In 2004, the Managing Director (ACI) made twenty nine (29) trips and these were all paid through the Civil Aviation charge account. The Managing Director ACI spent between 2 to 4 days in Honiara on each trip and had the following international trips:

Ticket #	(AUD Amount)	SBD\$ Amount	Travel Date	From	To
4462376043	(AUD868.72)	2,944.51	05.05.02	Brisbane	Nadi
			07.05.02	Nadi	Brisbane
4462425453		9,286.60	20.02.04	Brisbane	Nadi
			22.02.04	Nadi	Port Vila
			23.02.04	Port Vila	Brisbane
4462429122	(AUD905.11)	5,124.80	28.03.04	Brisbane	Nadi
			02.04.04	Nadi	Brisbane
4462432864		37,445.30	18.04.04	Brisbane	Sydney
			18.04.04	Sydney	Honolulu
			23.04.04	Honolulu	Sydney
			24.04.04	Sydney	Brisbane
4402332081	(AUD1759.86)	9,020.30	18.07.04	Brisbane	Port Vila
			22.07.04	Port Vila	Honiara
			22.07.04	Honiara	Brisbane
4462443822	(AUD1529.70)	7,729.30	15.09.04	Brisbane	Nadi
			18.09.04	Nadi	Brisbane
4462450704		69,901.70	25.09.04	Brisbane	Los Angeles
			25.09.04	Los Angeles	Vancouver
			25.09.04	Vancouver	Montreal
			09.10.04	Montreal	Vancouver
			09.10.04	Vancouver	Los Angeles
			10.10.04	Los Angeles	Brisbane

From enquiries with Civil Aviation officials there appears to be little or no value derived by Civil Aviation from these trips. Audit could not find any documentary evidence to suggest that these trips provided value to Civil Aviation.

- The implications are that:
  - at the request of ACI's Managing Director, Airservices Australia changed the banking arrangements whereby funds were paid into the Managing Director's personal account in lieu of ACI Account without referring the matter to Solomon Island Government Official;
  - the extra costs incurred by the Managing Director did not appear in line with the Agreement, nor was their sufficient documentation to support these costs;
  - Travel appeared to be excessive providing little or no value to Civil Aviation and that in some cases payments were made for personnel other than the Managing Director and no authority could be found for these people to travel at Civil Aviation's expense;
  - Control over expenditure for Civil Aviation had been lost by the Solomon Island Government and furthermore these payments funded by Airservices Australia and the Charge Account with Solomon Airline have not been included in the Consolidated Fund and reported to the Parliament.

#### **Recommendation 17**

We recommended that this matter be followed up by Civil Aviation to determine the Managing Director's entitlements and if necessary assess what action can be taken to recover funds that the Managing Director is not entitled to or whether any criminality is involved.

#### **4.2.6 Detailed Expenditure Associated with ACI and Former Director General Civil Aviation**

From available documentation, Audit has established that an amount of AUD\$232,658 was paid for extra expenses by Airservices Australia to ACI, which in some instances were approved by the DGCA. This occurred despite the fact that there was a lack of supporting documentation and in contravention to the Public Finance and Audit Act and Financial Instructions (in which the DGCA was made aware that he was required to follow at the time of his appointment). In some cases, equipment purchased could not be verified by Audit as to its existence within Civil Aviation or elsewhere.

Details of these expenses are contained at Section 11 – Irregularities

Audit noted that:

- Apart from a request for payment, there was no supporting documentation for the above payments. This documentation could not be located by Audit either at Airservices Australia or within the Solomon Island Government.
- The purchase of computer equipment, including the purchase of portable digital computer projector, computers, printers and photocopier by the Managing Director (ACI) amounting to AUD\$33,000 could not be located by Audit. It is also claimed in writing by the Acting Director of Civil Aviation that the former Director General took some equipment with him. It is of note that “Clause 4 of the Agreement of Service provides for ACI to provide their own computer and software, commensurate with fulfilling terms of the contract”.
- Airservices Australia paid the ACI Managing Director reimbursements amounting to AUD\$52,500 for business and travel expenses without any documentary evidence to support his claims. It is also noted that all the claims are in round figures.
- Apart from the travel allowances above there were also airfares amounting to AUD\$4,113.88 (note further airfares were paid for from other sources, including Trust Accounts and Charge Account at Solomon Airlines) claimed by the ACI Managing Director for his travel as well as for the DGCA’s travel. The letter dated 28 May 2003, from the then Minister claimed that “Director’s trips out of the country were against Public Service procedures as he should remain at his duty stations at all times and not making trips at his own will without approval from the Permanent Secretary responsible for Civil Aviation or Public Service Division”. The trips aboard were for ACI’s interest.
- On 10 December 2002, AUD\$2,200 was refunded to the Managing Director (ACI) as he had paid the Minister AUD\$2,200 in cash supposedly for five (5) days travel allowance at USD\$250 per day. This appears to be an irregular transaction and this practice effectively obscures visibility of the payment to government official and auditors in the Solomon Island.

#### **Recommendation 18**

We recommended that payments should not be made to third parties outside the Agreement of Service conditions. It is understood that this is now being complied with. Furthermore, the issue included under Section 11 - Irregularities should be referred to appropriate authorities for further investigation.

#### 4.2.7 Termination of the ACI Agreement and the Director General Civil Aviation

The former Minister of Communication, Aviation & Meteorology terminated the contract on 26 May 2003. The former Minister stated that the Government was not happy with the performance of ACI and had not benefited from the association. In a subsequent letter also dated 26 May 2003 the Minister indicated that at inception of the Agreement, he was looking forward to changes to take place (within CAD), but these did not materialize.

The Minister also indicated that he saw no need to continue on with the Director General's contract. The Minister stated the following facts for the termination of the Director's contract:

- ***Conflict of interest***

The decisions made by the former Director General of CAD were claimed not to be his, but those of the Managing Director of ACI. The decisions made were bias and more in favour of ACI, rather than the interest of the Solomon Islands. On certain occasions the former Director neglected important advices from CAA-UK based in Fiji, which resulted in the services being withdrawn. ACI and the DGCA undermined this service by not facilitating what was agreed on and signed in December 2002.
- ***Overseas trips***

The former Director General's trips out of the country were against Public Service procedures as he should remain at his duty station at all times and not making trips at his own will without approval from the Permanent Secretary responsible for Civil Aviation or Public Service Division. In the view of the Minister it was obvious that the Director General trips abroad were no significant importance to the Solomon Islands but of ACI's interest. This resulted in the de-functioning and deterioration of the Civil Aviation Division.
- ***Human Resources Development***

The staff of Civil Aviation Department were deprived of the needed training to enhance their knowledge and skills in their respective fields, as the former Director General terminated all staff training requirements by stopping attendance by Civil Aviation officials to the majority of available courses. One example of this was the licensing of the Flight Information Services officers, which is in defiance of the Air Navigation (Overseas Territory) Order 2001.

- ***Management Capability***

The Director General failed to report to the Minister regarding policy matters in relation to Civil Aviation. This is believed to be attributed to his close association with ACI.

- ***Solicit of public money***

The soliciting of public money (SIG monies) to ACI was used for ACI's own interest and not that of Solomon Islands Government.

The Minister also stated that since November 2001, when ACI was contracted to work and improve various aspects of the Civil Aviation Department, under the Terms of Reference, I see no improvement in our Aviation Industry. Instead it deteriorated. There was no regulatory function performed. The morale of the whole Civil Aviation Department was so low that the Airline Industry does their own requirements with no contribution from Civil Aviation Department. Safety is hereby jeopardized. Safety is compromised.

Audit noted in the Minutes of a Meeting (dated 4 June 2003), attended by the then Honourable Minister, Director General of Civil Aviation and Acting Deputy Director of Civil Aviation, that the Minister had reinstated the contract which he had terminated on 26 May 2003. It was agreed that the contract would continue until 30 June 2004, but subject to review.

In the Minutes, the appointment of the then Deputy Director General to the post of Director General was also raised by the Minister. It was resolved that the transition of the Deputy Director General to the position of Director General would be completed by the end of August 2003.

On 4 June 2003, a letter was sent from the Minister to the Airservices Representative indicating that the contract had been reinstated.

The implication is that there were obvious concerns at that time about the performance of ACI and the Director General Civil Aviation and the relationship between the two parties. Audit is also concerned with the performance of ACI and a lack of evidence that any enhancement and reforms in the Aviation industry had taken place.

#### **Recommendation 19**

We recommended that any contract negotiations should be channelled through the Attorney General's Office and be transparent, which are well-documented and include proper contract monitoring clauses.

#### 4.2.8 Expatriate DGCA – Closely linked to/Conflict of Interest with ACI

The undermentioned are the sequence of events leading to the appointment of Director General of Civil Aviation:

- A letter from Permanent Secretary Ministry of Culture, Tourism & Aviation (MCTA) on 16 January 2002 to individual at Aviation Consultants International, indicated that he had been appointed Director General Civil Aviation and that the salary payment for his expatriate position would be sought from international aid bodies. A housing allowance of AUD\$2,000 paid monthly. The contract period was for two (2) years.
- Letter dated 12 February 2002 from Managing Director (ACI) who wrote in his capacity as Senior Lecturer - Griffith University indicating that person was accepted into the Post Graduate Degree of Masters of Aviation Management at Griffith University Brisbane. His acceptance was based mainly on his extensive industry experience, however, the letter did not mention any of his previous degrees, if any, relevant to the Post of Director General Civil Aviation.
- Personnel Profile Brief attached to the Memorandum from the Permanent Secretary dated 24 January 2002 stated that this person “ a Senior Consultant with ACI-Aviation Consultants International. Grant has been formally seconded from the organisation to take up his new appointment and permanent position as Director General Civil Aviation, Solomon Islands.” Furthermore, email correspondence indicates that the person was named on ACI website as a Director of the Company; however, Australian Securities and Investment Commission (ASIC) records did not show him as a Director.

The relationship between the former Director General of Aviation and ACI arouses suspicion and Audit is concerned about the following:

- As ACI recommended and supplied the nomination for the position it appeared to be contrary to “Item 5 at Annexure B Terms of Agreement” which states the ACI should be independent of any potential supplier.
- Audit noted in a memorandum dated 12 December 2001, to the Permanent Secretary, the Managing Director (ACI) and others, that the new DGCA was an ACI Advisor to the Solomon Islands Ministry of Culture, Tourism and Aviation.

- The nominee for Director General job was occupying a position that in effect was responsible for supervising ACI in the performance of its work.
- The nominee was responsible for approving thousands of dollars worth of payments including fees and extra costs to ACI. In particular, many of these expenses were not accounted for and these are illustrated at paragraph 4.2.6.
- The person travelled with the Managing Director (ACI) where it has been claimed that ACI has benefited more from the trips than the Solomon Island Government.
- The employment contract was to be fully funded by the International Donors and according to the understanding of the Permanent Secretary (MCTA) ACI were responsible for AUD\$4,000 in accommodation and living allowances – Audit found no evidence that ACI paid these expenses but DGCA was part of the process in approving and paying these allowances to himself. Financial transactions through the Trust Accounts show that the DGCA was paid AUD\$4,000 per month plus other expenses (including airfares).
- Audit noted that in a letter dated 22 January 2002 from the DGCA to the Airservices Representative that the Managing Director (ACI) and the DGCA played an integral part in setting up the DGCA Solomon Islands Trust Account at the ANZ Account # 414 44289. The letter went on to say that DGCA is the only officer able to authorise payments debited against the Account. Further the signature of the DGCA must always be affixed to each cheque or authorisation for debit against the account, together with either the Minister and/or the Permanent Secretary. The DGCA went on and opened another Trust Account (#414 6990) – these actions were contrary to the Agreement of Services with Airservices Australia and contrary to the Constitution whereby all revenues should be paid into the Consolidated Fund – See Trust Account Section at paragraphs 3.2.8 – 3.2.10 for further information.

The implication is that with the appointment of the Managing Director (ACI) as Principal Consultant and then the appointment of a person (seconded from ACI) as Director General Civil Aviation this arrangement presents a serious conflict of interest, in that the Principal Consultant was dealing directly with DGCA who is in charge of the operations of the Department and was responsible on behalf of the Government for the consultant's inputs. The DGCA's role also involved the processing of payments to the Consultant despite the lack of supporting documentation

regarding reimbursement of expenses and travel undertaken by both persons for ACI's purposes rather than that of the Solomon Islands.

The arrangements and relationship between the Principal Consultant and DGCA leaves open the opportunity for one to conspire with the other in order to provide benefits to each other at the expense of the Solomon Island Government.

#### **Recommendation 20**

We recommended that this matter be referred to the appropriate authorities such as the Police or Deputy Public Prosecutor to determine whether there is criminality involved.

#### **4.2.9 Expatriate DGCA - Evidence of Qualifications for Director General's Post**

The Post of Director of Civil Aviation (Level 13/SS1) requires the person appointed to be a holder of a Masters or Bachelor of Aviation Degree or a Degree in Aviation Management from a recognised institution or equivalent.

Correspondence on 12 February 2002 from Griffith University (signed by the ACI Managing Director in his capacity of Senior Lecturer indicates that the future DGCA was enrolled at that time as a senior student in the Post Graduate Degree of Masters of Aviation Management. Such acceptance into the Masters course was based upon him having at least 15 years industry experience and be qualified in numerous aviation related fields.

Although he may have completed a Bachelor of Aviation or a Degree in Aviation Management Audit could not locate any evidence that he had met the qualification requirements of the Post.

The implication is that if the DGCA was appointed without the appropriate qualifications, he may have been appointed falsely.

#### **Recommendation 21**

We recommended that this matter be referred to the Ministry for any further information and if no further information can be obtained then the matter be referred to DPP or Attorney General to determine whether any criminality is involved.

#### 4.2.10 Expatriate DGCA – Excessive Travel/Absence from Duty

Paragraph 4.2.7 refers to the criticism by the former Minister of Communication, Aviation & Meteorology of the former DGCA) taking many trips out of the country and was against the Public Service procedures as he should have remained at his duty station at all times and should not have made trips at his own will, without the approval of the Permanent Secretary responsible for Civil Aviation or the Public Service Division. The Minister contended that the trips abroad were of significant importance to the Solomon Islands not of ACI interest. This resulted in the de-functioning and deterioration of the Civil Aviation Division.

General Order 202 (2) provides that “no officer may absent himself from Solomon Islands without permission of the Permanent Secretary for the Public Service. Any officer who contravenes this Order renders himself liable to summary dismissal”.

Audit discussions with Civil Aviation officials indicated that the DGCA regularly only spent three days per week within the Solomon Islands undertaking his role as the Director General, as he continuously travelled back and forth between Australia and Honiara over the weekends.

Audit examination revealed that from 2 February 2002 to 2 December 2003 the DGCA made fifty (50) trips out of Honiara mainly to Brisbane (return). Flights were made to Tokyo, New Zealand and Ulan Baator and although some of this travel appeared to be for Regional Conferences, the numbers of flights from Honiara to Brisbane (return) were considered significantly excessive. Audit’s estimated cost to the Solomon Island Government was around SBD\$268,284. A record of the trips is held on Audit’s working papers.

In essence Audit could not identify evidence:

- That the DGCA was granted authority to leave the Solomon Islands in accordance with General Order 202 (2) on many of the Honiara to Brisbane (return) trips could not be located, nor could any contractual arrangements for the absence from his duties during these trips be found;
- Authorising the cost of many of the Honiara to Brisbane (return) trips, nor could any contractual arrangements for specific fares to and from Honiara.
- That many of these trips were of any significant importance to the Solomon Island Government but appeared to be in the Director General’s interest, as stated by the Minister.

It was noted that some of these trips amounting to SBD\$67,000 were funded by using the Civil Aviation Division Charge Account and SBD\$100,446 was funded from Airservices Australia funds, while the remaining trips amounting to SBD\$100,838 appeared to be funded by cash/cheques from the Trust Accounts.

While some of the trips were appropriate it is evident that the travel was abused by the former Director General and it could be considered that he was using official travel for private purposes resulting in unnecessary costs to the Solomon Island Government.

### **Recommendation 22**

We recommended that Civil Aviation investigates the possibility of recovery action or whether there is any criminality involved in the above matter.

### **Conclusion**

In effect, the above finding reflects many shortcomings in the contractual arrangements between ACI and the Civil Aviation Division of the Solomon Island Government and the control and management of the Contract. These shortcomings include the following:

- Overpayment of AUD\$70,000 (Est. SBD\$364,000) in the application of Annexure B of the “Terms of Agreement – Contract Fees and mode of payment” while this was the responsibility of ACI and the Solomon Island Government it was exacerbated by many payments being made by Airservices Australia without full knowledge of the contract conditions;
- Clause 2 of the Agreement of Service provides for extra costs to be incurred by ACI in fulfilling the contract (as agreed by CAD) to be met and paid in full to ACI. Audit noted that for the period May 2001 to May 2005 an amount of AUD\$277,457 was incurred and most of these expenses were paid through Airservices Australia. Most to these payments lacked supporting documentation and some expenses were in relation to Honiara transport and accommodation which was provided for under paragraph 1 Annexure B of the Agreement;
- From Audit examination and independent advice of Government Officials there was a lack of performance by ACI in terms of Annexure A and this displayed a lack of contract management by the Government. This led to a temporary termination of the Contract which was subsequently reinstated, however, did result in the replacement of the Director of Civil Aviation (ACI Associate). This position was exacerbated by Airservices Australia making many payments to ACI without determining whether the services had been performed.

