



**SOLOMON ISLANDS GOVERNMENT**

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

**MINISTRY OF HEALTH AND MEDICAL  
SERVICES**

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 Ministry of Health and Medical Services.

The Ministry is responsible for the coordination of health and medical services within Solomon Islands. It is a most significant challenge to provide appropriate services through the provinces particularly in remote communities.

### **Audit**

The audit reviewed the Ministry's administrative processes and systems to ascertain their adequacy. The audit disclosed many significant issues in the manner in which the Ministry had operated during 2005.

The Report contains numerous recommendations which have been accepted by the Ministry and where possible remedial action has been taken.

The lack of adequate systems and processes and documentation to evidence and support decisions in relation to administrative processes and other shortcomings were a major concern and I have made a number of recommendations to provide a framework going forward for the Ministry.



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**Auditor General**

**9 October 2006**

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## OVERVIEW

### **Background**

The Solomon Island Ministry of Health and Medical Services (MHMS) co-ordinates the management of health and medical services within the Solomon Islands. The two main categories of health services in MHMS are Health Improvement and Health Care.

The MHMS audit was selected as it is a major portfolio with high levels of expenditure.

### **Audit Objective and Scope**

The principal objective of the Audit was to obtain an assurance that the provision and administration of health and medical services are being effectively carried out and that sufficient controls are operating over expenditure and the collection of revenue.

### **Key Findings**

The audit found:

#### **Purchasing Processes**

- Critical breakdown in the internal control processes and non compliance with Financial Instructions leading to suspected fraudulent and duplicated payments amounting to \$95,424.
- Lack in segregation of duties has lead to suspected fraudulent payment of \$28,640.
- Duplicate reimbursements paid to National Medical Store by the National Headquarter Account amounting to \$137,987.
- Inappropriate practices have been undertaken in regards to obtaining and evaluating quotations.
- Financial delegations are out of date and the officer signing as “Authorised Purchasing Officer” has no financial delegation. Furthermore, signatures recorded on requisitions as “Officer Authorised to Incur Expenditure” could not be identified by audit.
- Deficiencies in purchasing process such as:
  - no documented evaluation of suppliers;
  - no check undertaken in relation to the availability of funds; and
  - no evidence ensuring goods and services have been received prior to payment.

- Payments greater than \$100 made by the Ministry to suppliers were paid by cash cheque contrary to Financial Instruction 252.
- The Authorised Purchasing Officer had pre-signed a booklet of General Payment vouchers under the instructions of the Chief Accountant.

### **Trust Funds and Cash Management**

- ***Legality of the Health Sector Trust Account and Operating Bank Accounts*** – Health Sector Trust Account (HSTA) is an account which AusAid funds are deposited into, for the use of the Government. For the financial period 2005, \$44.5 million (budgeted) value of transactions that occur within this account was not represented in the Government Accounts.
- ***Inadequate Management of Operating Bank Accounts*** – these bank accounts are in overdraft on a regular basis and the budget activity is poorly monitored.

### **Assets Management/Maintenance**

- ***Asset Management*** – Assets are poorly managed in that:
  - There is no planning mechanism for the identification and acquisition of fixed assets within the Ministry;
  - No Asset Register being maintained except for a listing of Biomedical Items at the National Referral Hospital which is not up to date;
  - No evidence of stocktakes being carried out resulting in the Ministry not being aware of the location or existence of the Ministry owned/managed assets;
  - No procedures in place for asset disposals ; and
  - Security of the Ministry's assets is poor in that there is no mechanism or policy in place to safeguard them against improper use, nor are the assets identified through stickers (or engraving) as Ministry's owned/managed assets.
- ***Maintenance of Assets*** – MHMS does not undertake any planned preventative or routine maintenance of assets.

### **Revenue**

- ***Revenue Collections*** – Shortcomings exist in the controls over the collection of Ministry's revenue, which include:
  - No evidence that the schedule of fees had been formally authorised or prescribed by the Minister of Health, nor have fees been reviewed on an annual basis as prescribed by Financial Instruction 77 (2) and 98;
  - All members of the Accounts Section at National Referral Hospital and National Medical Stores have been collecting and receipting revenue even though they have not been appointed as collectors; and
  - In the past, revenue collections were often utilised by the Department/Division that has collected the revenue.

- **Accounts Receivable** – Control weaknesses exist over the raising of invoices (debit notes) and the collection of fees:
  - Fees (with the exception of embalming) which are invoiced at National Referral Hospital and National Medical Store are not specified in the Hospital’s informal schedule of fees, nor are any fees charged in line with the “Scale of Public Hospital Fees” (and many of the invoices are quoted in US Dollars) and
  - No adequate follow up procedures in place to ensure that payment is received in a timely manner.

## **Payroll**

- **Appointment of Employees** – Audit testing identified the following control weakness in the appointment of employees:
  - Employees were being placed onto the payroll without proper authorisation and supporting documentation;
  - There were significant delays in the appointment of employees; and
  - The Additions Report which highlights all the new commencements added to the payroll during a pay run, is not produced and compared to supporting documentation that authorises the appointment of the employee.
- **Policies and Procedures** – There is a lack of adequate written policies and procedures in place in relation to the appointment of new employees, the termination of employees and the changes made to employees pay details. The lack of guidelines is believed to be a large contributing factor to the many exceptions that have been identified in Audit testing.
- **Nominal Rolls** – Nominal rolls which are required to be prepared by Ministries each year, are not occurring and the nominal rolls are not being forwarded to Central Payroll (at Treasury). This has resulted in the non compliance of Financial Instruction 416 “Nominal Rolls and Staff Changes Returns” as Central Payroll is processing salaries without receiving the appropriate authority from the Ministry. The Nominal Roll is the only way that wages and salaries are certified by the Ministry as being correct.
- **Allowances** – Large amounts of overtime were being paid to employees that were not eligible to receive overtime allowances. Between 2001 to 2005 the total of overtime paid to employees not entitled to receive the overpayments was \$165,305.
- **Reporting** – Key reports that could be used by the Ministry to aid in the management of their human resources are not requested and reviewed.

- **Terminations** – Audit testing revealed the following control weakness :
  - A large problem with delays in the removal of employees from the payroll. Out of a sample of 40 terminated employees approximately 70% of them were paid for a period of time after their employment with the Ministry had ceased. The delay in the removal of these employees in this small sample alone has cost the Ministry approximately \$186,000.
  - The Ministry does not review a listing of terminated employees during each fortnight's pay run to ensure that they can confirm the removal of terminated employees from the system in a timely manner.