- The Agreement of Services from Audit's point of view should have contained aspects such as reporting requirements; contractor's time input; monitoring of agreement and should have been reviewed and approved by the Attorney General.
- The appointment of a person who was allegedly a Director of ACI (as suggested by the ACI website and other material) to the position of Director General Civil Aviation was contrary to Agreement of Service Annexure B Paragraph 6 which states, among other things, that "the Consultant will be required to be independent of any potential supplier". Audit was also concerned that:
  - The appointment process was irregular in that the Public Service Department was notified only after the appointee was notified that he had been appointed as Director General of Civil Aviation;
  - At the time of the Audit no evidence could be found that the appointment has been referred to the Public Service Commission (as the employing authority);
  - An amount of SBD\$723,123 was paid to the DGCA even though it was stated that his package would be met by Overseas Funding Donors, although Audit was unable to identify who these donors were. However, according to the Permanent Secretary's letter to the Managing Director of ACI dated 10 October 2002, it was indicated that the AUD\$4,000 monthly living allowance paid to the DGCA by the Solomon Island Government should be reimbursed from ACI's monthly payments. Audit, however, found no evidence of the monthly allowance being reimbursed by ACI;
  - The post of Director General (Level13/SS1) requires a person to be holder of a Master of Bachelor of Aviation Degree or a Degree in Aviation Management from a recognised institution or equivalent. Audit could not locate evidence that the DGCA held such
  - From evidence presented to Audit, the DGCA often only spent three (3) days a week within the Solomon Islands undertaking his role as the Director General and the other days in Brisbane. This was evident by many trips (Honiara – Brisbane) being paid for by the Solomon Island Government which were outside any of the arrangements made and also contrary to the General Orders and Public Service Arrangements;

- There was a serious conflict of interest in that the Managing Director (ACI) was reporting to the DGCA (seconded from ACI) as the Director General Civil Aviation although in effect the DGCA was being guided by the Managing Director and in addition, the DGCA was authorising payments to ACI.

## 5. AIRPORT AND AIRFIELD MAINTENANCE

### 5.1 Background

Maintenance of the Solomon Islands Airports and Airfields (aerodromes) come under the direct responsibility of the Civil Aviation Division. Limited funding for the aerodromes has in the past been allocated from the Ministry of Finance within the following Recurrent Budget Estimates:

- Maintenance of Airfields (Provincial) – Account Code 0511 2159;
- Maintenance of Airfields (Henderson) – Account Code 0511 2161;
- Munda Airport Maintenance – Account Code 0511 6151.

Whilst the legislated financing fund for Civil Aviation aerodrome maintenance is the recurrent budget allocation through the Ministry of Finance, funding was also sourced by the Civil Aviation Management through upper airspace navigational revenue from either the two Director General Civil Aviation (DGCA) SI Trust Accounts or directly from Airservices Australia (Trust Account).

#### **Henderson Airport Sites**

The Henderson Aerodrome was marked out into different sections for the maintenance contracts as follows:

- **Landside** - the area in front of the terminals which comprised of lawns, landscaping and a car park.
- **Airside** - comprising the runway, taxiway, hanger, apron (plane parking area) and the surrounding green areas inside of the perimeter fence.
- **Transmitter Buildings** - the buildings which house ground navigational equipment that planes use as navigational aids for landings and take-offs which are situated at the north eastern end of the Airport.
- **Mast Sites** - distance measuring equipment (DME-VOR) situated along the Lunga River area or upper Betikama area.
- **Perimeter Fence** - the fence that separates the Airside and the Landside of the Airport.
- **Approach Lights** - the area surrounding the ground aid lights erected at the east most part of the airport outside of the perimeter fence beyond the main road.

## Provincial Airfields

Twenty (20) Provincial airfields have been identified where the Government is responsible for maintenance, which are administered by the Civil Aviation Division (CAD), under the supervision of the Ministry of Infrastructure and Development (MID). The details and specifications for each respective aerodrome are detailed in AD 2. – Aerodromes of the Solomon Islands Aeronautical Information Publication. The Provincial aerodromes that have been identified to have had payments made for maintenance are as follows:

Province	Airfield	Province	Airfield
Choiseul	Choiseul Bay	Malaita	Parasi
Guadalcanal	Avu Avu	Renbel	Bellona
Guadalcanal	Marau	Renbel	Rennell
Guadalcanal	Mbambanakira	Temotu	Santa Cruz
Isabel	Fera	Western	Ballalae
Makira	Arona	Western	Mbarakoma
Makira	Kira Kira	Western	Gizo
Makira	Santa Ana	Western	Mono
Malaita	Auki	Western	Munda
Malaita	Ontong Java	Western	Seghe

## 5.2 Summary of Audit Findings and Recommendations

The following is a summary of audit findings and recommendations:

### 5.2.1 Aerodrome Maintenance – Management, Policy Inadequacies & Irregular Activities

The management of aerodrome maintenance is in a most unsatisfactory state with Financial Instructions and Stores Instructions not being followed. This has led to the Director Transport Policy and Planning Unit identifying the following problems in this area:

- Ministry of Infrastructure and Ministry Tender Board has written a lot of correspondence (concerning breaches of Financial Instructions etc.) to the Civil Aviation Division with little effect;
- No clear methodology exists of assessing areas and extent of work required per airfield;
- No proper tendering, assessment and awarding of contract;
- No clear guidelines (or MOUs) existing to govern airfields managed by some provincial governments;
- Contracts signed off by Director General instead of the Accounting Officer (Permanent Secretary) in the Department;

- Issuing other contracts (such as building repairs) not related to his area of responsibility.
- Renewal, termination and extension of contracts done on ad hoc basis;
- In Henderson use of Wantoks, church and other groups for work is impractical because the extent of work to be carried out renders this method as unsustainable;
- 90% of the contracts have been awarded by Civil Aviation prior to being submitted to the Ministry Tender Board for the formality of approving them;
- At times contractors fail to complete the scope of the work because there is no proper assessment initially and no bill of quantities to cost the work;
- Allegations of collusion, use of wantoks and demanding payments from contractors by Civil Aviation employees;
- Allegations of collection of payments from Treasury by Civil Aviation employees instead of Contractors.

The Audit has confirmed many of the problems highlighted above and had to reconstruct many of the records to determine what has been paid and what hasn't been paid, in that:

- There is a lack of proper records in relation to the awarding and payment of contracts and this is exacerbated by payments being made from three different sources, such as the Trust Accounts, Airservices Australia and Solomon Island Government Payment System. This has led to a considerable number of duplicate and overpayments made to Contractors;
- In many cases tender or quotation procedures are not being followed and in some cases when obtained are not genuine, in other cases contracts are granted to pseudo companies or business names which are a front for Government Officials or relatives;
- Contract payments are being made on many provincial airports that have been closed.

In addition, Audit could not determine any policies or guidelines for contract maintenance in that:

- There does not appear to be any policy in relation to regional emergency airports and as a result unnecessary expenditure is incurred on the maintenance of closed airports with suspicions of fraud in some cases.
- Prior to the engagement of contractors, the parameters of the services to be rendered must be determined and clearly documented. It was identified that:
  - guidelines for the maintenance of aerodromes have not been documented;
  - there is no evidence that the aerodrome maintenance was ever stipulated to be undertaken in accordance with any Aviation Regulations or safety requirement specifications ;
  - there has been no monitoring by either the Civil Aviation Division or the Provincial Governments to ensure that the maintenance has been conducted to an acceptable standard.

The implication is that the lack of proper policies and procedures across the area of contracting from initial advertising, through to selection, letting, oversight and payment has opened the system up to abuse and fraudulent/corrupt activities. It is evident that individuals both within and external to the Civil Aviation Division have conspired to cost the government millions of dollars since 2000.

### **Recommendation 23**

We recommended that:

- A review be carried out of all maintenance work at regional aerodromes to establish what maintenance contracts exist and determine whether there is a need for the work and determine what airports are closed and their requirements, if any, in cases of emergencies;
- Guidelines be established to determine the parameters of the services to be rendered and to align the requirements with any Aviation Regulations or safety requirements,
- Monitoring is carried out by either the Civil Aviation Division or the Provincial Government to ensure that maintenance has been conducted to an acceptable standard.

#### **5.2.2 Aerodrome Maintenance – Lack of Control Over Payments to Contractors**

Review of the Actual versus Budgeted Expenditure for aerodrome maintenance identified minimal correlation between the Budget and the Actual Expenditure that was disbursed from SIG Recurrent Funds. Furthermore, due to the insufficient funds available from SIG Recurrent

Budget for the amount of maintenance that had been contracted, funding was also sourced from the Director General Civil Aviation (DGCA) SI Trust Account(s) and from Airservices Australia (Solomon Islands Trust Account).

The figures for the comparison of budgeted expenditure against actual expenditure (as funded from the three sources) were reconstructed from Treasury and other records and should be used as a guide only. These are detailed below:

*Actual v Budget Table*

Year	Airport / Airfield	Actual Expenditure (SBD\$)			Total Arrears Payments (SBD\$)	Total Actual Expenditure (SBD\$)	Total Budgeted Expenditure (SBD\$)
		SIG Funded	Trust A/c Funded (to Mar 05)	Airservices Funded			
2000	Henderson	447,223	0	0	0	447,223	150,000
	Provincial	281,665	0	0	0	281,665	350,000
	Others - Hen	51,065	0	0	0	51,065	0
2001	Henderson	508,218	0	361,230	0	869,448	40,000
	Provincial	213,900	0	0	0	213,900	200,000
	Others - Hen	61,328	0	0	0	61,328	0
2002	Henderson	341,586	739,946	62,750	0	1,144,282	20,000
	Provincial	275,740	45,000	0	0	320,740	20,000
	Other - Hen	0	50,110	0	0	50,110	0
	Other - Munda	0	150,000	0	0	150,000	0
2003	Henderson	311,600	118,150	0	0	429,750	0
	Provincial	305,080	36,500	0	0	341,580	20,000
	Others - Hen	0	19,530	0	0	19,530	0
2004	Henderson	541,625	226,776	0	231,000	999,401	60,000
	Provincial	1,017,383	0	0	243,502	1,260,885	1,200,000
	Others - Hen	221,836	500,930	0	0	722,766	0
	Others - Prov	120,350	0	0	0	120,350	0
2005	Henderson	252,590	99,750	0	553,200	905,540	0
	Provincial	1,131,350	0	0	255,350	1,386,700	1,305,379
<b>Total</b>		<b>\$6,082,539</b>	<b>\$1,986,692</b>	<b>\$423,980</b>	<b>\$1,283,052</b>	<b>\$9,776,263</b>	<b>\$3,365,379</b>

Note: Arrears 2006 Provincial: SBD\$35,000 Paid, SBD\$43,170 Outstanding (Unpaid)  
Henderson: SBD\$516,367 Paid, SBD\$141,650 Outstanding (Unpaid)

From the reconstruction of contract and payment records, Audit noted that:

- Payments to contractors exceeded the amount due as per contract agreements;
- Amount due as per contract agreements exceeded payments to contractors; and
- Payment to contractors without any contract agreement.

In reconstructing the Henderson Airport figures the maintenance payments included major and minor works, provincial and other contract payments.

A summary of these are listed below:

Payments to contractors exceeded amount due as per contract agreements

<b>Airfields</b>	<b>Total Payable to Contractor (Based on Contract) - SBD\$</b>	<b>Outstanding Arrears</b>	<b>Total Paid</b>	<b>(Over)/Under</b>
Provincial	680,160		1,424,302	(744,142)
Henderson	1,470,600	107,650	2,955,104	(1,592,154)
<b>Total</b>				<b>(2,336,296)</b>

The contributing factors relating to payments being made in excess of the contract agreement include:

- Overpayments of contractors and some of these are noted in Section 11 irregularities;
- Contractors may have had contracts which could not be located at the time of the Audit.

Amount due as per contract agreements exceeded contractor payments

<b>Airfields</b>	<b>Total Payable to Contractor (Based on Contract) - SBD\$</b>	<b>Outstanding Arrears</b>	<b>Total Paid SBD\$</b>	<b>Over/Under SBD\$</b>
Provincial	2,053,565	43,170	1,252,191	758,203
Henderson	530,000		250,000	280,000
<b>Total</b>				<b>1,038,203</b>

The contributing factors relating to contract agreements exceeding payments to contractors include:

- Payments may be in arrears;
- The periods in the contract agreements might not be completed;
- Contract agreements might not be genuine for example Audit noted that several of these agreements relate to closed airports – see Section 11 Irregularities.

## Payment to contractors without any specific (fixed) contract agreement

Airfields	Total Paid SBD\$	Over/Under SBD\$
Provincial	(948,477)	(948,477)
Henderson	(1,986,906)	(1,986,906)
<b>Total</b>		<b>(2,935,383)</b>

Note: Includes three (3) contractors for Bellona Airfield where contracts specify periodic payment amounts, however, no fixed period.

These payments were made to a number of Contractors for variety of maintenance work without any evidence of a contract agreement.

In essence without proper process of quotations and tenders and the recording of transactions relating to each contract agreement, the whole system is open to fraud and corruption.

In relation to the payments made for maintenance of some closed airports the Deputy Director indicated that some closed airfields were maintained for emergencies, however, no policy could be found by Audit indicating what airfields were maintained for that purpose.

It is also of note that some payments in arrears made by Ministry of Finance have been duplicated or in some instances could have been incorrectly paid. Some instances are noted in Irregularities at Section 11, however, Civil Aviation should review these payments.

The implication is that there has been blatant financial mismanagement within the Civil Aviation Division with regard to expenditure relating to the maintenance of Solomon Islands aerodromes.

**Recommendation 24**

We recommended that:

- Proper payment and contract records be maintained by Civil Aviation;
- Payments to contractors where possible be paid direct to Contractor Bank Accounts (Cash payments should not be made, however, if it is necessary, then a responsible Accounts officer should collect the payment from Treasury);
- A policy be developed in relation to maintaining emergency airfields and that all current maintenance payments be reviewed;
- A review of arrears payments be made in conjunction with the Ministry of Finance;
- A review be made of all maintenance contracts so as to determine whether they are carrying out legitimate work.

### 5.2.3 Contractors paid directly by Airservices Australia

The following Henderson Airport maintenance contractors were paid directly by Airservices Australia during the 2001 and 2002 financial years. These funds were transferred directly into the contractors' private bank accounts on the request of Civil Aviation personnel.

Date	Contractor	Amount (AUD\$)	Amount (SBD\$)
21.02.01	Air term Klein Services	11,881.19	30,000.00
10.07.01	J&L Carriers	18,516.25	45,500.00
11.09.01	Bolmar Plumbing Services	3,841.86	10,000.00
28.10.01	Bolmar Plumbing Services	13,645.22	35,000.00
19.11.01	Bolmar Plumbing Services	25,659.82	70,000.00
28.10.01	Mawa Security Services	13,293.32	35,000.00
28.10.01	J&L Carriers	7,797.27	20,000.00
20.11.01	Mawa Security services	13,645.22	35,000.00
22.11.01	Ann Social Club	10,705.00	28,000.00
03.04.02	J&L Carriers	7,589.61	31,375.00
18.04.02	J&L Carriers	9,660.36	31,375.00
29.05.01	Solectrics	24,668.82	52,730.00
<b>TOTAL</b>		<b>\$160,903.94</b>	<b>\$423,980.00</b>

The total amount of SBD\$423,980 was transferred from the Airservices Australia (Solomon Islands Trust Account) in Australia to commercial bank accounts of individual contractors in Honiara and Australia (for J&L Carriers).

The implication is that this expenditure was not recorded in the consolidated fund nor was it included in the Government Accounts. As a result it was not transparent and was open to duplicate payments and possibly fraudulent transactions.

#### **Recommendation 25**

We recommended that while Airservices Australia has ceased paying third parties, Civil Aviation, where possible, should review these transactions to confirm that the services were provided and that there were no duplicate payments.

#### 5.2.4 Aerodrome Maintenance Contractors – Lack of Contract Agreements

The audit identified from available records that during 2000 to 2005 there were more than fifty (50) contractors engaged in the different maintenance roles within the Henderson Airport areas and about forty six (46) contractors undertaking maintenance of the Provincial Airfields during the period of review.

From the fifty (50) contractors engaged at Henderson, only twenty two (22) contract agreements (less than 45%) were actually sighted by Audit resulting in the other twenty eight (28) or so contract agreements being unavailable for review (if in fact they ever existed). Based on the twenty two contract agreements sighted, the total sum of SBD\$2,070,600 was indicative of being payable to the contractors (if the contracts are valid) for maintenance relating to Henderson Airport for the entire period under review. This is compared to the total contractor payments for Henderson Airport maintenance of SBD\$5,369,660 actually spent and arrears payable during the period 2000 to 2005.

From the forty six (46) contractors undertaking Provincial Airfield maintenance only about thirty one (31) have contract agreements for at least a portion of the period 2000 to 2004, whilst the review could not verify from documents available any contract agreements existing for the other fifteen (15) or so contractors. Based on the thirty one (31) contract agreements being verified, the payments to contractors for maintenance was about SBD\$2,891,993 for the period under review, with the cost of maintenance paid to contractors without contract agreements amounting to SBD\$948,477.

The implication is that there are no contract agreements to support approximately \$4.2M millions of dollars worth of aerodrome maintenance expenditure.

#### **Recommendation 26**

We recommended that contractors engaged at Henderson and Provincial aerodromes be subject to signing appropriate agreements.

#### 5.2.5 Awarding of Contracts and Engaging Contractors - Quotations and Tenders

Financial Instructions 519 – 529 specify the appropriate procedures for quotations and tenders prior to awarding of contracts and engaging contractors on behalf of the Government.