### **National Medical Store (NMS)**

- ***Inadequate Stock Management of NMS supplies resulting from:***
  - *Absence of Stock Usage Trends* – to ensure stock levels of medical supplies are maintained at sufficient level to minimise the possibility of stock outages.
  - *Requests/Issues from National Medical Store (NMS)* – lack of controls over requisitioning, issuing, delivery and monitoring of pharmaceutical supplies within the Department/Division could lead to inappropriate/unauthorised pharmacy supplies being ordered from the NMS.
  - *Inadequate Controls over Physical Storage within NMS* – a very high percentage of stock on hand balances did not agree with the stock count carried out by OAG. Only four (4) out of thirty eight (38) counts agreed to the M Supply inventory system.
  - *Disposal of Expired Stock* – expired stock still continuing to be held or disbursed/dispensed – disposals are not being correctly authorised.
  - *Insufficient Controls Over Management of Dangerous Drugs* – Dangerous drug registers have discrepancies in the balance on hand; nil balances exist which suggest poor stock management.

### **Conclusion**

The audit of the Ministry of Health revealed serious breakdowns in critical management and accounting systems and procedures within the Ministry. In particular there were shortcomings in the financial controls operating over the Health Sector Trust Account and its 25 operating accounts which have led to OAG identifying suspected fraud. Furthermore, OAG considers that the establishment and the operations of this Account is outside the law in that it does not comply with Section 100 (1) of the Constitution and that millions of dollars spent on Health Services are not being reflected in the Government Accounts.

Purchasing practices and procedures are poor in that financial delegations are out of date, inappropriate practices have been undertaken in obtaining and evaluating quotations, no documented evaluation of suppliers, no evidence of ensuring goods and services have been received prior to payment.

The National Medical Store clearly needs to be better managed in that there are a number of deficiencies in this area including insufficient control over dangerous drugs, expired stock still continuing to be held or disbursed and a very high percentage of stock on hand balances did not agree with the stock count carried out by OAG.

The critical systems in the management and maintenance of assets are not in existence nor is there adherence to financial instructions in that no asset registers are maintained, except for biomedical items at the National Referral Hospital and no stocktakes are being carried out.

### **Overall Recommendation**

OAG has made a number of important recommendations and in order to strengthen the internal controls and improve the administration of the Ministry it is essential that these recommendations be implemented. It is also important to clarify the legal position in relation to the Health Sector Trust Account and this matter will need to be urgently submitted to the Attorney General for his advice.

### **Ministry of Health – Management Response**

The Solomon Islands Government Ministry of Health and Medical Services (MoH) accepts the findings of the Auditor General's audit of the Ministry of Health conducted in 2005 and values this opportunity to improve and strengthen the Ministry's management systems. A detailed action plan addressing the recommendations of these reports has been drafted and implementation of this plan has commenced.

The following provides a summary of the priority strategies that the MoH has, and will continue to undertake, to remediate the issues identified in these reports.

Summary of major actions:

- Closing of five (5) Honiara based HSOA (child) HSTA accounts in order to make all payments via the parent HSTA account. This will allow one set of accounts and records to be kept in a central location, significantly reducing the potential for duplicate and corrupt payments.
- Investigation of the option of closing provincial HSOA accounts, as these accounts are no longer recipients of HSTA funds. New accounts would need to be established by SIG for the receipt and disbursement of SIG funding.
- MoH will endeavour to implement purchase orders for all purchases made through the HSTA account to streamline the purchasing and payment process. Purchase orders are already being used by all SIG Departments and MoH will also comply.

- MoH Executive has referred fraud issues to the disciplinary committee and to the police for investigation.
- Tightening of payment processes and controls.
- Motor vehicle servicing fraud to be investigated further and referred to police.
- Implementation of regular financial and budget analysis reports.
- New asset purchases to be recorded and asset disposals to follow proper procedures.
- Fee structure to be reviewed by Executive and documented. Revenue collections to be controlled and tightened.
- HR and payroll procedures to be reviewed and tightened.
- Strengthening of stock control procedures and purchasing processes at NMS.
- Performance management to be strengthened as part of 2007 strategic plan.

## 1. INTRODUCTION

### 1.1 Background

The Solomon Island Ministry of Health and Medical Services (MHMS) co-ordinates the management of all health and medical services within the Solomon Islands. Operational funding for the Ministry is from two major sources being:

- Solomon Islands Government (SIG) - payroll, utilities and staff travel.
- Government of Australia relating to the provision of funding to the Health Sector Trust Account (HSTA) - all other expenditure.

Capital funding is primarily provided by donor agencies for the construction/renovation of infrastructure and the acquisition of furniture/fittings, equipment and motor vehicles.

### 1.2 Mandate

The Public Finance and Audit Act provides 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

The Ministry of Health and Medical Services operates under the Health Services Act (Cap 100). Related legislation includes: Dangerous Drugs Act (Cap 98); Environmental Health Act (Cap 99); Health Workers Act (Cap 101); Medical and Dental Practitioners Act (Cap 102); Mental Treatment Act (Cap 103); Nursing Council Act (Cap 104) and Pharmacy and Poisons Act (Cap 105).

### 1.4 Audit Objectives and Scope

The principal objective of the audit was to review the adequacy of the Ministry’s provision of health and medical services.

## **2. PURCHASING**

### **2.1 Background**

The various procurement areas within the Ministry undertake the purchasing functions. The identified main procurement areas within the Ministry consist of:

- Stores
- Pharmacy
- Engineering
- Kitchen

Each area identifies the type and quantities of supplies required for standard (Imprest) items through their own processes, however, this is undertaken throughout the Ministry generally on a visual basis. There is no formalised mechanism existing for determining at what point new or additional imprest stock is required.

For non-standard items (non-Imprest) there is generally a request (either internal order or pro-forma invoice) received from an area outside the procurement entities with these non-standard items usually authorised by the senior officer (e.g. for Pharmacy) or Management prior to purchase.

### **2.2 Summary of OAG Findings and Recommendations**

The following is a summary of OAG findings and recommendations:

#### **2.2.1 Suspected Fraudulent Payments – Duplicate Payments**

Financial Instruction 262 provide that once paid, original and all copies of the General Payment Voucher and all supporting documents attached to the original will be legibly endorsed with a dated "Paid" Stamp. Furthermore Financial Instruction 277 provides that payment will normally be made against original documents. No payments will be made against a copy or duplicate invoice claim except as prescribed in Financial Instruction 278.

There are 25 operating accounts that exist within the Ministry. These operating accounts were established for the purpose of managing donor funds received from AusAid.

OAG reviewed the payments made from these accounts and noted that there were many duplicate payments being made and a number of these OAG suspects are fraudulent. These duplications have occurred in the following ways:

- payment vouchers being paid from one operating account and subsequently original payment vouchers photocopied and paid from another operating account. In a number of cases the first cheque would be made out to the supplier and the second cheque would be made out for cash and collected by the officer or officers perpetrating the fraud.
- a lack in segregation of duties as the Chief Accountant and Principal Accountant have the ability to prepare requisitions and general payment vouchers from both accounts, in particular Health Sector Trust Account and the National Headquarters Account.
- Payments made without appropriate supporting documentation.

These suspected fraudulent payments have occurred because of the break down in internal controls, including the process of checking to see whether the payment had been previously paid, and the non compliance with the above Financial Instructions.

The following are some of the findings noted:

- ***Attempted Misappropriation of Funds***

During the audit it was brought to our attention the following finding made by a Health Advisor. The Health Advisor was reviewing the payments to be made from the Health Sector Trust Account and identified that the invoice being processed for payment had previously been paid from the National Headquarters Account, he then questioned the Principal Accountant and Chief Accountant responsible for processing the payment as to why the invoice was to be paid again. When the former was confronted he admitted that he and the Chief Accountant had organised with the supplier to share the proceeds from the duplicate payment. Both officers were suspended for attempting to misappropriate funds. The Principal Accountant returned to work but is only allowed to enter data, he no longer has access to processing payments. As a result of this finding, OAG performed additional testing in this area to determine if there were other attempts of misappropriation.

- ***Duplicate Payments – Suspected Fraudulent Payments - \$95,424***

OAG has noted that supporting documents such as the original invoices are not cancelled (stamped “Paid” as per Financial Instruction 262) once they have been processed and paid. The implication is that the documents can be used again to obtain funds from another bank account.

Financial Instruction 279 (1) states that upon receipt of a copy or duplicate invoice or claim, a thorough search will be made of all accounting records both within the Ministry and also the Treasury Division to ensure that previous payment has not been made.

OAG noted that payments were made on photocopied invoices without any checks to ensue that the payment had not been previously paid, which has led to duplicate payments being processed.

From the duplicates noted the two main accounts used are the Health Sector Trust Account and the National Headquarter Account. This is a result of a lack in segregation of duties as the Chief Accountant and the Principal Accountant has the ability to prepare requisitions and general payment vouchers from both accounts.

To review duplicate payments OAG collated all payments made from the 25 operating accounts and selected a sample of payments with identical amounts. The payment vouchers were collected and reviewed to determine whether the payment was a duplicate. OAG identified five cases which appeared to be duplicate payments totalling \$ 95,424.

OAG noted that two cheques were presented to the bank by a Ministry employee for \$20,000 and \$13,760 respectively.

In addition OAG noted that the other three cheques were cashed but the signatories could not be identified.

**Recommendation 1**

We recommended that:

- Further investigation is to be carried out on employees involved in perpetrating the above fraudulent duplicate payments and the matter should be referred to the appropriate authorities to determine whether criminality is involved;
- Officers preparing requisitions, payment vouchers and cheques should not have access to more than one operating bank account;
- Payments should only be made on original invoices, however, if an original invoice cannot be obtained an extensive check must be performed to ensure that the invoice has not been previously paid and the photocopy of the invoice is to be stamped “Not Previously Paid”;
- Once the invoice has been paid the supporting document (invoice) should be stamped “Paid” to ensure that the invoice is not paid again;
- No cash cheques be issued unless it is in accordance with Financial Instruction 252, which, states that for payments greater than SBD\$100 the cheque must not be made out to cash unless the payee does not have a bank account. In such an instances the cheque is to read “Pay Cash to (Name of Payee)”;
- Payment should not be made unless there is adequate third party supporting documentation; and
- The Ministry should conduct a review of the twenty five (25) operating bank accounts to determine whether they are still required. If it is determined that certain operating bank accounts are no longer required they should be closed.

**2.2.2 Suspected Fraudulent Payments – Maintenance of Motor Vehicles**

An enquiry by Health Institutional Strengthening Project (HISP) staff identified a series of transactions which raised concern. The Ministry’s headquarter account for motor vehicle repairs totalled \$195,117.25 for the financial period 2005. Of this amount, \$113,681 had been paid to one supplier and were cash cheques.

- Further examination revealed that the supplier had mainly worked on two vehicles. He was paid \$77,079 for the work on vehicle X714 and \$28,802 for vehicle X444. The remaining \$7,800 paid to the supplier could not be allocated to any vehicle.

In addition OAG noted that payments to other motor vehicle repairers in 2005 for vehicle X714 was \$14,964 and vehicle X444 was \$17,283. Therefore, the total spent on repairing these two vehicles are \$145,928, which appears to be excessive for repairs within the one year, as a new car could be purchased.

From review of the requisition forms and the payment vouchers OAG noted that there was a breakdown in the segregation of duties and that the recently retired Chief Accountant had signed a number of areas within the one payment voucher. It was further noted that he had signed the cheque and in some instances they were also cashed by him.

It was noted in six instances the “Officer Authorised to Incur Expenditure” was signed by that same person. Only the Permanent Secretary and the Under Secretary are authorised to sign as the “Officer Authorised to Incur Expenditure”. Further OAG suspected fraudulent payments of \$28,640. On six occasions OAG identified the former Chief Accountant as the officer presenting the cheque to the bank to obtain the cash.

The lack in segregation of duties is the major contributor to the likelihood of funds being misappropriated.

### **Recommendation2**

We recommended that:

- Further investigation is to be carried out on the employee involved in perpetrating the above fraudulent payments and the matter should be referred to the appropriate authorities to determine whether criminality is involved;
- No cash cheques should be issued unless it is in accordance with Financial Instruction 252, which, states that for payments greater than SBD\$100 the cheque must not be made out to cash unless the payee does not have a bank account. In such an instances the cheque is to read “Pay Cash to (Name of Payee)”and
- Duties should be segregated so that one officer is not responsible for a number of duties, particularly being able to prepare requisitions, payment vouchers and cheques.