The majority of the maintenance contracts would be subject to tender (>SBD\$50,000) with evaluation necessary by either the Ministerial Tender Board (<SBD\$500,000) or the Central Tender Board (>SBD\$500,000).

The review has indicated that the quotation/tendering procedures as detailed within the Financial Instructions were not applied by Civil Aviation to engage contractors for the maintenance of aerodromes for the period under review. There is no evidence that quotations were sought or tenders called, nor is there any documentation demonstrating that a proper assessment was undertaken as to the suitability of each contractor with regards to price, availability of equipment, location of the contractor etc.

As a result, the awarding of the majority of contracts to various contractors had no justification/basis for selection, hence, were inconsistent and open to abuse and misappropriation. It is suspected that the selection of individuals or purported organisations (as most are not registered businesses) was not undertaken based on merit, but rather their association with officers within the Civil Aviation Division.

An allegation was documented in a letter of complaint (dated 14 August 2001) from one of the unsuccessful bidders to the Office of the Ombudsman regarding the Henderson International Airport – Perimeter Fencing and Aerodrome Markings Contracts. The letter raises concerns to the Ombudsman “for an immediate investigation as to how and if legal tender procedures were complied with when awarding the contracts”. The letter goes on to say that:

*“According to information received, the sums quoted by the Permanent Secretary of Ministry of Transport, Works & Communication (MTWC) were too high above the reserve prices recommended by the Director of Civil Engineering. The decision made in recommending and awarding the contracts is not from the Ministerial Tender Board (MTB) as claimed by the Permanent Secretary of MTWC” but rather “recommendations made by himself without consultation with the Board Members who represent the Engineering functions of the Ministry.”*

A memorandum from the Permanent Secretary MTWC to the Chairman of the Central Tender Board (CTB) regarding Application for Waiver of Tender Procedures requested (on behalf of the MTWC and MTB) that Bolmar Building and Plumbing Services be awarded the Perimeter Fencing contract (for SBD\$685,000) and Mawa Security Service be awarded the Aerodrome Markings contract (for SBD\$729,080). The memorandum further states that Bolmar was the only quotation received for the Perimeter Fencing while three (3) quotations were received for the Aerodrome Markings.

Apart from the value of the contracts being in excess of SBD\$500,000 requiring them to be evaluated by the Central Tender Board (not the MTB), the lack of responses for the Perimeter Fencing would suggest the need for re-tendering.

Apart from Henderson Airport, the awarding of contracts for maintenance of provincial airfields, with the exception of Western Province, was done either by the Director or Deputy Director of Civil Aviation. Most of the contracts were awarded to either landowners or those individuals/groups that approval was given to by the Director / Deputy Director, with this practice existing up until September 2005, prior to reverting in October 2005 to the procedures as detailed in the Financial Instructions.

The implication is that without proper tender procedures, Civil Aviation is unable to demonstrate impartiality in the selection process and suggests that those responsible for the contracting were either ignorant of the Financial Instructions (and associated regulations) or showed deliberate negligence for personal (or related party) gain. Furthermore, a lack of supplier competition within procurement leads to inflated costs and poor quality services for the Government.

#### **Recommendation 27**

We recommended that proper tendering procedure (based on Financial Instructions) must be in place as this is a vital process for selecting suitable, reliable and genuine contractors to carry out the maintenance of Solomon Island aerodromes.

#### **5.2.6 Changeover of Contractors – Unsatisfactory Process & Irregular Activities**

A change of contractor, prior to the cessation of the existing contract agreement, requires the contracting organisation to demonstrate unsatisfactory provision of service by the original contractor.

It was identified that engagement, renewal/extension and termination of contracts was undertaken on an ad hoc basis. Instances were noted where contracts were:

- terminated prior to the expiry date with another contractor engaged; and/or
- Another contractor was appointed whilst an existing contractor's agreement remained valid and work continuing.

An example of where contracts for the same airfield were awarded to different contractors over the same period is Avu Avu airfield (Weathercoast Guadalcanal), where two different contractors had both been engaged and had signed an identical contract agreement for the same period being 1 June 2004 to 1 June 2006. Furthermore, both contractors at the time of the contract seemed to be residing in Honiara, as indicated by the contractors' addresses on the payment vouchers (PV 8950 and 11224 respectively).

Examples of where Provincial contracts have been awarded to new contractors without proper termination of the prior contractor occurred at the Seghe and Renbel airfields, which have resulted, in both these instances, Civil Aviation paying the terminated contractors for a breach of contract.

#### *Renbel Airfields*

A letter of termination was drafted on 21 June 2002 by the CAD Licensing Officer to Rennell and Bellona contractors advising them that their contracts were terminated with immediate effect and the contractor for both airfields would be the Rennell and Bellona Province (Government). The payments relating to this termination are as follows:

After the termination payments (i.e. for June 2002 in lieu of termination) were paid in September 2002, both contractors continued to receive contractor payments, despite there being no evidence that their contracts had been renewed. The additional payments are as follows:

<b>Contractor</b>	<b>MOF 2003 (SBD\$)</b>	<b>MOF 2004 (SBD\$)</b>	<b>Trust Acc 2003 (SBD\$)</b>	<b>Arrears 2004 (SBD\$)</b>	<b>Arrears 2005 (SBD\$)</b>	<b>TOTAL (SBD\$)</b>
Rennell Contractor	23,400	27,300	25,000	13,000	42,800	<b>131,500</b>
Bellona Contractor	10,000	5,000	5,000	13,000	49,000	<b>82,000</b>
<b>TOTAL</b>	<b>33,400</b>	<b>32,300</b>	<b>30,000</b>	<b>26,000</b>	<b>91,800</b>	<b>213,500</b>

### ***Seghe Airfield***

In a letter (dated 26 May 2005) from the Under-Secretary - Department of Infrastructure to the Permanent Secretary – Department of Communication, Aviation and Meteorology it is stated that:

*“Suddenly a new contract was suspiciously awarded to a new contractor without any notice to the former contractor. The Church (United Church Pastoral School) because of no formal notice continued to clean the airfield, but when they noticed payment wasn’t forthcoming they decided to cease cleaning. What a joke, someone is doing the job for more than five months and someone in Western Province office miles away took the money”.*

This is further discussed below under Irregularities.

### ***Henderson Airport – Irregular Activities – Involvement of Civil Aviation Staff***

Similar cases also existed for Henderson Airport, whereby a memorandum from a former contractor to a Central Tender Board representative after the termination of the contract at Henderson. The memo highlights several points that the CTB should be aware of during deliberations of the submission to the MTB as follows:

- “1. The submitted list of contractors was direct allocation, whilst the proper way was to call for public tenders;*
- 2. The submission is not justifiable in terms of reserve contract SBD\$ amounts determined according to area size;*
- 3. There is no proof that the contractors list submitted are registered companies (duly authorised by Registrar of Companies) to do grass cutting maintenance, which should be a requirement;*
- 4. There is no proof the submitted list of contractors do possess the required tools/machines/equipment for the task or job applied for;*
- 5. The list of contractors submitted is all Aviation staff related interests, except for one.”*

In an attachment to the letter from the former contractor he indicated the linkage of individuals (namely Civil Aviation Officers) to the successful contractors.

Although the majority of these associations remain unsubstantiated, they are allegations of impropriety by Civil Aviation Officers into the engagement of contractors.

The implication is that inadequate contractor management, from improper contractor engagement or fraudulent undertakings, has resulted in either duplication of contract (and payment) or payment of compensation for breach of contract. Furthermore there are serious allegations against Civil Aviation officers that they utilised their positions for personal gain.

#### **Recommendation 28**

We recommended that appropriate contractor management be undertaken to ensure that contractor service provision is satisfactorily performed (based on proper initial engagement) and multiple contractors cannot be paid for providing the same aerodrome maintenance at the same time.

Furthermore, investigation should be undertaken into the association between Civil Aviation personnel and engaged maintenance contractors.

#### **5.2.7 Name of Contractors Different from Post Office Box Holders per Contract Agreements**

Review of Post Office (PO) Box holders (registered by Solomon Post) as specified within the contract agreements noted a number of anomalies including that many of the PO Box numbers specified within the agreements do not correspond with contractors (eg, SIWA, MET Service, Electoral Commission, Home Finance) suggesting that the contractors are not maintenance businesses, and may have been used to conceal the contractors' identities

The implication is that contracts may have been illegal and open to false pretences and fraud.

#### **Recommendation 29**

We recommended that the Civil Aviation Division investigate these cases to determine the validity and integrity of the so called contractors and if necessary, that matter may need to be referred to the appropriate authorities for further investigation to determine whether any criminality is involved.

### 5.2.8 Establishment of Contracts Register

Financial Instruction 530 requires the Treasury Division to maintain a register in which the financial details of all major contracts entered into by the Government will be recorded.

Neither the Civil Aviation nor Treasury Division maintained a Contracts Register for maintenance contracts awarded for Airports and Airfields. The Register would facilitate monitoring of payments to the existing contractors and enable planning for the tendering of future contracts.

The implication is that Civil Aviation is unable to appropriately manage existing and future contracting requirements. Likewise, neither Civil Aviation nor Treasury are able to validate the legitimacy of contractor claims for payment.

#### **Recommendation 30**

We recommended that both Civil Aviation and Treasury establish and maintain a Contracts Register for all contracts that Civil Aviation enters into.

### 5.2.9 Continuity of Aerodrome Maintenance

Analysis of expenditure on contractors through the three funding sources (Treasury, Trust Account and Airservices Australia) identified that there was not a continuity of payments for Provincial airfield maintenance throughout the period of review. It appears that payments for maintenance were non-existent for many of the airfields for some of the years reviewed. The fact that this has occurred indicates the possibility of one or a number of the following scenarios:

1. Airfields were closed during that period;
2. Airfields have been closed and any payments made have been illegitimate;
3. Airfields were being maintained during the period, however, were not being paid;
4. Airfields were being maintained on voluntary basis;
5. Airfield maintenance was being funded from other sources (eg. Provincial Government);
6. Airfield maintenance expenditure was accrued and payment made through the arrears function.

#### **Recommendation 31**

We recommended that Civil Aviation reviews airfields with the aim of determining the status of maintenance requirements and where payments for maintenance were made identify the validity of these payments.

#### 5.2.10 Contract Rates Inconsistently Applied

It is important that there is consistency in the application of contract rates for similar or identical provision of services.

The review of the rates used for maintaining airfields identified that they were inconsistent, with calculations undertaken without utilisation of a standard formula. This has resulted in some of the shorter airfields having a higher approved contract amount, whilst other longer airfields have contracts for lower approved amounts.

It seems that most of the rates were determined and approved only by the Director / Deputy Director of Civil Aviation, without proper calculations being conducted by the responsible Department in the Ministry of Infrastructure and Development (MID).

The implication is that the inconsistency in the application of the rates is viewed as biased towards some contractors.

#### Recommendation 32

We recommended that a standard method of accessing the value of aerodrome maintenance be established to ensure consistency between aerodromes and contractors.

#### 5.2.11 Contract Content/Format – Non Referral to Attorney General’s Office

It is important that there is consistency in the content and format of each contract for similar/identical provision of services, clearly detailing the services/inputs that constitute the maintenance of the aerodrome, the exact area to be covered, monitoring/termination clauses etc.

During the period of review, the Civil Aviation Division utilised two standard contract formats with the contents of both agreements identified as not being adequate or properly documented. The inadequacies of the contract agreements is the result of neither format being drafted or reviewed by the Attorney General’s Office (the legal adviser to the Government). Audit has confirmed with the Attorney General’s Office that the majority (if not all) of the Civil Aviation contract agreements have not passed through the Attorney General’s Office.

The agreements were drafted as either a fixed or open term contract, with them designated as Normal Contracts (Fixed) or General Contracts (Open). An example of a Normal Contract is Katgras Sevis whereby Section 4 Clause (c) states that “The duration of the contract agreement shall be one (1) year from the date of signing”, whereas, an example of a General Contract is the Laubae Youth Group whereby Section 3 Clause (a) states “To pay the contractor the sum of \$20,000.00 upon completion of works in the said area”, in which the area referred to is the NATS Area Three. The agreements are generally only two/three pages with the details specified regarding the maintenance/contract arrangements being extremely limited.

It was noted that one contractor had two contracts for the same period (12 June 2004 – 12 September 2004) which were signed on the same day (12 June 2004). One contract was for SBD\$25,000 a month, whilst the other was for SBD\$35,000 a month. The more expensive contract included an additional requirement that is the “HF Transmission”.

Audit could not clarify why there were two contracts for the same period. Furthermore, it is considered that these contracts do not have sufficient details with the extent of the General Contract Agreements as follows:

### ***Contract 1***

“The Contractor shall diligently carry out grass-cutting in the following airport areas for a period of three (3) months effective 12 June 2004 and expiry 12 September 2004.

- a) Airport Runway
- b) Runway 24 Approach
- c) 5 metres from Outer Fence Line of the Perimeter Fence
- d) International Terminal Land-side area.

#### **Part A**

The Contractor agrees to:

- a) Undertake the cutting of grass in the said areas of a) – d) above
- b) Provide own workforce and tools
- c) Accept the contract price of SBD\$25,000 per calendar month
- d) Advise Civil Aviation Division in good time when decide to terminate the contract

#### **Part B**

Civil Aviation Division agrees to:

- a) Supervise and provide assistance where possible
- b) Pay the agreed contract price after inspecting the work to its satisfaction
- c) Give one week notice if decide to terminate contract.”

***Contract 2***

“The Contractor shall diligently carry out grass-cutting in the following airport areas for a period of three (3) months effective 12 June 2004 and expiry 12 September 2004.

- a) Airport Runway
- b) Runway 24 Approach
- c) HF Transmission station
- d) 5 metres from Outer Fence Line of the Perimeter Fence
- e) International Terminal Land – side area;

**Part A**

The Contractor agrees to:

- e) Undertake the cutting of grass in the said areas of a) – e) above
- f) Provide own workforce and tools
- g) Accept the contract price of SBD\$35,000 per calendar month
- h) Advise Civil Aviation Division in good time when decide to terminate the contract

**Part B**

Civil Aviation Division agrees to:

- d) Supervise and provide assistance where possible
- e) Pay the agreed contract price after inspecting the work to its satisfaction
- f) Give one week notice if decide to terminate contract.”

The agreement specifies that the Contractor is to provide own workforce and tools, however, through discussion with Civil Aviation personnel it was identified that the Division was providing equipment (tractor and slasher), personnel and fuel to the Contractor to assume this role, whilst also paying them SBD\$25,000/SBD\$35,000 per month.

The implication is that ill-drafted contract agreements may not be legally recognised or enforceable, which could have financial repercussions for the Government. In addition, it is not clear why there were two contracts prepared and signed for the same period with an overpayment to these Contactors set out at Section 11.

**Recommendation 33**

We recommended that:

- All contract agreements entered into by the Civil Aviation Division, on behalf of the Government, be drafted by the Attorney General's Office to ensure that the contents of the agreements meet appropriate legal requirements and appropriately detail the terms and conditions of the contractual arrangements.
- Civil Aviation investigates why two contracts were prepared and signed virtually for the same work.

**5.2.12 Unauthorised Approval of Contracts (Authority to Incur Expenditure)**

Financial Instruction 201 specifies that the Accounting Officer is the designated officer authorised to incur expenditure on behalf of the Civil Aviation Division. The Permanent Secretary (Ministry of Infrastructure and Development) has been appointed as the Accounting Officer under Section 17 of the Public Finance and Audit Act.

Financial Instructions 206 specifies that all purchase orders, requisitions, payment vouchers or other accounting documents that require signing to become valid documents must be signed by the Accounting Officer or his authorised substitute. Any delegation must be approved by the Permanent Secretary (the Accounting Officer in this case) following a written request from the Accounting Officer for such delegation. The written request must be accompanied by three (3) specimen signatures of the delegated officer (which must be re-submitted each financial year) with records of the approved delegation(s) maintained by both the Permanent Secretary and the Accountant General (Treasury Division).

Financial Instruction 212 specifies that any officer, who signs any accounting document without official authority, as prescribed by FI 206, is personally and financially responsible in the event of an irregular payment of public money being made following the unauthorised issue of such a document.

During the review we were unable to identify any delegation by the Permanent Secretary (through the Authority to Incur Expenditure Form (TSY 15)) for the Director(s) of Civil Aviation to incur expenditure (sign contract agreements) on behalf of the Division.

The review noted that eight (8) of the twenty two (22) Henderson Maintenance Contracts available for review were not signed by the Permanent Secretary, whilst only one of the thirty one (31) Provincial Maintenance Contracts sighted was signed by the Permanent Secretary. The signatures appearing on the majority of the contract agreements (other than the Permanent Secretary) are the former Directors of Civil Aviation.

Furthermore, all the contracts for maintenance of aerodromes in every respect should have been processed through the respective Ministerial or Central Tender Board for proper assessment and approval.

The implication is that the Director had not legitimately authorised the Division to enter into contractual arrangements with contractors.

#### **Recommendation 34**

We recommended that the contracts for maintenance of aerodromes should be approved by the Permanent Secretary after following the processes through the respective Ministerial or Central Tender Board for the assessment and approval of each maintenance contract.

#### **5.2.13 Non Distribution of Contract Agreements**

Financial Instruction 529 (4) requires five (5) copies of each contract agreement to be distributed as follows:

- Original to be retained by the department;
- Duplicate to the contractor;
- Triplicate to the Accountant General;
- Quadruplicate to the Auditor General; and
- Supplementary copies to any Sub-Accountants required to make payments under the contract.