### **2.2.3 Duplicate Reimbursements for Payments made by National Medical Store**

National Medical Store Operating Account is reimbursed by the Head Quarter Account for expenditure incurred in relation to Cold Chain and the Radio Project.

Cold Chain is the process of maintaining the required temperature (between 2 – 8 degrees) for vaccines. Additional costs are incurred when transferring the vaccines to the provinces as gases such as oxygen and nitrous are used to maintain the Cold Chain. Cost of freight and gases are initially paid by the National Medical Store and supporting documents are forwarded to Head Quarters for reimbursement.

The Radio Project attempts to provide all Provinces access to radio equipment so that they are able to communicate with Headquarters and the National Medical Stores. National Medical Stores often supplies the equipment and freight for the Radio Project and is then subsequently reimbursed by Headquarters.

OAG noted the same instances where National Medical Stores have been reimbursed twice for the same invoices which resulted in duplicate payments of \$137,987.

The implication is that there is a potential that the monies are misappropriated and National Medical Store is exceeding their budgeted expenditure. Furthermore, that this may pave ways for fraudulent intentions resulting in loss of Government funds.

#### **Recommendation3**

We recommended that Headquarters pay for expenditures directly, in the manner and process described in the Financial Instructions so that there is no risk of duplicate reimbursements.

### **2.2.4 Authority to Incur Expenditure (Purchase)**

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

Financial Instruction 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 Permanent Secretary for Finance) 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. Financial Instruction 233 specifies that Payment Vouchers may only be certified and signed for payment by an Accounting Officer (or authorised delegate).

Financial Instruction 209 stipulates that the delegated officers must be appointed and specimen signatories must be submitted to the Permanent Secretary for Finance (PSF) no later than 31 January of each financial year. There is a standard form named "Authority to Incur Expenditure" which must be completed and signed by the Accounting Officer before it is submitted to the (PSF).

During the review of the Financial Delegation Schedules for the consolidated fund OAG could not locate the 2004 financial year's specimen signatories.

OAG noted that there are a number of divisions within the Ministry that had their own bank accounts. The twenty five (25) bank accounts were opened to manage donor funds that were to be kept separate from the consolidated fund. OAG was not able to sight appropriate approval of the delegated officers for expenses incurred from these separately maintained bank accounts.

Review of the payments documentation identified that the majority of payment vouchers had the "Authorised Purchasing Officer" section signed by staff that are not on the financial delegations. Furthermore, OAG was unable to identify some of the signatures recorded on the Requisitions as "Officer Authorised to Incur Expenditure".

The implication is that the staff of the Ministry, which are signing requisitions, payment vouchers and other accounting documents pertaining to public expenditure may not be formally authorised to incur expenditure and the purchases are not for the purpose of the Ministry.

**Recommendation4**

We recommended that all personnel within the Ministry that are identified with a requirement to make purchases be appropriately authorised (through delegation) by the Permanent Secretary (MHMS).

**2.2.5 Purchasing Practices**

The selection of supplier often depends upon the type of item being purchased and the frequency of purchase. Ongoing suppliers exist for some procuring areas, for example supplies for the Pharmacy (medication and medical supplies) are procured through the National Medical Store, whilst tender approved suppliers exist for certain divisions.

Through discussion with various Department/Division Managers, it was indicated that suppliers utilised are often those that were used to supply the items previously, rather than identifying a preferred supplier through obtaining quotes (verbal or written) or going to tender in line with chapter 22 of the Financial Instruction 1994 as amended.

It was further noted that procurement of non standard items are normally processed by the Accounts Division rather than the Centralised Stores Division within the Ministry.

The implication is that, although many of the approaches undertaken by the Ministry may appear to fast-track the procurement of goods/services, the practice does not provide for uniformity of item or supplier, nor does it ensure value for money with regard to quality, timeliness of delivery, or discount based on bulk ordering. In the aggregate, it implies lack of proper planning, coordination, supervision and monitoring of use of resources, be it financial or stock.

**Recommendation5**

We recommended that procurement of non-standard items by the Ministry be performed at a central stores to minimise the number of officers able to raise requisitions (with the exception of Pharmacy items acquired from the National Medical Store), with any recurrent suppliers (i.e. regular needs identified for the next six to twelve months) identified under a period contract through the tendering process.

### 2.2.6 Purchase Process

Purchase Orders are not being correctly utilised by the Ministry for authorising the purchase, nor notifying the supplier of the Ministry's purchase requirements. The current procedure for both SIG and Donor purchases is for the Requisition Form to be completed as evidence of authorisation within the Ministry and the production of a Payment Voucher upon appropriate authority. A large proportion of purchases undertaken by the Ministry are paid in advance of receiving the goods/services, this is a result of the Ministry not having and credit terms (OAG did note that this is not the case for purchase of Medical Supplies purchased by the National Medical Store).

The general practice (and sequence of events) for procuring goods/services from the Solomon Island Government Budget is as follows:

1. Pro-forma invoices (quotations) are submitted by the requesting Department/Division to the Central Accounts Section located in Honiara head office, with the instructions as to which supplier and goods to acquire either written on the pro-forma or given verbally;
2. Requisitions are prepared by the Assistant Accountant - Accounts Section from the pro-forma(s) (and instructions provided) and await the Permanent or the Under Secretary's approval;
3. Payment Voucher is completed (with the appropriate authorisations) and sent to the Treasury Division who is responsible for reviewing the documents to ensure that the payment is in accordance with the Financial Instructions prior to preparing a cheque;
4. Cheque is given to the requesting Department/Division, who take the cheque to the supplier (without any other information) for payment of the goods/services and collection if the goods are in stock; and
5. Receipts from the supplier are not consistently/completely returned by the Department/Division to the Accounts Section as evidence that the cheque has been received by the supplier or the goods/services have been provided.

The general practice (and sequence of events) for procuring goods/services from Aus Aid Funding is as follows:

1. Pro-forma invoices (quotations) are submitted by the requesting Department/Division to their Accounts Section, with the instructions as to which supplier and goods to acquire either written on the pro-forma or given verbally;
2. Requisitions can be prepared by a number of staff members within the Ministry as a result of there being a number of Department/Divisions. Each Department/Division that has its own bank accounts will have its own set of Purchasing officers signatories;
3. Payment Voucher is completed (with the appropriate authorisations) and a cheque is prepared (depending on the supplier as to whether it is made out to the supplier or to cash). There are 25 bank accounts maintained by the National Bank of the Solomon Islands for the different Department/Divisions within the Ministry. Each bank account will have its own set of cheque signatories;
4. Cheque is given to the requesting Department/Division, who take the cheque to the supplier (without any other information) for payment of the goods/services and collection if the goods are in stock; and
5. Receipts from the supplier are not consistently/completely returned by the Department/Division to the Accounts Section as evidence that the cheque has been received by the supplier or the goods/services have been provided.