It has been noted that the Civil Aviation Division failed to distribute five copies of each of the contract agreements to the respective parties.

The implication is that pertinent information relating to large payments of funds to alleged contractors was withheld from the respective parties that are integral to the payment and governance process, who may have enquired into the legitimacy of any suspect contractual arrangements.

#### **Recommendation 35**

We recommended that all contractual documentation be appropriately distributed to the respective parties, where the documents can be further scrutinized for validity and legitimacy.

### 5.2.14 Absence of Payment Vouchers

Financial Instructions 243 and 244 requires that the Accounting Officer must ensure that a suitable record or file is kept of all quadruplicate copies of the General Payment Vouchers that have been issued from the Ministry or Department.

It was noted during the audit that nearly all of the payment vouchers for 2003 could not be located within the Treasury (Archive) Records Room, with many of the vouchers for 2001, 2002 and 2004 also unavailable for review. Furthermore, the copies of the General Payment Vouchers that are required to be retained by Civil Aviation were either not maintained, or could not be located for audit review.

The absence of General Payment Vouchers (and supporting documentation), within the Treasury and Civil Aviation Division, may be the result of inadequate initial record keeping, or the documents have been subsequently removed either, for other purposes (and never returned) or with fraudulent intent.

The implication is that inadequate expenditure records exist to support the payments made by the Civil Aviation Division and as a result the payments cannot be verified for legitimacy.

#### **Recommendation 36**

We recommended that the systems utilised by both Treasury and Civil Aviation for archiving and records management be improved. This may require renovation or relocation of the Records Room to ensure that proper management can be undertaken and is a conducive work environment.

In addition, a Records Register should be established and maintained by the Records Management Officer which would record the following:

- Details of documents removed;
- Officer removing the documents;
- Date documents removed;
- Date documents returned.

Furthermore, a thorough search/investigation should be undertaken to locate the whereabouts of all missing accounting documentation.

### 5.2.15 No Certification re: Satisfactory Performance of Airfield Maintenance

Financial Instruction 234 specifies that in certifying and signing a payment voucher, the Accounting Officer, or authorised signatory, is responsible for ensuring that all goods supplied or services rendered are correct and in accordance with the contents of any purchase order, requisition or other contract that has been made between the payee and the Government and to which that payment voucher shall refer.

Review of the Payment Vouchers (and supporting documents), identified that various officers located within Honiara (primarily the former Director of Civil Aviation, however, included Permanent Secretary, Chief Accountant, Chief Technical Engineer) were signing the Supervisor's Certification that the services detailed in the payment voucher have been received (or services rendered). There is generally no evidence (eg. completion certificate) from the Provinces or Solomon Airlines indicating that the maintenance of the airfields had been satisfactorily completed, hence, no basis for signing that the services have been rendered.

The implication is that payments were made to contractors without evidence confirming that the airfield maintenance had been satisfactorily performed.

#### **Recommendation 37**

We recommended that appropriate evidence be obtained that the goods have been received or services rendered prior to signing the Supervisor's Certification.

### 5.2.16 Payment Vouchers - Lack of Supporting Documentation

Financial Instruction 239 specifies that all General Payment Vouchers will be completed in such a manner that full particulars of the goods supplied, services rendered or other types of expenditure incurred can be fully ascertained from the voucher without necessary reference to any other separate file, contract or similar document. In addition, originals of all available documents will be firmly stapled to the original copy of the General Payment Voucher in support of the payment.

Review of the payments through the SIG Recurrent Budget identified that nearly all of the vouchers for 2001 – 2003 do not have copies of the contract agreements or completion certificates attached.

In addition to the expenditure from the SIG Recurrent Budget, numerous payments in respect of maintenance of provincial airfields were paid out of the Director General Civil Aviation (DGCA) SI Trust Account(s). Some of these payments do not have payment vouchers or appropriate supporting documentation attached, and as a result details of the payments could not be verified, except for those details that were extracted from the limited number of available cheque butts for this Account(s).

Furthermore, where supporting documentation could be obtained, it was identified that there were instances where the rates used for payments to contractors were either more or less than what was specified within the Contract Agreements.

The implication is that payments to contractors could not be appropriately verified to supporting documentation which may have resulted in either under or overpayments.

#### **Recommendation 38**

We recommended that all relevant supporting documentation such as contract agreements, completion certificates, invoices and other related information be attached to all payments vouchers.

#### **5.2.17 Invoices Submitted/Paid Long After Service Rendered**

Financial Instruction 177(3) specifies that an Accounting Officer shall not incur or commit any expenditure that exceeds the current provision authorised by Accounting Warrant for any accounts code under his control. Financial Instruction 203(1) specifies that an Accounting Officer is responsible for ensuring that no commitment is entered into that would result in an accounts code exceeding the approved estimates, once the subsequent charge is made.

It was noted during the review that there were payments made to contractors long after the service was performed. Expenditure documentation indicates that contractor payments were made several months or even years after the airfield maintenance was undertaken.

The occurrence of these long overdue payments to contractors is suggested to have resulted from insufficient funds being available at the time the maintenance services were rendered, however, it may also be a ploy by Civil Aviation to make illegitimate payments after the fact (when memory may not recall who and if the services have been provided). Audit is concerned that some invoices being submitted long passed the service rendered date may not be genuine and as a result fraudulent invoices may be being paid.

The implication is that payments made long after the goods have been received or services rendered, provides an environment of uncertainty regarding the legitimacy (evidence) for payment, and increases the risk of duplicate expenditure.

#### **Recommendation 39**

We recommended that:

- Prior to committing the Government to expenditure, Civil Aviation ensure that sufficient funds are available for payment; and
- All payments for goods and services be undertaken within one month of the obligation (goods received/services rendered) arising.

#### **5.2.18 Outstanding Payments to Contractors through the Arrears Arrangement**

Contractors throughout the tension period (2000-2003) were paid on an ad hoc basis and created an environment where funds were exhausted from the three funding sources in advance of anticipated time. As a result, payments to contractors during the subsequent period (2004-2005) were outstanding, with claims settled through the Arrears payment arrangement which was established within Treasury to cater for all outstanding payments due to contractors and suppliers of services to SIG during the social unrest.

Outstanding payments at the end of 2003 for all contractors were transferred to Debt Servicing with payments made out of the arrears account (273-0426-4530) commencing in 2004.

The total payment of arrears for Provincial contractors was identified to be SBD\$243,502 (2004), SBD\$255,350 (2005) and SBD\$35,000 (2006) with outstanding arrears of SBD\$43,170.

The total arrears payments to Henderson Airport contractors were SBD\$231,000, (2004) SBD\$553,200 (2005) and SBD\$516,367 (2006) with outstanding arrears of SBD\$141,650.

The implication is that poor management of contractor engagements has resulted in shortfalls in funding with back-payments required through the Treasury arrears payment arrangement to settle outstanding claims.

#### **Recommendation 40**

We recommended that proper budgetary management of contractor engagements be undertaken to ensure that the services provided are competitively priced, value for money within budgetary constraints and verified as completed to a satisfactory level prior to payment.

### **5.2.19 Misallocation/Mis-posting of Payments to the Airfield Maintenance Accounts**

Allocation/posting of payments to the correct account code provides proper accountability over funds and ensures that payments are not obscured.

During the review of the Airfield Maintenance Accounts it was noted that payments had been allocated/posted to the incorrect account. These payments consist of misallocations between the two Airfield Maintenance Accounts, in addition to Other Payments that were not related to aerodrome maintenance (eg. special Imprests, per diem allowances purchase of fuel, hire of motor vehicles etc.)

Review of available records has identified that twelve (12) Provincial Contractor payments were made (totalling SBD\$113,100) from the Maintenance of Airfields (Henderson) allocation during the period 2000 to 2004.

It was noted that one of the contractors was a contractor at Henderson at the time that they were paid also for undertaking provincial airfield contract work. This contractor claimed to have undertaken work on the Santa Cruz Airfield and were paid the sum of SBD\$2,700 on the 24 October 2000 (PV# 265595). According to available records, this Contractor was awarded a Henderson Airport maintenance contract, whilst the Santa Cruz Airfield maintenance was contracted to the Temotu Provincial Government.

In addition to misallocation of provincial expenditure from the Henderson Airfield Maintenance Account, other miscellaneous payments were made including:

- Payment for fuel;
- Purchase of parts and equipment;
- Hiring of private motor vehicles for official and non official use;
- Staff travel expenses;
- Purchase of carvings; and
- Retention costs (end of contract payment).

Likewise, the Provincial Airfield Maintenance Account was subject to misallocation/mis-posting of Other Payments. During 2004, the Provincial Account had payments relating to Civil Aviation officers travel expenditure both within the Solomon Islands and overseas.

The travel costs included in this Account were as follows:

<b>Amount (SBD\$)</b>	<b>Description</b>
\$110,349.81	Per Diem Allowances of SBD\$55,893.54 and Special Imprests (16/04) of SBD\$54,456.27 were for accommodation and other allowances for a delegation while attending International Aviation Safety & Security Summit in Honolulu.
\$10,000.00	Special Imprest payment to an officer (12/04) for travelling expenses, accommodation and meals whilst officers touring to inspect all domestic aerodromes.
<b>\$120,349.81</b>	

The two Special Imprests (12/04) and (16/04) were issued on 24 March 2004 and 16 April 2004 with the due dates for retirement being 31 April 2004 and 20 May 2004 respectively. Neither of these special Imprests has been retired.

Furthermore, from available records it has been identified that six (6) Henderson Contractor payments were made (totalling SBD\$199,500) from the Maintenance of Airfields (Provincial) allocation during the period 2000 to 2005.

The implication is that payments have been incorrectly accounted for, which may result either in duplicate payments or illegitimate payments to contractors for services that were not rendered.

#### **Recommendation41**

We recommended that proper accounting practices are followed by Civil Aviation Management to ensure that payments are both legitimate and correctly accounted for.

## 6. CAD STAFF WELFARE FUND

### 6.1 Background

The Staff Welfare Fund Account was purposely set up to deposit SBD\$30,000.00 drawn from the DGCA SI Trust Account (#414 4289) as an advance in lieu of non-payment of salaries to Civil Aviation Division Staff.

### 6.2 Summary of Audit Findings and Recommendations

The following is a summary of audit findings and recommendations

#### 6.2.1 Authority to Establish Bank Account ANZ (#415-8600)

The Staff Welfare Fund Account was set up to advance funds in lieu of non payment of salaries.

Financial Instruction 382 (1) states that “no government bank account shall be opened without prior written approval of the Permanent Secretary”.

Audit was not able to locate the authority from the Permanent Secretary to open the account nor could it identify the designated cheque signatories. Furthermore, after enquires at the ANZ Bank it could not provide any information on the authority to open the account or provide information on whom the designated cheque signatories were.

The implications are that this account was opened without the authority of the Permanent Secretary and thus contrary to the Financial Instructions and Public Finance and Audit Act. This could lead to illegal and fraudulent transaction being made.

#### Recommendation 42

We recommended that Financial Instructions procedures be followed when opening any government bank account.

### 6.2.2 Advance of Funds in Lieu of Non-payment of Salaries

ANZ Cheque (raised 13/6/2002) from the DGCA SI Trust Account was payable to Cash (SBD\$30,000), which was signed on the back of the cheque as received from the ANZ Bank by a former Director of CAD on 13 June 2002. Discussion with the Development Officer and the Chief Accountant indicated that SBD\$500 was paid to forty eight (48) established employees of Civil Aviation (& Meteorology) on 13 June 2002. This cheque was cashed and disbursed to the employees (totalling SBD\$24,000) with the balance (SBD\$6,000) deposit into the CAD Staff Welfare Fund Account (#415 8600) on 13 June 2002.

Subsequent to this, the Chief Accountant has indicated that an additional payment to five (5) non-established staff was paid at the request of the CAD In-house Committee (totalling SBD\$2,450). This payment was apparently funded directly from the first advance repayment (from both the established and non-established staff) of SBD\$2,650, leaving a balance of SBD\$200.

A schedule exists showing that fifty three (53) employees signed as receiving the advance salary of SBD\$500 (with the exception of one for SBD\$450) with a repayment amount of SBD\$50 each (per fortnight).

The implication is that there is no documentation specifying the approval for these advances and that the issuing of advances without the appropriate approval is contrary to the Public Finance and Audit Act.

#### **Recommendation 43**

We recommended that any future advance should be properly approved and granted in accordance with Public Finance and Audit Act.

### 6.2.3 Deposits into the Staff Welfare Fund Account

There have been four (4) deposits (with the exception of the ex-gratia harassment claim payment) into the Staff Welfare Fund Account.

The deposits have been indicated to consist of the following:

1. The 13 June 2002 deposit represents the balance (SBD\$6,000) after the payment of the forty eight (48) established employees SBD\$500 each;
2. The 1 November 2002 deposit of SBD\$3,370 represents the repayment of advances as recorded in the receipt books to that date (SBD\$3,170), plus SBD\$200 from previously collected repayments (and balance of additional payment to five non-established staff) that were not deposited;

3. The 20 March 2003 deposit of SBD\$15,030 represents repayments of SBD\$19,880 from employees, less advances to members of staff of SBD\$3,050 and SBD\$1,800 and
4. The 4 April 2003 deposit of SBD\$1,200 remains unknown.

The implication is that there is insufficient documentation maintained to determine exactly what each deposit represents.

#### **Recommendation 44**

We recommended that CAD endeavours to identify these deposits as some of them may have a bearing on repayment of loans.

#### **6.2.4 Withdrawals from the Staff Welfare Fund Account**

There have been sixteen (16) cheques raised against the Staff Welfare Fund Account ranging from SBD\$160 to SBD\$5,000 with a total value of SBD\$24,360. These withdrawals represent advances (interest free loans) to employees of Civil Aviation which have been applied for and utilised by the recipients for various personal purposes.

In addition, it has been indicated that other advances have been paid to recipients directly from proceeds of advance repayments (prior to depositing), hence, are not recorded as transactions in the bank statement.

Some of these funds have been indicated by CAD Staff to have been repaid, however, due to the lack of documentation, my Office has been unable to determine which officers have loan amounts outstanding. Some CAD Staff have submitted Confirmation and Promissory Notes for the repayment of outstanding loans amounting to SBD\$24,450. Three of the staff members receiving advances have subsequently left the Civil Aviation Division with advances possibly outstanding amounting to SBD\$2,350.

It has also been noted that an amount of SBD\$700 has been withdrawn from the Staff Welfare Fund Account via a cheque which does not fit the cheque sequence for this Account. There is no indication that this amount has been queried or followed up by CAD with the ANZ Bank.

The implication is that the funds used for making these loans are public moneys thus unlawful with some staff leaving CAD without repaying their loans. It is also contrary to the Public Finance and Audit Act. In addition, the maintenance of the account is poor as the cheque in question could have been wrongly debited to the account with no action taken by CAD to follow this up, resulting in a loss to the Government.

**Recommendation 45**

We recommended that CAD follows up and collects outstanding debts owing by the staff members that have left the Division and it should also take action to clarify matters with the Bank

**6.2.5 Repayment of Advances by Employees**

The Advanced salaries were to be repaid in cash each fortnight (at SBD\$50 per payment) to the Development Officer. These repayments were collected (whilst receipting of these payments only commenced in September 2002), with any funds handed over to the Chief Accountant for banking. There was no receipt completed upon handover of the funds between the Chief Accountant and the Development Officer.

The amount of repayment by employees of advances in lieu of non-payment of salaries cannot be accurately determined as the schedule maintained by the Development Officer of outstanding amounts of SBD\$13,900 (or SBD\$12,550 paid) as at 20 November 2002, does not correlate with the handwritten receipts evidencing funds collected, either at that date (SBD\$4,620), nor the total of the handwritten receipts that were available for inspection (SBD\$8,330).

Review of the receipt books for repayments by employees held by the Development Officer noted the following:

Receipt Book	Receipts Used	Date	Total (SBD\$)
1	1 to 86	10/9/02-19/3/03	7,570
2	1 to 9	23/5/03-30/10/03	760
3	Not Located for Inspection		
4	Not Located for Inspection		
<b>TOTAL</b>			<b>\$8,330</b>

Indications from the Chief Accountant suggest that the initial repayment of the advances of SBD\$2,650 was not receipted and was apparently distributed to five (5) non-established staff members (totalling SBD\$2,450), hence, the majority of the cash was not deposited into the Bank Account.

In addition to the advancing of funds to employees in lieu of unpaid salaries, the Staff Welfare Fund Account was utilised as a source of funds to assist CAD employees as an interest free loan mechanism. Although we are unable to determine which employees have not repaid their advance or loan, it has been calculated that as the Bank Account reached a zero balance, the outstanding repayments (comprising the combination of the Advanced Salaries and Loans) represents \$28,760 (calculated as follows):

	<b>Amount (SBD\$)</b>
Initial Advance Amount	30,000
Bank Charges	540
Erroneous cheque	700
<b>Balance Outstanding</b>	<b>\$28,760</b>

At the time of the audit, CAD obtained promissory notes amounting to \$24,450 owing as a result of the loans made to this account, however these should have been repaid some time ago and some promissory notes are stretching the repayments out over an unreasonable period.

The implication is that if these loans are not repaid then the Government has lost \$28,760.

#### **Recommendation 46**

We recommended that for those employees that are still working deductions should be made from their salaries and for those employees that have left CAD then follow up action should be taken.