The implications with the current process are as follows:

- There is no documented evaluation of the pro-formas by the Department/Division specifying the supplier chosen, nor the items selected for purchase (especially if only some of the items specified on the pro-forma are requested at that price). (Notification would normally be undertaken with the completion of the Requisition by the requesting Department/Division);
- There is no check undertaken by the Accounts Section as to the availability of funds (which should be conducted against a line item within a budget) as evidenced by the frequent bank overdrafts (Bank accounts not controlled by Finance);
- A purchase order is not produced highlighting the goods/services that the supplier is to provide to the Ministry, and as a result, the holder of the cheque (Department/Division representative) could approach the supplier and purchase anything up to the value of the cheque; and
- There is no follow-up of outstanding purchases (goods/services or receipts) to ensure that everything that has been paid for (which is in advance) has actually been received.

**Recommendation 6**

To improve the mechanism for purchasing within the Ministry, the following should be implemented:

- Requisitions should be completed by the requesting Department/Division and forwarded to the Accounts Section (accompanied by the pro-forma and supplier/item evaluation). The Requisition forms should be pre-numbered (each being uniquely identifiable) with the books issued to the senior staff member for each Department/Division and remain accountable ;
- All specimen signatories should be sent to Head Office in Honiara to ensure that the officers delegated authority to sign requisitions, payment vouchers and cheques are appropriate;
- Availability of funds within the bank accounts at NBSI should be checked by the Accounts Section prior to authorising the requisition, generating the payment voucher and preparing the cheque ; and
- Purchase orders should be generated after the requisition has been approved, with two copies provided to the requesting Department/Division along with the cheque. The original purchase order accompanies the cheque to the supplier, whilst the duplicate is retained by the Department/Division until the goods are supplied. The purchase order is followed up by the Department/Division with the supplier until all items have been provided and the duplicate copy of the order (acknowledged as being fully filled) and the receipt/supplier invoice are forwarded to the Accounts Section to accompany the payment/authorisation documentation (i.e. payment voucher, requisition, pro-forma(s) etc).

**2.2.7 Review of Purchases (Donor Funded)**

A review of payment vouchers and accompanying purchasing (supporting) documentation was undertaken for a sample of purchases made from Donor funding.

Over three hundred (300) payments from financial year 2001 to 2005 were selected from Donor funded payments for testing. From inspection of the payment vouchers sampled, OAG identified the following shortcomings:

***Requisitions***

It was noted that in most instances the requisitions are completed either at the time that the payment voucher is generated or after the supplier invoice has been received.

As per Financial Instruction 206, “authority to sign purchase orders, requisitions, payment vouchers or other accounting documents to become valid documents must be signed by the Accounting Officer or his authorised substitute. Any such delegation must be approved in writing by the Permanent Secretary following a written request from the Accounting Officer for such delegation. The written request must be accompanied by three specimen signatories. OAG was not able to sight the approvals for the delegated officers nor the specimen signatories for the Departments/Divisions that were able to make payments from their operating bank accounts.

As per the Memorandum of Understanding between the Government of Australia and Solomon Island Government, Procurement and Payment procedures state that it is preferable to obtain three (3) quotes from suppliers. In addition Financial Instruction 519 states that the procurement of all works, goods and services in excess of \$2,000 is to be subject to quotation/tendering procedures as noted below:

<b>Procurement Amount</b>	<b>Quote/Tender Required</b>
\$2,000 to \$10,000	Minimum of three verbal quotes
\$10,000 to \$50,000	Minimum of three written quotes
\$50,000 to \$500,000	Tendered and evaluated by Ministerial Tender Board
> \$500,000	Tendered and evaluated by Central Tender Board

From OAG’s testing of three hundred (300) expenditure transactions from Donor Funds, we only noted sixteen (16) transactions with the required number (three) of quotations. All sixteen transactions (16) were noted in the 2005 financial period.

The implication is that there is insufficient evidence that the awarding of business to local suppliers is undertaken in accordance with Government purchasing requirements (value for money will also be jeopardised), with appropriate purchasing authority and without employee bias towards particular suppliers.

#### **Recommendation 7**

We recommended that all requisitions are correctly completed in accordance with chapter 22 of the Financial Instructions to ensure that there is no bias and that value for money is achieved.

### 2.2.8 Availability of Funds for Expenditure

Financial Instruction 234 specifies that in certifying and signing a Payment Voucher, the Accounting Officer, or authorised signatory, is responsible for ensuring that uncommitted funds for the expenditure are available. OAG further noted in the Health Sector Trust Account Manual that the Accounting Officer is to ensure that adequate funds are available and that the purchase is within the budget.

Through a review of Operating Accounts Bank Statements balances for 2004 and 2005, it has been noted that the operating bank accounts has been overdrawn on a regular basis. OAG noted sixty two (62) instances where the twenty five (25) Operating Accounts were in overdraft for the 2004 financial year and sixty nine (69) instances for the 2005 financial year.

As a result of NBSI dishonouring some of the cheques (i.e. the cheque will bounce), this may result in the suppliers that presented the cheque no longer wishing to deal with the Ministry. Furthermore, in some instances there have been financial penalties imposed by the Bank when the account has been overdrawn (i.e. unplanned overdraft fees).

#### **Recommendation 8**

We recommended that the Departments/Divisions ensure that sufficient funds exist within the Bank Account prior to drawing (and releasing) cheques to suppliers.

We further recommended that measures are in place to ensure the application of section 22 of the Public Finance and OAG Act so as to ensure prudent financial management procedures defined in the relevant laws are complied with.

### 2.2.9 Confirmation of Receipt of Goods/Services

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 Ministry and to which that payment voucher shall refer.

Review of the Payment Vouchers raised from donor funds (and supporting documents), identified that there is a signature on the Payment Voucher as evidence that the goods/services that were processed for payment have actually been received/performed, however, there are no supporting documents (such as a delivery note or signature on the invoice / requisition by the receiving officer and stamping the invoice “Goods Received”) that substantiates the receipt of goods or service.

The implication is that payments have been made without any evidence that goods/services have been satisfactorily received or performed in accordance with the supplier invoice.

**Recommendation 9**

We recommended that appropriate evidence be obtained to ensure that the goods have been received or services rendered prior to signing the Supervisor’s Certification on the Payment Voucher.

**2.2.10 Drawing of Cash Cheques**

Financial Instruction 252 specifies that wherever possible payment in settlement of all Payment Vouchers over SBD\$100 in value will be made by cheque. Where the payee has no bank account the cheque shall be made out “Pay Cash to (Name of Payee)”.

A review of payments made from the operating accounts maintained with NBSI for the management of donor funds to suppliers has revealed that cash cheques were drawn on numerous occasions for large amounts of money (i.e. significantly more than \$100). For example payments of \$24,000 and \$20,000 as cash cheques.

The implication is that there is a loss of accountability over payments which may result in misappropriation of funds.

**Recommendation 10**

We recommended that all payments over SBD\$100 should not be paid by cash cheque, whether the supplier/payee has a bank account or not.

**2.2.11 Pre-signed General Payment Vouchers**

Financial Instruction 233 (5) states that under no circumstances whatsoever may an Accounting Officer, or authorised signatory, certify or sign any blank incomplete General Payment Voucher.

During our OAG testing it was noted that a booklet of General Payment Voucher pro-forma was pre-signed by the “Authorised Purchasing Officer”. The booklet that OAG had reviewed contained 25 General Payment Vouchers of which 16 had been used and 9 unused pre-signed General Payment Vouchers remained. These vouchers were pre-signed by the Accountant under the instructions of the Chief Accountant. The booklet has been confiscated and is in OAG’s possession.

As the “Authorised Purchasing Officer” has pre-signed the General Payment Voucher it eliminates the control of ensuring that the requisition form was completed by an officer authorised to incur expenditure and are within their limits. Therefore, unauthorised payments may occur.

**Recommendation 11**

All pro-forma documents (especially accounting documents such as requisitions, payment vouchers, cheques etc) should never be pre-signed as the control relating to the signature will be eliminated.

### **3. TRUST FUNDS AND CASH MANAGEMENT**

#### **3.1 Background**

In lieu of insufficient funds available through the Recurrent Budget (Consolidated Fund), the Ministry has been funded operationally (excluding Payroll, Utilities & Staff Travel) by AusAID through the Health Services Trust Account (HSTA). The funds from the HSTA are transferred to the separate operating accounts within the Ministry, in total there are 25 bank accounts outside the Consolidated Fund. These bank accounts are controlled by the relevant Department/Division within the MHMS.

#### **3.2 Summary of OAG Findings and Recommendations**

The following is a summary of OAG findings and recommendations:

##### **3.2.1 Health Sector Trust Account and the 25 Operating Bank Accounts**

Section 100 (1) of the Constitution states: “All revenues or other moneys raised or received by or for the purpose of the Government (not being revenues or other moneys that are payable by or under any law into some other fund established for any specific purpose of that may, by or under any law, be retained by the authority that received them for the purpose of defraying the expenses of that authority) shall be paid into and form one Consolidated fund”.

However 100 – (2) of The Constitution states that - “Parliament may make provision for the establishment of Special Funds, which shall not form part of the Consolidated Fund”.

A Memorandum of Understanding dated 20 June 2002, paragraph 2.4 provided that the Trust Account, which was named the “AusAID Health Sector Support Trust Account”, was to be established under the Solomon Islands Public Finance and Audit Act 1978. The name of the Trust Account will be changed to the “Health Sector Trust Account”. The change of the name reflects the understanding that primary responsibility for management of the Trust Account lies with the Ministry of Health and Medical Services. This does not affect any of the accountability requirements of the Government of Australia as stated in this Memorandum of Understanding.

It is clear that the Health Sector Trust Accounts falls within the jurisdiction of the Public Finance and Audit Act but OAG has noted the following issues in the establishment and management of this account:

- We could not locate:
  - the instrument establishing this account, such as trust statement or trust deed for the management of the Trust Account; and
  - the authority by the Permanent Secretary Ministry of Finance to open the Health Sector Trust Account Bank Account in accordance with Financial Instruction 382 (1).
- The legality of the Trust Account is questionable in that it does not comply with the Constitution as moneys received are for the purpose of Government and should be paid into and form a part of the Consolidated Fund.
- The moneys received and payments made from Trust Account have not been encompassed into the Government Accounts and thus understating both revenue and expenditure of the Ministry, for example within the 2005 financial year \$44.5 Million was budgeted to be received from AusAID. The revenue and expenditure were not accounted for in the Government Accounts, thus significantly understating the expenditure on Health services within the Solomon Islands.

If the funds are not going to be incorporated in the Consolidate Fund then Parliament would be required to make provision for the establishment of a special fund under Section 100 (2) of the Constitution.

The implication of the current arrangements is that the Health Sector Trust Account and the twenty five (25) Operating Accounts are operating outside the law and that the relevant transactions are not being included in the Government Accounts, therefore they are not being reported to Parliament.

#### **Recommendation 12**

We recommended that:

- The legality of the Health Sector Trust Account and its operating accounts be referred to the Attorney General for Clarification; and
- Ministry of Health coordinates with the Ministry of Finance to ensure that this matter be urgently addressed and that all receipts and expenditure are recorded in the Government Accounts.

### 3.2.2 Cash Management

The HSTA budget for the Ministry is \$44.5 million for the 2005 financial year. Funds are generally transferred to the Department/Division's operating accounts through monthly tranches. The twelve (12) tranches are to be of equal amount paid into the operating bank accounts, however, OAG has identified that the Departments/Divisions may be paid more than 12 times a year and the amounts may vary depending on the needs of the Department/Division.

Currently there is minimal budget allocations and budget monitoring undertaken by the Ministry. Review of reports that are submitted by Departments/Divisions to MHMS Headquarters identified that the extent of budget monitoring is a one line Total Budget rather than reporting on account codes representing the separate line items. The one line Total Budget is compared to Actual Spent year to date and a Total Budget Remaining. In addition monthly Profit and Loss Statements (from MYOB) are submitted showing a breakdown of the monthly expenditure by type and monthly Net Surplus / (Deficit).