#### **6.2.6 Harassment Claims by the Officers of the Civil Aviation, Meteorology and Immigration Divisions.**

The Extract Conclusion C 7 [2003] 6 dated 6/3/2003 (signed 19/3/2003) requests action based on the Cabinet Direction as a result of the Resubmission of Harassment Claims by the Officers of the Civil Aviation, Meteorology (and Immigration Division). The Cabinet Decision specifies the payment of the individual claims which is \$5,000.00 across the board. The summary of the individual claims was not attached to the Extract for Action, nor was a total amount to be paid specified.

On 18 March 2003 (one day prior to the Extract being signed), an amount of SBD\$595,000 was deposited into the CAD Staff Welfare Fund Account as a transfer of funds from CBSI. These funds were subsequently withdrawn on the same day by a Staff Welfare Fund Account cheque. Through discussion with the Chief Accountant and the representatives of three Divisions, it has been indicated that representatives from the Ministry attended the ANZ Bank to cash the cheque for the SBD\$595,000. This cash was brought back to the Ministry Headquarters, where the funds were apportioned between the Divisions (based upon staff listings) with an envelope prepared for each employee containing SBD\$5,000. These envelopes were provided to the Divisional Representatives for distribution to each respective employee.

Indicated membership of the Divisions awarded the Harassment Claims were as follows:

<b>Division</b>	<b>Membership</b>
Immigration	30
Meteorology	40
Civil Aviation	49
<b>TOTAL MEMBERSHIP</b>	<b>119</b>
<b>CLAIM (119 x SBD\$5,000)</b>	<b>SBD\$595,000</b>

Evidence of the disbursement and acceptance by the employees as settlement of the outstanding Claim has not been maintained. The Divisional Representatives upon distributing the funds did not record (via employee signature) that each employee had received their envelope.

Through discussion with the Chief Accountant it is understood that the Royal Solomon Islands Police Force (RSIP) is currently investigating the Meteorology Representative for not distributing the Harassment Funds to three of his colleagues located within the Provinces.

The implications are that as there is no evidence of the distribution of the \$595,000 to the employees then the "Harassment Payments" can not be verified and as a result those employees entitled to the payments may not have received them and fraudulent transactions may have occurred.

#### **Recommendation47**

We recommended that CAD investigates these payments by confirming in writing with those employees who were entitled to the payment that they have received it.

## **7. REVENUE**

### **7.1 Background**

In September/October 2003, the Civil Aviation Division (CAD) moved from the Ministry of Commerce, Industries, Employment and Tourism (MCIET) to the Department of Communication, Aviation and Meteorology (DCAM) within the Ministry of Infrastructure and Development (MID). The MID (of which CAD is the largest revenue source in DCAM) is one of the government revenue collection points vested with the powers to collect government revenue through various revenue sources (fees).

The primary revenue source collected by MID for CAD is the Boarding and Lighting Charges, whereas, revenue for Landing Charges (whilst allocated as revenue of CAD) are collected by the Customs Division of the Ministry of Finance.

Revenue collection for the Civil Aviation Division is incorporated within the Ministry's cashier function either at MCIET or MID, whereby all revenue is receipted centrally and allocated by Division within the Ministry's cashbook.

Revenue received by the Ministry is paid over to the Treasury Central Revenue Collection (CRC) unit for depositing into CBSI.

### **7.2 Summary of Audit Findings and Recommendations**

The following is a summary of audit findings and recommendations:

### 7.2.1 Wide Variation Between Budget Estimates and Actuals

The following table shows 2001 – 2004 variances between budget estimates and actuals.

Account Title	Years	Budget Estimate	Actual	Over/Under (+/-)
Sundry Fees and Receipts	2001-2004	200,000.00	11,998.50	-188,001.50
Aviation Fees - Fuel	2001-2004	240,000.00	0.00	-240,000.00
Air Navigational Fees	2001-2004	4,000,000.00	445,897.00	-3,554,103.00
Boarding charges	2001-2004	4,683,279.00	3,007,711.65	-1,675,567.35
Lighting Charges	2001-2004	7,699,989.00	38,520.00	-7,661,469.00
Landing Charges	2001-2004	2,914,925.00	2,106,698.44	-808,227.56
Rental Charges	2001-2004	400,000.00	7,940.00	-392,060.00
Identification System	2001-2004	80,910.00	14,040.00	-66,870.00
Parking Fees	2001-2004	200,000.00	0.00	-200,000.00
Air Service Licence	2001-2004	2,000,000.00	58,421.40	-1,941,578.60
Govt Aerodrome Landing Charges	2001-2004	776,000.00	0.00	-776,000.00
Munda Terminal Concession Fees	2001-2004	40,000.00	0.00	-40,000.00
Rescue and Fire Service Fee	2001-2004	400,000.00	0.00	-400,000.00
<b>Total</b>		<b>23,635,103.00</b>	<b>5,691,226.99</b>	<b>17,943,877.01</b>

The table indicates that \$23,635,103 was estimated but only \$5,691,227 was shown in the consolidated fund as having been received which represents a shortfall of \$17,943,877.

Audit examination revealed that there is a need to improve the revenue budgeting process so that realistic revenue estimates for Civil Aviation is set. It is considered that most sources of revenue are grossly over stated, however, Audit also considers that with the enhancement of collection and internal control procedures revenue collections will be significantly increased.

#### **Recommendation48**

We recommended that the Civil Aviation Division should consult with the Budget Section at the Ministry of Finance so as to determine a meaningful budget mechanism for revenue with the Division.

### **7.2.2 Appointment of Revenue Collectors**

Financial Instruction 99 requires that Revenue Collectors will be designated by the Permanent Secretary on the advice of the Ministry concerned. No one may collect revenue who has not been so designated.

After the death of the designated Revenue Collector (cashier) in late 2001, there is no evidence that the Permanent Secretary had appointed the replacement cashier (Accountant) during the period whilst the MCIET remained as a designated revenue point. Also during this period, a Civil Aviation employee was nominated internally by the MCIET to collect boarding charges at the airport, which remains the case, whereby, the current Cashier at MID has been appointed internally (through a Memorandum) within the Ministry rather than formally appointed by the Permanent Secretary – Finance.

In the absence of the designated Cashier, other Ministry or Civil Aviation personnel (including the Chief Accountant, Airport Security etc.) collect revenue on behalf of the Civil Aviation Division at Henderson Airport.

Whilst the Ministry nominated Cashier is collecting boarding charges at the Airport, the cashier function/office within the MID Headquarters is normally closed.

The implications are that the officers collecting revenue on behalf of the Ministry were unauthorised, which could have lead to misappropriation of cash.

#### **Recommendation49**

We recommended that the Permanent Secretary formally appoint the Revenue Collectors and the Auditor General be advised of all changes to designated Collectors.

### 7.2.3 Register of General Treasury Receipts (GTRs) Not Maintained

Financial Instruction 109 requires that every Accountable Officer, having in his charge security documents, shall maintain a suitable record of all documents issued to him. Such record shall show the date of receipt into his charge, the first and last serial number of each book received and the dates when the first and last document in each book was issued to the public.

Although a register of General Treasury Receipt (GTR) books issued by Treasury to the two Ministries is maintained by Treasury, a register has not been maintained by either Ministry as to the GTRs that have been received from Treasury, have been used or are in use, and those that remain unused (in stock) at any point in time.

The implications are that there has been a failure to properly account for receipts and as such there is a loss of accountability of cash.

#### **Recommendation 50**

We recommended that the accountable officer implement a proper record of all security documents that have been issued to him/her and under his/her control.

### 7.2.4 Cancelled Receipts (GTRs)

Financial Instruction 48 requires that the original copy of all cancelled receipts shall be included in strict numerical sequence with the duplicate copy of issued general receipts and shall be attached to the appropriate pay-over slip at the time of the next pay-over to the Treasury.

Although spoiled/cancelled GTRs are recorded as such within the Ministry's Revenue Cashbook, the actual original copy of the cancelled receipts are not retained and attached in sequence to the appropriate pay-over slip to Treasury.

The implications are that there has been a failure to properly account for receipts and as such there is a loss of accountability of cash.

#### **Recommendation 51**

We recommended that the original and duplicate of all cancelled receipts be appropriately attached to the following pay-over slip to Treasury.

### 7.2.5 Entry of Revenue onto GTRs and Cashbook

Financial Instruction 49 requires that every revenue collector shall maintain a Cashbook in which all receipts shall be entered daily and in which all pay-overs to Treasury shall be entered immediately.

Review of the recording of revenue onto the GTRs and entry into the Cashbook noted multiple instances whereby the date of recording on the GTRs and entry in the Cashbook occurred several days after the funds were collected, with some identified to occur over two weeks after receiving.

The implications are that there has been a failure to properly account for revenue and receipts in a timely manner and as such this is a loss of accountability of cash.

#### **Recommendation 52**

We recommended that the revenue be recorded on the GTRs and entered in the Cashbook immediately (or at the first available time) after collection.

### 7.2.6 Delays in Pay-over of Collections to Treasury

Financial Instruction 53 requires that under no circumstances whatsoever shall a revenue collector retain any part of revenue that has been collected, receipted and brought to account in his cashbook.

During the audit, several instances were noted where significant delays occurred in pay-over of revenue to the Central Revenue Collection point. For the months of January to April 2003, the revenue collected by the MCIET was withheld from pay-over to Treasury. The details of revenue retention and direct usage as specified in a Memorandum to the Permanent Secretary – Finance on 30 May 2003 is as follows:

Month	No of days in month where funds retained	Revenue (SBD\$)	Un-Utilised		Expenses (SBD\$)
			Cheques (SBD\$)	Cash (SBD\$)	
January	3 days	38,430	31,395	6,801	234
February	11 days	131,058	68,798	26,038	36,223
March	19 days	260,825	172,676	15,611	72,537
April	1 day	9,512	440	674	8,398
		<b>\$439,825</b>	<b>\$273,309</b>	<b>\$49,124</b>	<b>\$117,392</b>

Upon the advice of the Ministry's Permanent Secretary the Revenue Collector/Chief Accountant had retained total revenue of SBD\$439,825 (consisting of cash and cheques) over the period January to April 2003. From this amount SBD\$117,392 had been directly used to fund expenditure, however, it is difficult to substantiate the exact costs due to a lack of supplier receipts. The justification for the retention and expenditure of revenue funds was due to the cash flow problems experienced by the Government at that time.

Further to the issue of revenue retention is that, although audit was able to trace transfers of funds from the Ministry into the CRC records, there was a general absence of the pay-over slips which should be agreed (and attached) to the duplicate copy of the Revenue Collector's Cashbook upon pay-over in accordance with Financial Instruction 52. In several instances the duplicate copy of the Collector's Cashbook could not be located for audit.

The implications are that there has been a failure to properly account for receipts upon pay-over to Treasury and by the Ministry retaining and utilising the revenue directly on expenditure, which results in a loss of accountability of cash. In addition, there are security concerns over large amounts of revenue that are not banked.

#### **Recommendation 53**

We recommended that all revenue is paid-over to Treasury on a regular (preferably daily) basis and a record of the pay-over attached to the Schedule of Receipts. Any expenditure requirements should be paid through the Payment Voucher system.

#### **7.2.7 Refunding Revenue Collected Over Counter**

Financial Instructions 94 to 97 specify the conditions for the refund of revenue and the appropriate authorising officers.

It has been noted that refunds over the counter have been made out of revenue if the funds have yet to be paid over to CRC - Treasury, rather than through the expenditure process, and as a result there is uncertainty over the legitimacy of the refund and the subsequent cancellation of these receipts.

The implication is that there is minimal accountability over refunds if paid from the revenue collections, which may result in misappropriation of funds.

#### **Recommendation 54**

We recommended that all refunds should be appropriately processed through the expenditure system to ensure maximum accountability

### 7.2.8 Securing Revenue Collected

Financial Instruction 125 requires that all cash in the custody of accountable officers shall, at all times, be kept in either a Strong Room; Safe; Fireproof Cash Box (fitted with a lock) or a lockable, secure and Fireproof Drawer or Cupboard.

Revenue collected by MID is stored within a filing cabinet located in the front (cashier) office of the MID Headquarters. This location is not overly secure and has in the past been broken into with the previous strong box utilised for storing the cash collected being stolen.

Further to this is due to the fact that the collection of some revenue occurs after hours (i.e. boarding charges) and revenue is often not paid over to Treasury in a timely manner, it has been identified that the collector of the revenue often takes the funds home either overnight or over the weekend.

It has been identified that revenue of MID has been held without pay-over to Treasury in some instances for over two weeks.

The implication is that due to poor security over revenue collections (in particular cash) there is an increased risk of loss or theft.

#### **Recommendation 55**

We recommended that appropriate storage and security measures be taken over revenue collections whilst located within the Office or externally.

## 8. BOARDING CHARGES

### 8.1 Background

The rates approved and applicable to boarding charges are documented in the Civil Aviation Act (Cap 47) – Air Navigation (Fees) Regulation (Section 7(2)), which specifies that an airport service charge shall be payable at the rate provided in the Schedule (incorporated within this Section) in respect of all embarking passengers departing from Solomon Islands on an international flight with the exception of those specified in the Schedule.

These rates are also separately stated within the Aeronautical Information Publication (AIP) of the Solomon Islands - Part 1 – General (GEN), Section 4.1 Aerodrome/Heliport Charges, and Subsection 10. – Airport Service Charge, which specifies the following:

- 10.1 *Each passenger departing Solomon Islands by air must pay a boarding fee of SBD\$40.00 prior to departure.*
- 10.2 *Exemptions to the passenger boarding fee include:*
  - a. *crews of aircraft travelling on duty;*
  - b. *children under two (2) years of age;*
  - c. *Heads of State, including the Governor General;*
  - d. *Prime Minister;*
  - e. *Cabinet ministers;*
  - f. *The Leader of the Opposition;*
  - g. *Members of Parliament;*
  - h. *Members of the Diplomatic and Consular Corps;*
  - i. *Passengers travelling on a visiting State or military aircraft;*
  - j. *Passengers who have already paid a boarding fee, but whose aircraft returns to Solomon Islands for technical or other reasons and who subsequently re-embark to recommence their flight;*
  - k. *Transferring passengers with a change of aircraft or flight number with less than twenty four hours between the scheduled times of arrival and departure;*
  - l. *Transit passengers, including any who have to leave the Customs area for a technical reason; and*
  - m. *Such passengers as the Minister may in writing at any time exempt from the boarding fee.*

From 2001 to September 2003, the Civil Aviation was under the management of the Ministry of Commerce with the Boarding Charges collected and recorded as revenue within that Ministry. Due to shortage of staff during that period the collection of the boarding charge revenue was conducted by security officers of CAD and not the cashier of the Ministry of Commerce. One of these two officers, was confirmed to be temporarily appointed, and the other was not appointed, however, was collecting the revenue.

## **8.2 Summary of Audit Findings and Recommendations**

The following is a summary of audit findings and recommendations:

### **8.2.1 Passenger Boarding Manifests**

An airline Passenger Manifest is produced to record passenger boarding fees charged. Upon payment of the boarding charge, the passengers name is either crossed out or where the name did not previously appear on the manifest, the passenger(s) name is written. These annotations are the only indication that a fee has been paid, with the assumption that a sticker has been affixed to the passenger boarding pass.

Review of the content of available passenger manifests noted that in the majority of instances the sticker sequence (first and last number) is recorded at the top of the page, however, the individual sticker number issued (and affixed to each boarding pass) is not allocated next to each passengers name. The absence of a number next to each passenger name leads to reduced accountability over the completeness of each number indicated within the sequence.

The sequence as specified within the passenger manifest is not, however, guaranteed as the manifests stored within a filing cabinet within the MID Cashier Officer were in no sequential order (either by flight number of day/month), hence, were difficult to determine whether every flight departing had had boarding fees collected.

Furthermore, it was identified that in a significant number of occasions the GTRs existed without a passenger manifest attached attesting to accuracy of the revenue collected.

The implication is that it is difficult to confirm or verify the actual number of passengers that travelled on each flight and the actual cash that was collected for each flight in the absence of the passenger manifest.

**Recommendation 56**

We recommended that:

- The Boarding Sticker numbers be recorded next to each Passenger name on the Passenger Boarding Manifests;
- All Passenger Boarding Manifests are retained with the GTR attached and filed/stored in sequential date order.
- Consideration might be given to including the boarding fees in the price of the ticket.

**8.2.2 Collection of Passenger Boarding Charges**

During 2004 and 2005, the Cashier informally appointed to receive the boarding charges at the airport is also responsible for collecting and receipting revenue for the whole of the Ministry of Infrastructure Development (refer to Section 10 - Revenue). As a result, when the Cashier was at the airport, other officers (unappointed collectors) within the MID Accounts Section would usually collect the other revenue received at the Ministry Headquarter on her behalf. This practice was discontinued after verbal discussion with the Chief Accountant.

When the Cashier is at the airport attending to flights, the Cashier's office at the Ministry is closed for business to the public until she returns. Although this is in accordance with FI 99(1), there is no continuity in the collection of revenue in the Ministry during business hours.

Furthermore, it has been noted that there are instances where the appointed Cashier does not arrive at the Airport to collect the boarding charges, and either a MID or Civil Aviation officer is required to perform those duties, despite not being appointed.

The implication is that unappointed officers may inappropriately manage funds received, leading to misappropriation, loss or theft of government funds.

**Recommendation 57**

We recommended that a separate Cashier/Accounts Officer should be appointed who will be responsible for the collection of boarding charges. The appointed officer should be from the Civil Aviation Division (based at Henderson Airport), which will enable the officer to receipt the cash collected immediately and ensure security over the cash as the funds will not have to be taken home with the Cashier.