#### **Recommendation 13**

We recommended that an annual operating budget be developed against each of the Department's/Division's expected revenue and expenditure line items. On a monthly basis, the Ministry should be monitoring actual revenue and expenditure against those line items that have been budgeted. Any material variations from the budget (overs / unders) should be evaluated with documented explanations provided to management.

## 4. ASSET MANAGEMENT

### 4.1 Background

The Solomon Islands Government Financial Instructions – Chapter 26 – Inventories specifies the requirements for the management of inventories (Fixed Assets).

FI 601 requires that inventories (registers) of all moveable plant and machinery, furniture, fittings and equipment owned by the Government shall be kept by each Accounting Officer. In addition, FI 602 requires that the Accounting Officer shall be responsible for maintaining an annual check of all items on the inventories of his department, including the inventories of individual establishments, and provide an annual certificate to the effect that the inventory has been checked, updated and surpluses or deficiencies noted in the inventory (register).

Furthermore, the Health Related Financial Instructions – Section 10.0 – Accounting for Inventories of Plant and Equipment, Furniture and Fittings requires that “*a register of all moveable plant and machinery, equipment, furniture and fittings owned by the Solomon Island Government shall be established and kept by each national division and Health service. This ‘asset register’ should include the following categories and detailed information (wherever possible) on each asset item:*

- *Asset Class [Medical Equipment, Office Equipment, Land, Buildings, Catering Equipment, Boating Equipment, Furniture (Beds)]*
- *Asset Description*
- *Asset Number*
- *Model*
- *Serial Number*
- *Location*
- *Department*
- *Date of Manufacture*
- *Date of Purchase*
- *Cost*
- *Stock take Check date*
- *Asset Condition”*

In general, asset management is the establishment of controls over the acquisition, safeguarding, accounting, disposal and write-off of assets.

## **4.2 Summary Of OAG Findings and Recommendations**

The following is a summary of OAG findings and recommendations:

### **4.2.1 Identification and Acquisition of Fixed Assets**

Through discussion and observation, it has been noted that MHMS does not have any planning mechanism for the identification and acquisition of fixed assets within the Ministry. In the past, the Ministry has undertaken the purchase of assets on an adhoc basis without due consideration across all levels. OAG has further noted that there is no formalised procedure for a “wish list” which would be used to identify needed assets throughout the Ministry.

The actual procurement and initial recording of assets has not been managed centrally, with individual divisions within the Ministry requesting purchases directly to the Accounts Section, rather than through a centralised procurement location. As a result, with the exception of an accounting entry in MYOB (accounting package) arising from payments made in 2005, there is no recording of any asset details in a centralised asset register. Likewise, there is uncertainty over the type and specification of assets acquired through this disjointed approach, to ensure uniformity of asset model, operation and maintenance throughout the Ministry.

A review of a sample of asset purchases during 2005 confirmed that there is no proper assessment conducted by the Ministry prior to acquiring assets (items), to determine whether any likely alternatives exist, if the item will best meet the Ministry’s requirements, nor if the supplier will be able to provide parts or conduct repairs/maintenance within a reasonable timeframe and cost. This is to ensure that the asset best suits the purpose of the Ministry.

Without a planning mechanism for the identification and acquisition of fixed assets the Ministry is not able to correctly budget for the expenditure and unnecessary fixed assets are purchased.

Inconsistent asset models will increase maintenance and training costs. Spare parts will need to be held on stock for the varying models and maintenance staff will have to be familiar with the maintenance of all models within the Ministry.

**Recommendation 14**

We recommended that:

- MHMS establish a planned asset procurement schedule based on asset needs and specifications and ensure that it is within budget. Prior to acquiring any new additions the following must be considered:
  - Ministry is able to maintain the asset and
  - It is consistent with assets already owned by the Ministry
- Any deviations to the planned asset purchases are to be appropriately approved.
- Asset acquisition forms should be implemented.

**4.2.2 Fixed Asset Register**

Financial Instruction 601 provides, that “inventories of all movable plant and machinery, furniture, fittings and equipment owned by the Government (other than stores) shall be kept by each Accounting Officer”.

Asset management is reliant upon proper records being maintained for each Division in the Ministry. At present, MHMS does not maintain an asset register for all moveable plant & machinery, equipment, furniture and fittings owned by the Ministry.

The Engineering Department within NRH has developed a Listing of Biomedical Assets located in the major health facilities throughout the Solomon Islands, however, review of this document for assets identified as located within NRH has noted that the content is incomplete and inaccurate.

Other (non-biomedical) fixed assets owned/managed by the Ministry have not been recorded in a register, these include :

- Buildings (including housing)
- Motor Vehicles
- Computing Equipment
- Patient Beds and Cupboards
- Kitchen/Laundry Equipment
- Engineering/Grounds Maintenance Machinery

In line with asset acquisition, the Asset Register forms the basis for identifying assets useful life to enable planning for the future replacement of each item.

In addition, the asset register enables the Ministry to monitor both the status and location of assets. It also forms the basis for identifying assets that are damaged, lost or stolen, with the register utilised in the future to obtain insurance cover and to make claims for assets that have been damaged or stolen.

**Recommendation 15**

We recommended that:

- an Asset Register be established to include the necessary requirements to ensure proper management of all assets within the Ministry;
- the threshold for inclusion of assets in the Asset Register would be equipment/items with a value greater than \$5,000;
- consideration may also be made for items that are below \$5,000 but are considered both attractive and portable to be included in the Asset Register to ensure that Ministry assets are properly controlled and accounted for on an ongoing basis and at the annual stocktake. Attractive and portable should have an economic life of two years or greater;
- for Depreciation purposes, a separate Depreciation Schedule would be instigated (at a later date) for those items recorded within MYOB; and
- an Inventory (Asset Management) Officer should be appointed to administer the management of fixed assets within the Ministry.

**4.2.3 Annual Stocktake (Check) of Fixed Assets**

Financial Instruction 602 provides, amongst other things, that “each Accounting Officer shall be responsible for maintaining an annual check of all items on the inventories of his department, including the inventories of individual establishments”.

Confirming the status and location of fixed assets on a periodic basis is essential for ensuring that the Ministry assets continue to exist and are operational within the designated location.

A stocktake has not been undertaken by the Ministry in the recent past, either to formulate an asset register, or, to check the accuracy of any existing asset listings (eg List of Biomedical Items).

As a result, management is unaware of the location or existence of Ministry owned/managed assets, nor have asset surpluses/deficiencies been identified or disposals/write-offs been approved. This poses very high risks over MHMS assets in that they could be stolen or removed and used for purposes other than for that of the Ministry.