### 8.2.3 Receipting of Passenger Boarding Charges

Financial Instruction 42 specifies that all revenue collected should be receipted immediately and Financial Instruction 49 requires that receipts shall be entered in the cash book on a daily basis. Throughout the audit review of boarding charges it has been noted that the funds collected from the Airport are not receipted, nor entered into the cashbook in a timely manner. In some instances it has been identified that many collections from the Airport were taking several days to receipt, with some not receipted for over two and a half (2.5) weeks. An example is boarding fees collected on 11 September 2003 amounting to SBD\$1,320 was not receipted until 29 September 2003 (18 days later).

The Chief Accountant (MID) has an office next door to that of the Cashier, however, the Chief Accountant was not supervising the day to day operations of the Cashier and as a result was unaware of the irregular practices that were occurring with regards to the administration of revenue.

The implication is that revenue collected is not being accounted for (nor banked) in a timely manner which may result in misappropriation, loss or theft of funds in the intervening period.

#### **Recommendation 58**

We recommended that the Chief Accountant should be supervising the role of the Cashier to ensure that accounting procedures are well established and followed. All revenue should be receipted and recorded in the cash book as soon as possible after collection.

### 8.2.4 Pay-over of Passenger Boarding Charges

Financial Instruction 51 requires that pay-over of collected revenue shall be in accordance with directions issued by the Permanent Secretary, however, the directions shall not prevent more frequent pay-ins or paying in at any time where the level of cash held poses a security problem.

Review of the pay-overs undertaken by the Cashier for Boarding Charges has noted that the time taken from the collection of the fees to pay-over to the Treasury Central Revenue Collection (CRC) often exceeding five days (including funds being held over weekends). An example noted was the pay-over to CRC on 28 May 2003 for boarding fees relating to flights on 24, 25, 29 April 2003 and 1, 6, 8, 13, 16, 20, 22 May 2003 (35 days from the first collection) amounting to SBD\$25,560.

The implication is that there is limited security over cash either at the Airport or at the MID Headquarters, which may result in misappropriation, theft or losses of funds prior to pay-over. Any delay in pay-over also impacts on the cash flow of the Government.

#### **Recommendation 59**

We recommended that pay-over of funds collected to Treasury should occur either every third working day or when the collections exceed SBD\$1,000, whichever is the sooner.

### **8.2.5 Boarding Pass (Stickers) Register**

Financial Instruction 101 requires that all supplies of Security Documents are taken on charge promptly and recorded in the relevant Register and that all subsequent issues of the Document are also recorded promptly in the Register. Financial Instruction 109 requires such a record shall show the date of receipt into the Accountable Officer's charge, the first and last serial number for each document received and the dates when the first and last document was issued to the public. The main purpose for maintaining this register is to ensure that the recording of all boarding stickers received from printers, issued to passengers and currently on hand are recorded and identifiable.

Civil Aviation has a register of boarding charge stickers, however, review of this register has identified that the register was not properly maintained by the responsible officers. The register only records the date that the box of stickers have been issued to the officer collecting boarding charges, hence, does not record the boxes received from the printers nor the boxes on hand. There was no proper control in the issuing out of the stickers from the unissued stock. Some sticker boxes have not been recorded in the register. A register of sixty (60) new sticker boxes received was recorded as of 24 June 2004 with many not completed as issued as detailed above. An inspection of the boxes identified in the register as unissued at the time of the audit, confirmed that these were still on hand.

Furthermore, the incomplete register maintained for Boarding Charge Stickers includes a sequence of 500 stickers issued on 3 April 2002 which are not only out of sequence for 2002, but are estimated to be a sequence from 1999.

The implication is that the Boarding Charge Stickers are not being properly accounted for which may result in misappropriation, loss, or theft of stickers or funds, or issue of stickers out of sequence.

#### **Recommendation 60**

We recommended that Boarding Charge Stickers should be record in a register at the time of receipt within CAD from the printers. Stickers issued to the collecting officer should be properly recorded in the register at the time of issue, ensuring that they are being utilised in sequence. A stock take of Boarding Charge Stickers should be undertaken on a regular basis to ensure that the stickers recorded as unissued in the register, are on hand.

### 8.2.6 Reconciliation of Boarding Charges collected against Stickers Issued

The issue of boarding charge stickers in sequence is an important internal control for ensuring the completeness/accuracy of boarding charges collected. Although the audit confirmed, for the periods under review, that many of the stickers were issued in sequence, there were also many instances where the sequence is broken, either by a few numbers or a large series of numbers.

In some instances it has been identified that passengers have paid without the issue of stickers (eg. 14 October 2003 where SBD\$120 was collected, however, no stickers were issued). Furthermore, there are many GTRs that have been identified as collections of boarding charges that do not have a passenger manifest attached indicating the sequence of stickers issued for flights.

There has been no reconciliation of GTRs (collection) against the stickers issued on a regular basis to ensure that both the stickers and the cash received are being properly accounted for.

The following is a comparison of stickers issued (@ SBD\$40 each) against amounts recorded by Treasury (assuming all stickers were issued and in sequence):

Year	Boarding Charges Sticker Sequences	Estimated Collections (SBD\$)	Treasury Ledger Accounts (SBD\$)
2001	(121929 – ~135000)	~522,840	420,799
2002	(~135000 – 144328)	~373,120	454,795
2003	(144329 – 158322)	559,720	508,776
2004	(158323 – 177906)	783,320	721,610
<b>TOTAL</b>		\$2,239,000	\$2,105,980
<b>VARIANCE</b>		<b>\$133,020</b>	

The implication is that there is potential for the misappropriation or utilisation of money for other purposes without identification by either Civil Aviation or Treasury.

### **Recommendation 61**

We recommended that a reconciliation be undertaken between stickers issued and funds collected (including any LPO received from organisations – eg Australian High Commission) prior to pay-over to Treasury.

### 8.2.7 Security over Boarding Charges collected

Financial Instruction 123 requires that for each cash holding, the responsible accountable officer shall be directly responsible for its safe custody, shall have sole access to it and shall have a separate facility for its safe storage.

The Cashier is not provided with any safe custody facility to keep the cash while attending the flights. It was observed and confirmed that the Cashier was keeping the cash collected from the Airport in her personal hand bag. The distance between the airport and the MID office is considerable and it is not safe for the Cashier who is responsible for the cash.

Furthermore, the cashier has been taking the cash (boarding charge fees collected) to her home when she is attending the flights after hours. Although the office is closed after official hours, the cash should not be kept at or taken to a private residence exposing the officer to unnecessary risk.

The implication is that there is an increased risk that funds will be misappropriated, lost or stolen under the current practices.

#### **Recommendation 62**

We recommended that the responsible officers must ensure that due precautions are taken for such cash to avoid any loss or theft. A suitable secure storage device/facility be made available to the Cashier (preferably at the Airport).

### 8.2.8 Invoice (Debit Note) Management

Under the management of the Department of Commerce (2001-2003), the Australian High Commission (AHC) was provided with a credit facility for the boarding charges for its defence force staff. The AHC forwarded a Local Purchase Order (LPO for departure tax) for departing personnel and the Cashier issues boarding charge stickers on this basis. Civil Aviation subsequently invoices the AHC for LPO's received.

The audit has identified that although LPO's sighted have been paid, there were many LPO's not maintained within the Passenger Manifest file. Furthermore a Debit Note Register is not maintained by the Cashier (or the Civil Aviation Division), nor is there any evidence of follow-up for payment (i.e. issue of invoice/debit note) for LPO's received.

The implication is that improper management of LPOs received and debit notes issued may result in unpaid boarding charges.

#### **Recommendation 63**

We recommended that a Debit Note Register be maintained for boarding charges, and that all LPOs forwarded from the AHC (or other organisations) are appropriately managed to ensure that debit notes are raised for LPOs received.

### **8.2.9 Boarding Charge Anomalies**

Financial Instruction 57 requires that a collecting officer shall immediately report to their senior officer any suspected irregularities in the presentation of collected revenue. The senior officer, after due investigation, shall, if the irregularity is of a material nature, report the matter in writing immediately to the Permanent Secretary, with a copy to the Auditor General and his Accounting Officer. If the irregularity is not of a material nature, the revenue collector shall be given the opportunity to make good any deficit, prior to investigation and reporting as above.

The receipting of boarding charges has been noted in some instances not to correspond either with the number of boarding stickers issued or in the absence of the sticker sequence, multiples of SBD\$40.00.

Examples of anomalies noted within the receipting of boarding charge collections were noted during the audit and brought to the attention of Management.

The implication is that discrepancies between the number of boarding stickers issued and the funds recorded as collected, that are not properly accounted for, may be the result of misappropriation.

#### **Recommendation 64**

We recommended that after reconciliations have been undertaken between stickers issued and funds collected, any discrepancies should be reported to the appropriate authority, with the results of the investigation into the irregularity fully documented.

## 9. LIGHTING FEES

### 9.1 Background

Lighting fees are charged on Airline operators and Agents who engage in airline business in the Solomon Islands. Both the International and Domestic route flights are charged with lighting fees for the use of airport (aerodrome) lighting facilities. Lighting is usually required on the event of Landings and Take offs by aircrafts during the night and during gloomy intervals. The rate of SBD\$120.00 is chargeable both on scheduled flights and private flights with the exemption for official and state (including military) aircraft. Lighting fees are charged whenever each landing and take off requires the use of airport lighting.

The rates approved and applicable to lighting fees are documented in the Civil Aviation Act (Cap 47) – Air Navigation (Fees) Regulation (Section 7(2)), which specifies that a lighting fee shall be payable at the rate specified in the Schedule (incorporated within this Section) in respect of every aircraft for which lighting is provided in respect of aircraft movements taking place during the hours of darkness or when the estimated time of arrival of an aircraft is less than 30 minutes before the end of civil twilight and the pilot in command of the aircraft requests that lighting be provided.

These rates are also separately stated within the Aeronautical Information Publication (AIP) of the Solomon Islands - Part 1 – General (GEN), Section 4.1 Aerodrome/Heliport Charges, and Subsection 2 - Lighting Fees, which specifies the following:

- 2.1 *The fees to be paid for lighting include approach, runway, taxiway, obstacle and apron lighting at the following rates:*
  - a. *Up to 5700kg: SBD\$3.00 per 500kg or part thereof;*
  - b. *For aircraft above 5700kg the rate is:*
    - (1) *SBD\$120.00 for each take-off and SBD\$120.00 for each landing; and*
    - (2) *SBD\$240.00 per hour when continuous display is required.*
- 2.2 *The following aircraft are exempt from lighting fees:*
  1. *state aircraft;*
  2. *official aircraft;*
  3. *aircraft operated by a flying school or club approved by the Minister in writing for such purposes; and*
  4. *Such aircraft as the Minister may approve in writing from time to time.*

## 9.2 Summary of Audit Findings and Recommendations

The following is a summary of audit findings and recommendations:

### 9.2.1 **Completion of CA 5 Form – Notification of Provision of Aerodrome Lighting and Charges Incidental – Incomplete Billing Information**

It is the responsibility of the Civil Aviation Air Traffic Control personnel to record aerodrome lighting at Henderson for aircraft landings and take-offs. Each display of lighting at Henderson (including duration of illumination) is required to be recorded on the Civil Aviation (CA 5) Form – Notification of Provision of Aerodrome Lighting and Charges Incidental There-to.

To determine the completeness of recording by Air Traffic Control personnel, a sample of fifty one (51) flights, (that were identified as either arriving or departing during (or close to) the hours of darkness), were selected during 2001 – 2005 from the Aircraft Movement Log book which is maintained by the Air Traffic Control unit. The Aircraft Movement Log book consisted primarily of Solomon Airlines, Pacific Air Express, and Heavy Lift, private and military flights.

The results from the testing identified that from the 51 flights sampled, only 19 flights (excluding six aircraft that were exempt as they were identified as Military) were accurately recorded on a CA5 form (for billing purposes) as needing lighting for landing and/or take-off. Detailed findings from the testing are as follows:

Year	Sampled	Comments
2001	12	Nil night flights recorded – March 1 x Military flight – September 4 x no CA5 form sighted
2002	12	2 x no landing lights recorded in CA5 5 x no CA5 form sighted
2003	12	2 x Military flights (Sept & Oct) 1 x no take-off lights recorded in CA5 2 x No CA5 form sighted
2004	12	3 x Military flights (Jan, Mar & May) 8 x No CA5 form sighted (books not located)
2005	3	CA5 Book not available for review

An additional review to determine the completeness of Civil Aviation in raising CA 5 Forms was undertaken, from available information for the period November 2002 to December 2004, which identified the following amounts for airport lighting not charged to the respective airline agents:

Period	Pacific Air Express (SBD\$)	Solomon Airlines (SBD\$)	Total (SBD\$)
Nov – Dec 2002	600	1,200	
Jan – Dec 2003	3,840	8,520	
Jan – Dec 2004	4,080	23,280	
<b>TOTAL</b>	<b>\$8,520</b>	<b>\$33,000</b>	<b>\$43,520</b>

The implication is that due to the incompleteness in the recording of utilisation of aerodrome lighting, lighting fees are not being charged to aircraft agents.

#### **Recommendation 65**

We recommended that:

- the Air Traffic Control personnel appropriately record on a CA 5 Form every occasion that Henderson's airport lighting is illuminated for either an arriving and/or departing aircraft;
- Action be taken to recover the \$43,520 lighting charges.

### **9.2.2 No Sequential Numbering of CA 5 Forms**

The CA 5 Forms are accountable documents which are utilised to initiate the creation of a debit note for fees owing from airline agents for the airport lighting. As such, individual Forms should be uniquely identifiable (via sequential numbering) to ensure proper accountability for each Form.

In the past the CA 5 Forms were sequentially pre-numbered, which enabled the series of the Forms to be regularly accounted for, however, the more recent CA 5 Forms do not have any serial numbering.

The CA 5 Forms are printed in triplicate with the distribution as follows:

Original: Owner/Operator  
 Duplicate: CAD Records  
 Triplicate: Remains in Book

The CA 5 Forms (Original/Duplicate) are removed from the book prior to distributing to the respective airline agents. Upon completion, these Forms are not recorded within a register, nor is there any unique number assigned to individual Forms to ensure that each Form has been accounted for at the time of raising the debit note.

The implication is that there is an increased risk that CA 5 Forms may be misplaced in the intervening period between completion and debit note creation (without identification by CAD personnel), resulting in uncharged lighting fees.

**Recommendation 66**

Each CA 5 Form should be uniquely identifiable with the inclusion of a sequential number in its format at the time of printing as was the case in the past.

**9.2.3 No Debit Note Register and CA 5 Form Reconciliation**

Financial Instruction 70 requires that a Debit Note Register be maintained, in which shall be recorded, full details of all amounts that have been charged to individuals or organisations by the issue of Debit Notes. Government organisations must ensure that debit notes raised encompass all charges for services provided in the preceding period (subsequent to the last invoice).

The Department of Communication, Aviation and Meteorology does not maintain a Debit Note Register for Lighting Fees. A file containing the debit notes raised for lighting fees (including the attached relating CA 5 Forms) has been established, however, there is no certainty that all CA 5 Forms completed have been incorporated in the compilation of the Debit Notes.

There is no record of each CA 5 Form completed and the respective debit note that charges the respective agent for airport lighting provided. The debit notes only specify the date range for the CA 5 Forms (which are attached), rather than the individual episodes in which airport lighting was provided. There is no reconciliation of CA 5 Form to the episodes in which airport lighting was provided, nor to the debit notes.

The implication is that there is an increased risk that CA 5 Forms are not generated for each lighting provision or the Forms will be misplaced in the intervening period between completion and debit note creation (without identification by CAD personnel), resulting in uncharged lighting fees.

**Recommendation 67**

We recommended that:

- A debit note register be maintained;
- the debit notes record the individual episodes in which the lighting has been provided

**9.2.4 Timeliness of Debit Note Creation**

Financial Instruction 77 specifies that should an Accountable Officer, for any reason, find that they are unable to promptly prepare and deliver debit notes, the matter should be reported to both their senior officer and the Permanent Secretary. It is essential that debit notes are raised in a timely manner as it increases the likelihood that debtors will pay.

Review of the most recent debit notes issued has noted lighting fees being charged to aircraft agents several months after the provision of airport lighting as identified below:

Debit Note Date	Period of CA 5 Forms	Airline Company	No of CA 5	Amount (SBD\$)	Months Delay from first CA 5 Form
29.03.04	Nov 2002 - Jan 2004	Solomon Airlines	80	9,600.00	~ 17
07.09.04	16 Jan 2004 - 28 May 2004	Solomon Airlines	41	4,920.00	> 8
15.10.04	3 Jun 2004 - 29 Jul 2004	Solomon Airlines	42	5,040.00	> 4
19.04.05	29 Jul 2004 - 3 Jan 2005	Solomon Airlines	40	4,800.00	> 8
<b>Sub Total</b>				<b>\$24,360.00</b>	
26.03.04	4 Nov 2002 - 28 Dec 2002	Pacific Air Express	21	2,520.00	~ 17
26.03.04	9 Jan 2003 - 24 Dec 2003	Pacific Air Express	48	5,760.00	> 15
07.09.04	28 Jan 2004 - 2 Jun 2004	Pacific Air Express	11	1,320.00	> 7
15.10.04	9 Jun 2004 - 21 Jul 2004	Pacific Air Express	8	960.00	> 4
19.04.05	3 Aug 2004 - 16 Nov 2004	Pacific Air Express	12	1,440.00	> 8
<b>Sub Total</b>				<b>\$12,000.00</b>	
<b>Grand Total</b>				<b>\$36,360.00</b>	

From the table above, it has been identified that the delay in the issue of debit notes to the respective aircraft agents has been up to seventeen (17) months after the first included CA 5 Form.

The implication is that the likelihood of payment by debtors is reduced the longer the duration between when the debit notes are raised and the provision of the goods/services. Furthermore, any delay in invoice issuing also impacts on the cash flow of the Government.

#### **Recommendation 68**

We recommended that debit notes are raised at the end of every month for lighting services provided during the immediately preceding month.

### **9.2.5 Follow-up of Outstanding Debit Notes**

Financial Instructions 78 to 81 specify the requirements for the settlement of debit notes and the necessary procedures to take place for the timely follow-up of outstanding debit notes to ensure satisfactory settlement.

The review was unable to determine which debit notes have been paid and those that remain outstanding from airline agents, due to a general lack of proper record keeping by Civil Aviation over the past few years.

Due to the absence of a Debit Note Register, which also requires the “date paid” to be recorded, it has been identified that it would be difficult for Civil Aviation to appropriately monitor and follow-up the collection of unpaid debit notes, without the proper documentation and procedures being implemented.

From available records, the review has identified that for the period (January 2001- March 2005) a total of SBD\$38,520.00 was actually collected of which SBD\$21,600 was receipted directly by the Cashier within the Department of Commerce (2002) and SBD\$8,400 was receipted directly by the Cashier at the Ministry of Infrastructure and Development (2004). The remainder was receipted by Treasury. The inconsistency in the location of payment also impacts on the follow-up of outstanding funds if the amounts unpaid are not properly notified to the Civil Aviation Division personnel.

As mentioned in the previous 7.2.4 above, Civil Aviation raised invoices for SBD\$30,120 (2004) and SBD\$6,240 (2005) which, when compared to the SBD\$16,680 actually received in 2004 (assuming this forms a component of the invoices raised), there is still a significant amount outstanding at the time of the review.

The implication is that revenue is not being followed up in a timely manner which may result in lighting charges remaining outstanding for an extended period of time or not being collected at all.

#### **Recommendation 69**

We recommended that Civil Aviation implements an appropriate mechanism to:

- Record the issue of Debit Notes and the payment date; and
- Document any subsequent follow-up undertaken for collection of outstanding lighting charges.

### **9.2.6 Actual versus Budgeted Revenue**

Review of the Actual versus Budgeted Revenue for lighting charges identified minimal correlation between the Budget and the Actual Revenue that was collected through SIG. A summary of actual Lighting Fees collected (and recorded by Treasury) in comparison to the approved estimates for the period 2001-2004 is as follows:

<b>Year</b>	<b>Revenue Description</b>	<b>Accounting Codes</b>	<b>Recurrent Estimate (SBD\$)</b>	<b>Actual Receipts (SBD\$)</b>	<b>Deficiency (SBD\$)</b>
2001	Lighting Fees	243-0511-0084	1,500,000	240	(1,499,760)
2002	Lighting Fees	243-0511-0084	1,500,000	0	(1,500,000)
2003	Lighting Fees	277-0511-0084	2,338,000	21,600	(2,316,400)
2004	Lighting Fees	277-0511-0084	2,338,000	16,680	(2,321,320)
	<b>Total</b>		<b>\$7,676,000</b>	<b>\$38,520</b>	<b>\$(7,637,480)</b>

The Recurrent Estimates for Lighting Fees during the period 2001 to 2004 severely overstated the earning capacity of Civil Aviation, thus gave a false illusion that revenue generated from lighting charges could internally fund significant Civil Aviation operating expenditure. As can be seen from the table above, the actual receipts fell considerably short of the budgeted revenue targets, which were totally unrealistic as they represented approximately 64,000 flights either arriving or departing Henderson Airport during darkness over the four year period.

The implication is that Civil Aviation significantly overstated the internally generated revenue that could be collected from lighting charges to fund operating expenditure, which resulted in budgetary shortfalls.

#### **Recommendation 70**

We recommended that a proper budgeting mechanism be put in place so that realistic budgetary estimates can be made.

## 10. LANDING FEES (CHARGES)

### 10.1 Background

The Landing Charges Revenue is detailed under the Income Accounting Code (0511 0085) for the Department of Communication, Aviation and Meteorology; however, the Customs Division (Ministry of Finance) is responsible for invoicing and collecting the landing fees on behalf of the Civil Aviation Division.

The rates approved and applicable to landing fees are documented in the Civil Aviation Act (Cap 47) – Air Navigation (Fees) Regulation (Section 7(2)), which specifies that a landing fee shall be payable at the rate specified in the Schedule (incorporated within this Section) in respect of the first landing of an aircraft in Solomon Islands at a Government airport in Solomon Islands on each journey from a place outside Solomon Islands.

These rates are also separately stated within the Aeronautical Information Publication (AIP) of the Solomon Islands - Part 1 – General (GEN), Section 4.1 Aerodrome/Heliport Charges, and Subsection 1. – Landing Charges which specifies the following:

- 1.1 *A landing fee is payable in respect of the first landing of an aircraft at a specified airport on each journey from a place outside Solomon Islands at the following rate:*
  - a. *at a weight of up to 5700KG: SBD\$50.00 per scheduled flight and SBD\$50.00 per non-scheduled flight;*
  - b. *from 5701KG to 15,000KG: SBD\$10.00 per 1,000KG or part thereof;*
  - c. *from 15,001KG to 40,000KG: SBD\$15.00 per 1,000KG or part thereof;*
  - d. *from 40,001KG to 50,000KG: SBD\$20.00 per 1,000KG or part thereof;*
  - e. *Above 50,000KG: SBD\$30.00 per 1,000KG or part thereof.*
  
- 1.2 *The payment of landing fees entitles the pilot-in-command of an aircraft to:*
  - a. *the use of the airport of landing and departure;*
  - b. *the use of any radio facilities at or associated with an airport;*
  - c. *the use of any visual approach or landing aid;*
  - d. *the supply of available information en-route and weather conditions; and*
  - e. *The assistance of airport personnel, if available, in guiding and parking the aircraft.*

- 1.3 *The payment of a landing fee will not include any aircraft parking fees or operational charges that may be levied from time to time for radio services or message transmitted through the fixed aeronautical telecommunication system.*
- 1.4 *Landing charges shall be levied at the following places:*
- a. *Honiara/Henderson;*
  - b. *Gizo/Nusatupe;*
  - c. *Munda;*
  - d. *Graciosa Bay/Luova;*
  - e. *Ballalae; and*
  - f. *Such airports as the Minister may designate by writing in the Gazette from time to time.*
- 1.5 *The following aircraft are exempt from landing fees:*
- a. *aircraft being used for a Government ceremonial purpose;*
  - b. *aircraft being used to calibrate navigational aids in Solomon Islands;*
  - c. *aircraft engaged in search and rescue flights; and*
  - d. *aircraft for which a written application for such exception has been made to and granted by the Minister.*

## **10.2 Summary of Audit Findings and Recommendations**

The following is a summary of audit findings and recommendations:

### **10.2.1 Aircraft Files - Unavailable**

Review of a sample of aircraft landings at Henderson from places outside of the Solomon Islands from 2001 to 2005 noted that many of the files supposed to be established by Customs for each aircraft (one for both landing and take-off) were not available for review.

The Aircraft Files maintain all documents (including declarations, cargo manifests, passenger list, aircraft movement records etc) that are relevant for each aircraft arriving in the Solomon Islands. These files form the basis for identifying all details relating to the aircraft and their payload, including information to enable the calculation of landing charges.

Through discussion with Customs personnel it has been identified that aircraft files for some arriving aircraft have not been established (including military), whilst others could not be located by Customs personnel for our review. The inability for Customs to provide aircraft files for review seems to have resulted primarily from the fact that the files are laying throughout various areas (whilst occupying a large proportion of space) within the Customs Office. It has been identified that there is insufficient space for the storage of old/closed files.

The implication is that records do not exist to support the arrival of aircraft, nor the calculation of the aircraft landing fees.

#### **Recommendation 71**

We recommended that the Customs and Excise Division ensure that each and every flight entering the Solomon Islands has an Aircraft File established incorporating all the necessary documentation. Furthermore, Customs must improve their file management system to ensure that documentation is locatable upon request.

### **10.2.2 Landing Charges Calculations – Incomplete Information**

The principal document within each aircraft file for the calculation of the landing charges is the Aircraft Movement Report (AMR). Review of the AMR within the files available identified that some were absent, whilst others were incomplete, as the weight of the aircraft was not stated (which is the primary information utilised in the calculation).

It must be noted, however, that many of the aircraft are regular commercial flights, and as a result the aircraft weight will not generally vary between visits. Despite this, there is a need to ensure that Aircraft Movement Reports are available (and complete) for each flight as support for landing fees charged.

From the files available, with the exception of a few small discrepancies, the review identified that the calculation of the landing fees undertaken by Customs was in accordance with the published Fee Schedule in the Civil Aviation Act and the AIP.

The implication is that records do not exist to support the calculation of the aircraft landing fees.

#### **Recommendation 72**

We recommended that each Aircraft File contain a completed Aircraft Movement Report.

### 10.2.3 Aircraft Registers - Missing

Customs records the arrival of all aircraft into the Solomon Islands within an Aircraft Register. Through the review of 2001 to 2005 it was noted that the Register for 2001 was unavailable for review, as was the Register for September to December 2002. Both were deemed to have been misplaced or lost within Customs's inadequate records storage/filing system.

The Aircraft Registers for 2003 to 2005 were examined and identified to be satisfactorily maintained. These Registers were utilised to select the sample of aircraft for review of their landing charge calculation. For the unavailable period in 2002, aircraft landing samples were extracted from the Civil Aviation Flight Register, in which the flights are the same, however, the recording of the flight/aircraft is quite different, hence, present some difficulties when locating the Aircraft Files.

The implication is that Customs is unable to provide a listing of all aircraft arriving within the Solomon Islands.

#### **Recommendation 73**

We recommended that Customs determine the location of the missing Aircraft Registers and ensure that all Registers are appropriately stored in the future.

### 10.2.4 Debit Note Register – Invoices Out of Sequence

The Debit Note Registers for the years 2001 to 2005 were being maintained by the responsible officers within Customs and were identified to be maintained in a reasonable state, based on the requirements specified within Financial Instruction 70.

Although the Registers appear complete, it has been noted that the invoices are not issued based on the sequence of the Port Rotation Numbers - PRN (i.e. aircraft landing sequence). An example of the issuing of invoices out of PRN sequence is illustrated below as an extract of ten (10) invoices from the Debit Note Register for 9 January 2004:

DEBIT NOTE	DATE	ROTATION NUMBER	CLIENT
31	9/1/2004	A509/03	SOLOMON AIRLINES LTD
32	9/1/2004	A558/03	PACIFIC AIR EXPRESS LTD
33	9/1/2004	A625/03	SOLOMON AIRLINES LTD
34	9/1/2004	A562/03	AIR NIUGINI LTD
35	9/1/2004	A563/03	SOLOMON AIRLINES LTD
36	9/1/2004	A564/03	SOLOMON AIRLINES LTD
37	9/1/2004	A265/03	SOLOMON AIRLINES LTD
38	9/1/2004	A567/03	SOLOMON AIRLINES LTD
39	9/1/2004	A571/03	SOLOMON AIRLINES LTD
40	9/1/2004	A572/03	SOLOMON AIRLINES LTD

It easily seen from the extract that the PRNs are not in a complete sequence (i.e. numbers are absent), however, particular concern surrounds the inclusion of the two extreme outliers (A625/03 & A265/03) that also appear within this series of PRNs.

Furthermore, a review of the electronic debit note register for 2004 has noted instances whereby the same PRN is issued under two different debit notes (either to the same or different airline agents), or individual PRNs are absent from the sequence, hence, have not had an invoice raised.

The implication is that flights may be either invoiced twice or not invoiced at all.

#### **Recommendation 74**

We recommended that Debit Notes are raised in the same order as the Port Rotation Numbers to minimise duplication or omissions.

### **10.2.5 Inadequate Follow Up of Unpaid Debit Notes**

Financial Instructions 78 to 81 specify the requirements for the settlement of debit notes and the necessary procedures to take place for the timely follow-up of outstanding debit notes to ensure satisfactory settlement.

During our audit it was identified that there was a significant weakness with regard to the management of debit notes as a result of inadequate follow-up of debit notes that had been issued to the Airline Agents. This was confirmed from review of the outstanding (unpaid) debit notes that existed both at the time of the audit and in the years prior.

At the time of the audit, review of the outstanding debit notes from 2004 noted that the following amounts were unpaid by the respective airline agents:

<b>Airline Agent</b>	<b>Amount Outstanding (SBD\$)</b>	<b>Earliest Unpaid Invoice Date</b>
AIR NIUGINI LTD	14,900.70	12/8/2004
PACIFIC AIR EXPRESS LTD	115,415.50	1/3/2004
SOLOMON AIRLINES LTD	290,124.25	5/5/2004
<b>TOTAL</b>	<b>\$420,440.45</b>	

Review of the dates of the unpaid invoices has noted that some of the invoices were recorded as being outstanding for greater than twelve (12) months at the time of the audit.

Prior to our audit, Customs was aware that in April 2004, Solomon Airlines had unpaid invoices totalling SBD\$1,219,722, consisting of debit notes for the years 1999 to 2003. Our review of the Debit Notes Registers for 2001 to 2003 for unpaid invoices identified that there were small discrepancies in the outstanding figures stated by Customs for 2002 (SBD\$9,099) and 2003 (SBD\$3,827). These variances are immaterial, compared to the total amount owing, however, it suggests inadequate management of outstanding invoices. It has been indicated that the majority of these bng outstanding invoices (1999 – 2003) were subsequently paid in 2004.

The implication is that unpaid revenue is not being followed up in a timely manner which may result in landing charges remaining outstanding for an extended period of time or not being collected at all.

#### **Recommendation 75**

We recommended that the Customs and Excise Division implement an appropriate mechanism to follow-up unpaid landing charges, with any subsequent follow-up action undertaken being appropriately documented.

## 11. IRREGULARITIES

### 11.1 Background

This section contains irregularities from various sections of the Report, which include payments made to third parties by Airservices Australia, payments made to maintenance contractors for Henderson and Provincial Aerodromes, as well as some other matters.

These irregularities include, amongst other things:

- payments made without supporting documentation;
- duplicate payments and other overpayments, particularly in relation to the payment of contractors with indications that employees may have arranged contracts under fictitious names;
- portion of trips not taken with no evidence of reimbursements of per diem, whilst in other instances some per diems may have been falsely claimed.

### 11.2. Irregular Payments made to third parties by Airservices Australia

The under mentioned issues refer in particular to Airservices Australia third party payments, however, some may also refer to payments made from the Trust Account and Solomon Island Government Expenditure, particularly where duplicate payments have been made.

#### 11.2.1 **Detailed Expenditure Associated with ACI and Former Director General of Civil Aviation**

The audit disclosed some AUD \$232,658 expenses paid by Airservices Australia to ACI, which in some instances were approved by the DGCA. Apart from the request for payments, these were paid despite the fact that there was a lack of the supporting documentation (such as detailed evidence of reimbursements of expenses relating to the ACI Managing Director's trips etc.), and in some cases, equipment purchased could not be verified by Audit as to its existence within Civil Aviation or elsewhere.

Audit noted:

- Apart from a request for payment, there was no supporting documentation for the above payments. These could not be located by Audit either at Airservices Australia or within the Solomon Island Government.
- The purchase of computer equipment, including the purchase of portable digital computer projector by the Managing Director of ACI amounting to AUD\$33,000 could not be located by Audit. It is also claimed in writing by the Acting Director of Civil Aviation that the former DGCA took some equipment with him. It is of note that “Clause 4 of the Agreement of Service provides for the ACI to provide their own computer and software, commensurate with fulfilling terms of the contract”.
- Airservice Australia paid the ACI Managing Director reimbursements amounting to AUD\$52,500 for business and travel expenses without any documentary evidence to support his claims. It is also noted that all the claims are in round figures.

The implication is that these payments were not transparent nor accountable without the supporting documentation and this leaves the system open to fraud and corruption. Detailed schedules of these expenses were provided to CAD for necessary action.

#### **Recommendation 76**

We recommended that:

- Civil Aviation Division makes no more requests for payments from Airservices Australia to third parties outside the Airservices Australia - SIG Agreement;
- The Civil Aviation Division investigates these matters and if necessary refers them to the appropriated authority to determine whether any criminality is involved by the relevant parties.

#### **11.2.2 Civil Aviation Funded Sponsorship for Solomon Islanders to attend Education Institutions Overseas**

The audit reviewed payments made by Airservice Australia to educational institutions overseas as well as student allowances for Solomon Islanders and noted that in essence SBD\$2.2M expenditure was incurred for student fees and allowances and Audit could not locate documentary evidence to support these payments nor were they in accordance with the General Orders. There were no proper student records maintained by Audit at Civil Aviation. The audit noted several duplicate payments of student benefits.

From Audit's enquires Civil Aviation were not aware of the duplicate payment and no action has been taken to recover this money.

### ***Bonding Issues***

General Orders Chapter N Section 105, specifies, amongst other things, that an officer selected for an overseas course shall before his departure be required to sign an undertaking in the form set out in the Appendix (Bonding Agreement) to this Chapter. In effect it requires the students after the completion of their course to serve the Government for the period of their training. If the student does not complete the minimum period specified in Clause 3 of the Agreement he shall be liable to refund to the Government on demand such proportion paid to him by the Government during the course of instruction as the remaining uncompleted period of full-time employment bears to the full period.

Audit noted that a request was made by a previous Director General in 2001 to the Airservices Representative to draft a bonding agreement for Civil Aviation's overseas students. He forwarded a draft to the Director General on 6 March 2001. This did not fall within the services stated under the Agreement for the Supply of Services nor could Audit find any evidence that this bonding agreement (unlikely to be legally enforceable anyway) or the Agreement required under GO 105 was ever used. Only two (2) of the seven (7) students are currently working with Civil Aviation and from evidence that could be obtained by Audit, three of the students that are no longer working did not complete the minimum period of employment required under the GOs and Audit could find no evidence that penalties were imposed.

The implication is that the overall training program for overseas student was poorly managed. The payment of student allowances by Civil Aviation through Airservices Australia, SIG (Treasury) and the DGCA Trust Account was not transparent and accountable nor were they in accordance with the Public Finance and Audit Act and the General Orders. The lack of appropriate accounting records has left the system open to fraud and abuse and while some duplicate payments were noted there could be further payments of this nature not detected by Audit. Although there might be a bond or a requirement for the Students to work for Civil Aviation after their studies, Audit could not locate any agreement and it is evident that Civil Aviation did not receive full benefits from the Government's investment in these students.

**Recommendation 77**

We recommended that:

- Future training for overseas students be properly managed and controlled by maintaining appropriate records and complying with the General Orders and Public Finance and Audit Act (by making payments through the proper channels and not by third parties);
- Bonding students after completion of their studies need to be applied if Civil Aviation is to get full value from their student investment;
- A review of payments made during the above period be carried out to identify any duplications or overpayments and where applicable recovery action be taken;
- Civil Aviation Division makes no more requests for payments from Airservices Australia to third parties outside the Airservices Australia - SIG Agreement;

**11.2.3 Purchase of Second-hand Suzuki Vitara**

A former Permanent Secretary (PS) responsible for Civil Aviation requested the amount of AUD\$22,332.59 from Airservices Australia on 3 January 2001 for the purchase of an official vehicle for the Minister's and Permanent Secretary's official use. These funds were deposited directly into the bank account of an expatriate who was apparently leaving the Solomon Islands for the purchase of a second-hand Suzuki Vitara.

From 1 March 2001 until 28 February 2002 the vehicle was registered under the name of the former PS, rather than the Solomon Islands Government. The vehicle did not have a Government Registration (i.e. no G-plate) with the vehicle bearing the number plate A8726. During this period, the PS was receiving a Vehicle Allowance as part of his salary package with the total paid through payroll from 1/3/2001 to 20/12/2001 amounting to SBD\$11,446 while having the use of the motor vehicle.

After the vehicle acquisition, it had been seen to be driven by members of the Permanent Secretary's family, and whilst the PS was suspended, the vehicle remained with him, rather than being returned back to the Ministry.

Prior to and at acquisition of the vehicle, there was no consultation with the Permanent Secretary of Transport, Works and Utilities (Department of Infrastructure and Development) in accordance with the proper Government purchasing procedures for motor vehicles (as is required by General Orders, Chapter T - Transport), nor was there any inspection, assessment and valuation undertaken by the Department of the vehicle.

Audit was unable to locate the vehicle. It is understood that it was in the Henderson Workshop Compound in 2005 and has since disappeared.

The implication is that as this direct payment was made into a private bank account by Airservices Australia for the second-hand motor vehicle as a result the transaction lacked the scrutiny of normal financial requirements resulting in an abuse of public monies and the illegal payment of vehicle allowance.

#### **Recommendation 78**

We recommended that this matter warrants an investigation to determine whether there was any criminality in the Permanent Secretary's actions and recovery action taken where applicable.

#### **11.2.4 Suspected Duplicate and False Per Diem and Air Fare Payments - Civil Aviation Officials.**

Airservices Australia has paid per diems into private bank accounts and has paid Solomon Airlines for travel. This has resulted in the abuse of travel and per diem payments, particularly where travel has not been completed and per diems received have not been refunded. In some cases, unused official travel has been converted to private use. Audit identified numerous cases where there appeared to be abuse of the overseas travel wherein inappropriate persons were travelling and private arrangements were made at the Government's expense. These included cases where unused tickets and Miscellaneous Charges Orders MCOs were manipulated for private purposes. Full details of the cases identified were provided to Civil Aviation Division.

#### **Recommendation 79**

We recommended that the above matters be investigated further to determine whether action should be taken to recover some of these funds and if necessary to assess whether any criminality is involved.

#### **11.3 Irregular Contracting Payments and Procedures**

The undermentioned issues refer to contracting payments made for maintenance in relation to Henderson and Provincial Aerodromes. These payments have been funded through Airservices Australia, DGCA Trust Accounts and Solomon Island Government Expenditure.

### 11.3.1 DGCA Contracting to Related Party – Duplicate Payment

The former Permanent Secretary requested Airservices Australia on 20 February to pay Air Terms Klein Services the sum of SBD\$30,000 for cleaning services undertaken within both the Domestic and International Airport Terminal Buildings for the months December 2000 to February 2001. The contract (dated 30 December 2001) was for 12 months (1 January 2001 to 31 December 2001) for upkeep of international and domestic terminal buildings – Henderson Airport for SBD\$10,000 per calendar month.

Apart from the contract with Air Terms Klein Services commencing in January 2001 and a payment being made by Airservices Australia for cleaning services provided in December 2000, payments were made, for services provided by Air Terms Klein Services, for the months of January and February 2001 by both Airservices Australia on 21 February 2001 and the Ministry of Finance (Treasury) in January and March 2001 respectively.

As a result there has been a duplicate payment to Air Terms Klein Services of SBD\$20,000 for the months of January and February 2001.

The implication is that due to the lack of proper records and payments being made through Airservices Australia (lack of transparency) instead of the through the normal payment system the overpayment of SBD\$20,000 has occurred. This process also leaves the system open to fraud and corruption, particularly where there may be association between the Company and officials of Civil Aviation Division.

#### **Recommendation 80**

We recommended that Civil Aviation Division takes action to recovery the SBD\$20,000 and investigation be made by the Division to ensure that there was no conflict of interest between Civil Aviation Officials and the Company and if necessary the matter be referred to the appropriate authority to determine whether there is any criminality involved .

### 11.3.2 Electrical Contract Awarded to Former Employee(s)

A former DGCA awarded a contract to a contractor which was worth SBD\$52,730, in which he then instructed Airservices Australia to make payment in May 2001. Indications are that the awarding of this contract was undertaken without following standard formal tender procedures (neither Ministerial Tender Board involvement nor public advertisement) and was given on the basis that the electrician performing the job was a former employee with working experience with Civil Aviation airport systems in the past.

The job primarily entailed the transfer of AGL Remote Control Switch and fixing of faulty Beacon on Control Tower. Investigation at the time suggests that the Civil Aviation Division had an electrician who should have been able to undertake the job, given the fact that funds for spare parts could be sourced from Aviation Funds, and the job was simple, hence, should not have attracted such a large contract fee.

The named principal contractor is a former Director General Civil Aviation who finished full-time employment with the Public Service in April 2000. This contract was awarded in early 2001, after the Director General left the Aviation Division using assistance provided from Departmental staff.

The implication is that because the proper tendering processes were not followed it has left the process of allocating contracts open to abuse with the possibility that past and present Civil Aviation officials colluded to grant the contract with the aim of benefiting from this action.

#### **Recommendation 81**

We recommended that Civil Aviation Division investigates this matter and if necessary refer the matter to the appropriate authorities to determine whether any criminality is involved.

### **11.3.3 Government Official Awarded - Henderson Airport Maintenance Contracts**

The former Permanent Secretary (PS) on 1 March 2001 awarded a twelve month landscaping contract (at SBD\$10,000/month) to a contractor totalling SBD\$120,000. In addition, the Permanent Secretary on 9 March 2001 awarded a twelve month upkeep contract (at SBD\$15,000 for first work and SBD\$10,000 per calendar month thereafter) to another contractor totalling SBD\$120,000.

It has been indicated that these contracts were awarded without going through either the Ministerial or Central Tender Board, advertising/requesting expressions of interest from the public, nor having the contract vetted by the Attorney General.

Through investigation it was identified that the registered holder of the post box address used for both contractors during the period 1996 to 9/9/2003 was the same PS.

It has been confirmed through the Treasury Payments System (Maximise) that these two contractors were paid SBD\$200,000 and SBD\$60,000. My office identified an overpayment of SBD\$70,000 to the first contractor and underpayments and arrears in connection with the second contractor with an outstanding element of SBD\$26,000.

The implication is that the contracts were illegally granted by the Permanent Secretary to himself (as the holder of the PO Box number appearing on the contract documentation), as the contracts did not pass through the Tender Board. Furthermore, an overpayment of SBD\$80,000 was paid on the first contract.

#### **Recommendation 82**

We recommended that:

- this matter be investigated to determine the criminality of this matter;
- recovery action be taken on the overpayment of \$80,000; and
- no further payments should be made in relation to the second contract.

#### **11.3.4 Duplicate Payments to Contractors \$104,500**

During the review, a number of duplicate payments were identified that were the result of either inadequate management of payments or intentional actions by Civil Aviation personnel to defraud. The ability for our investigation to detect duplicate payments was diminished by the absence of payment documentation.

The review identified contractor payment vouchers (and/or supporting documentation) that denote services rendered for the same period of time/month that were processed for payment by Civil Aviation Division.

Many of the payments were made without proper certifications from the Civil Aviation Division for completion of work.

The implication is that the lack of proper records to manage these contracts leads to mismanagement and is open to abuse and fraud.

#### **Recommendation 83**

We recommended that Civil Aviation investigate the circumstances of these overpayments (due mainly to duplication of payments) and takes recovery action. If necessary, Civil Aviation should refer the matters to the proper authorities to determine whether there has been any criminality involved.

### 11.3.5 Maintenance Payment - Closed Airport - Western Province

It has been indicated that the Mbarakoma Airfield was closed in late 1999 (or early 2000) with no air services utilising the Airfield since then. Despite the apparent closure of the Airfield, payments of SBD\$201,000 were identified to have been made for airfield maintenance during 2004 and 2005 to two contractors including a youth group. Audit questions whether such a youth group exists in the Province.

The implication is that SBD\$201,100 has been paid to the above contractor for maintenance work that appeared to be unnecessary (if the work was done at all) and there is an indication that the payments could have been fraudulent as Audit could not determine authenticity of the Youth Organisation.

#### **Recommendation 84**

We recommended that Civil Aviation follows up this matter to determine integrity of payments and where necessary make recovery action if possible. It may also need referral to the relevant authorities to determine whether any criminality is involved.

### 11.3.6 Maintenance Payments - Closed Airports - Guadalcanal and Malaita Provinces

The following airports were closed and yet payments were still made for them:

- Marau, Avu Avu and Mbambanakira Airfields; and
- Ontong Java Airfield

#### *Marau, Avu Avu and Mbambanakira Airfields*

It has been indicated that Marau, Avu Avu and Mbambanakira airfields were closed during the ethnic tension in 2000. It was noted that payments of SBD\$310,542 for maintenance of the airfields being made during 2000 – 2005.

The common understanding is that when an airfield is closed and there are no air services being provided, then there is no need for maintenance contracts, nor any payments to contractors.

The fact that the above airfields (Marau, Avu Avu, and Mbambanakira) have been (and continue to remain) closed would indicate that if any maintenance had been undertaken, then there has been no verification of it being performed, hence, no basis for payment, or personnel within the Civil Aviation Division have been making payments under false pretences.

#### ***Ontong Java Airfield***

Similar to the above named airfields, Ontong Java is also an airfield that was considered to be closed. Payments totalling SBD\$132,900 have been made to the contractor for the maintenance of this airfield.

Through discussion with the current Controller of Aviation regarding the matter of maintaining closed airfields, suggested that he was of the opinion that if an airfield is closed then there should be no contractor engaged nor any payments made.

The implication is that overall SBD\$443,442 has been paid to the above contractors for work that wasn't done nor was it needed and as result this could be deemed as either gross negligence on behalf of Civil Aviation or corrupt activities.

#### **Recommendation85**

We recommended that Civil Aviation follows up this matter to determine integrity of payments and where necessary make recovery action if possible.

#### **11.3.7 Renbel Province – Bellona Airfield**

Unlike any other airfield, Bellona appears to have three (3) different contractors undertaking the maintenance of the airfield at a cost of SBD\$716,056 for the period December 1999 to 2005.

Apart from the engagement of three contractors which elevates the total maintenance cost for the Airfield, the contract rates paid to each of the contractors was identified to be different. There is no documented rationale for Bellona Airfield being dealt with any differently from the other airfields.

The implication is that as there was no rationale documented in engaging three contractors this could result is a waste of public money and concerns in relation to the legitimacy of the contracts.

#### **Recommendation86**

We recommended that the Bellona Airfield contracts be reviewed with the aim of rationalising the engagement of three contractors.

### 11.3.8 Felling of Trees at Henderson Airport - Irregularities

In early December 2005, Department of Civil Aviation authorised (understood to be Deputy Director of Civil Aviation) a contractor to carry out the tree cutting at Henderson Airport as quoted “Urgent cutting/felling of trees approaching Runway 24 – Honiara International Airport” for \$140,000.

Audit noted the following irregularities in the process:

- No tendering process took place although it was noted that the Ministry Tender Board (MTB) was alleged to have convened on the 20 December 2005 to deliberate on the above issue. However, upon verification, there was no such meeting convened on that date and only the Tender Award Form was signed by the MTB members on the said date just to facilitate the payment;
- The Completion Certificate was signed on 16 December 2005 by the Chief Architect prior to signing the so called Contract Agreement on 20 December 2005 by an unidentified signature on behalf of the Permanent Secretary and witnessed by the Chief Architect;
- It was noted that two other contractors were other tenders for the job. However Audit enquiry with the Chief Architect confirmed that there wasn't any tendering and that the job was given directly to the successful contractor well before the contract documentation was executed. The inclusion of the other two contractors on the memorandum of tender evaluation was done without the contractors consent and it appears as though the Director of Urban Works and Services had done this in order to satisfy Treasury requirements for payment facilitation.
- An initial estimate was given by the Department of Forests, Environment & Conservation amounting to SBD\$196,560 which seemed very high, particularly as the Chief Architect and his Deputy submitted an estimate of SBD\$40,000 but was rejected by the Director.
- A subsequent opinion was obtained from the Department of Forests, Environment and Conservation estimated the amount to be SBD\$17,500 for the felling of the trees at the approach of Runway 24.

The payment of SBD\$140,000 less tax was paid to the contractor on the 30 December 2005.

It is of some concern that there has been an obvious breach of procedures with little doubt to inflate the cost of the job with possibly a corrupt motive in mind. This process appears to be driven by the then Deputy Director Civil Aviation and Director of Urban Works and Services and that there has been collusion between the Civil Aviation officials and those in the Department of Forests, Environment and Conservation.

#### **Recommendation 87**

We recommended that this matter be investigated by Civil Aviation and if necessary be referred to the appropriate authority to determine whether any criminality is involved

### **11.4 Other Matters**

The undermentioned are other matter noted during the Audit:

#### **11.4.1 SBD\$1M Civil Aviation Division Charge Account owing to Solomon Airlines**

Through discussion with Solomon Airlines personnel it was indicated that the Civil Aviation Division (CAD) Account with Solomon Airlines was authorised by the former Chairperson of Solomon Airlines and was created on 15 August 2003.

Correspondence between Airservices Australia and the Director General Civil Aviation during July 2003 indicates that the Upper Airspace Charges owing by Solomon Airlines to Airservices Australia (on behalf of Civil Aviation) amounting to AUD\$36,170.18 (on 9 July 2003) were to be transferred into a charge account operated jointly by the Department of Civil Aviation and Solomon Airlines solely for the benefit of Departmental travel (i.e. offset the Solomon Airlines debt for Civil Aviation travel). Although the amount of AUD\$36,170.18 was to be written-off by Airservices Australia, there is no evidence that this amount had been transferred into the CAD Account with Solomon Airlines.

This outstanding amount has arisen despite the issuance of the following correspondence:

- Letter to the Director General Civil Aviation (dated 23 December 2004), whereby Solomon Airlines advises that the CAD Account has been temporarily suspended with a balance of SBD\$846,444.61 outstanding.
- Letter to the Permanent Secretary (DCAM) (dated 22 February 2005) whereby Solomon Airlines advises that the CAD Account has been temporarily suspended until such time as bill is fully settled.

In addition Audit has noted the following irregular transactions contained in this account:

- Conversion of official airline tickets to personal travel;
- A number of airline tickets issued to personnel other than Civil Aviation Staff;
- Payments made for Civil Aviation overtime from this account;
- Private funeral costs namely transporting corpse by air for a Minister; and
- Numerous trips from Honiara – Brisbane and return made by consultant outside of his entitlements.

The implication is that this charge account has been opened contrary to the Public Finance and Audit Act and many entries do not apply to Civil Aviation activities resulting in incurring travel that was not transparent to the normal scrutiny nor was it accounted for through the Consolidate Fund and as such has understated the expenditure in the Government accounts. The charge account is open to abuse and fraudulent activities.

**Recommendation 88**

We recommended that this account be fully examined by Civil Aviation determining what travel has been genuinely incurred by Civil Aviation before settling the account.