**Recommendation 16**

We recommended that (as required by Financial Instruction 602), the Ministry should perform a stocktake at least annually, with the officers responsible providing a certificate to the effect that the fixed assets have been checked, the register updated and any surpluses or deficiencies highlighted to management.

**4.2.4 Disposal Practices**

Proper disposal practices for assets within the Ministry are essential to ensure that assets are disposed of for legitimate reasons and in an appropriate manner. Financial Instruction 606 requires that “any inventory item deemed obsolete or surplus to requirements shall, where the expected residual value does not exceed \$250, be sold or disposed of on the authority of the appropriate Accounting Officer. Where the expected residual value exceeds \$250, the item should be disposed of by “departmental, central tender or public auction”.

The process for determination of the residual value must be independently done through a Board of Survey so as to ensure that assets are disposed off at the best value.

The Ministry does not have any disposal procedures in place to assess asset obsolescence or repair costs, nor a mechanism for valuation. Due to the lack of documentation, OAG have been unable to determine which items have been disposed, the method of disposal, nor the consideration received.

Without adequate disposal procedures within the Ministry, fixed assets can be stolen / misappropriated without detection.

**Recommendation 17**

We recommended that asset disposal forms should be implemented and procedures in line with Financial Instruction 606 are established for the disposal of assets.

**4.2.5 Security over the Ministry's Assets**

Financial Instruction 604 requires fixed assets to be effectively marked as being the property of the Government. It has been noted that Ministry of Health and Medical Services fixed assets are not clearly identified through stickers (or engraving) as Ministry owned/managed assets.

Asset management encompasses the physical security over the Ministry assets to ensure that items (especially those that are portable and attractive) are not damaged, lost or stolen from MHMS.

The Ministry does not have any mechanism or policy in place to ensure that assets are appropriately protected against damage, theft or improper use.

The implication is that the Ministry assets are not uniquely or easily identifiable as belonging to MHMS (especially during stocktakes), and as a result may be misappropriated without detection.

**Recommendation 18**

We recommended that all the Ministry's assets are appropriately identifiable as belonging to MHMS, through the use of uniquely identifiable stickers and/or engraving.

## 5. ASSET MAINTENANCE

### 5.1 Background

Preventative and routine maintenance is essential to ensure that all assets are maintained at optimal operational capacity. In addition, there is the need to provide assurance that all assets are promptly repaired (where cost effective and/or required) due to operational necessity, and that users are adequately protected from accidents resulting from the operational failure of the assets.

### 5.2 Summary of OAG Findings and Recommendations

The following is a summary of OAG findings and recommendations:

#### 5.2.1 Preventative and Routine Maintenance

The Engineering Departments within the individual Divisions do not undertake any planned preventative or routine maintenance of assets within the Ministry. Although certain Engineering Departments have access to a demonstration version of CWorks (maintenance software) which was established in the past and would be suitable for asset maintenance scheduling, the personnel have indicated that the database has not been utilised.

CWorks is software specifically designed for recording and scheduling both preventative maintenance and repair work orders. A manual for the operation of CWorks for the NRH Hospital environment has been established and documented for users within the Engineering Department.

Without scheduled maintenance, assets unplanned downtime will increase and the life of the asset will be reduced.

#### **Recommendation 19**

We recommended that all equipment should be scheduled for maintenance based on the suppliers/manufacturers periodic service requirements, in order to avoid any unnecessary disruption to Ministries services. Any maintenance conducted by either the Engineering Department or external contractors should be appropriately recorded and costed.

## 6. REVENUE COLLECTION

### 6.1 Background

The major source of revenue other than Solomon Islands Government funding is from donors such as AusAid, World Bank and Global Fund. The 2005 budget from AusAid is approximately \$44.5 million.

### 6.2 Summary of OAG Findings and Recommendations

The following is a summary of OAG findings and recommendations:

#### 6.2.1 Schedule of Fees

OAG has been unable to determine whether schedule of fees for the Departments/Divisions has been formally authorised or prescribed by the Minister for Health. Furthermore, the fees do not appear to have been reviewed on an annual basis as specified by Financial Instruction 77(2) and 98. Discussion with Ministry's personnel has suggested that the majority of the fees have not been revised for a number of years.

The implication is that the fee schedule may not accurately reflect either the cost of the service provided or a reasonable contribution towards the cost. Furthermore, without appropriately authorised fees, the amount charged may become discretionary or biased.

#### **Recommendation20**

The Departments/Divisions Management should undertake a review of the Schedule of Fees on an annual basis (by 30 May of each year), with recommendations for their revision submitted to the Permanent Secretary by 30 June of that year.

#### 6.2.2 Appointment of Revenue Collector

Financial Instruction 99 requires that Revenue Collectors will be designated by the Permanent Secretary (Finance) on the advice of the Ministry concerned. No one may collect revenue if they have not been designated.

OAG has been unable to sight the appointment letter from the Permanent Secretary (PS) for the current Cashier at NRH and National Medical Store. Although a letter was sent to the PS by the Hospital Secretary on 16 June 2005 requesting that the Cashier at NRH is appropriately appointed.

During 2005, it was noted, that revenue collected within the NRH Accounts Section has been received and receipted by all personnel located within the Accounts Section, despite them not being appointed as Collectors.

In addition, it was indicated that after hours, the nursing staff at NRH working the afternoon or night shift have been receipting revenue from patients when purchasing Health Record Books, Baby Record Books etc.

The location of the Cashier is important to ensure that revenue collection is both effective and efficient. The Cashier is currently located within the Accounts Section (located at the rear of the Hospital compound), rather than in the Cashier Office which is presently unoccupied and situated next to the main Hospital entrance. Furthermore, the Accounts Section becomes increasingly crowded not only with persons making payments, but also with other persons (including staff) dealing with the Accounts personnel for other reasons.

The implication is that unauthorised NRH and NMS officers are collecting funds from the public which may result in inadequate accounting for revenue and/or misappropriation of funds. In addition, the existing location of the Cashier does not facilitate an efficient revenue collection function.

#### **Recommendation 21**

We recommended that the Permanent Secretary (Finance) appoint the necessary officers as the Revenue Collector and only the appointed officers collect funds on behalf of the Ministry.

The Cashier Office at NRH should be relocated to the Main Entrance of the Hospital to enable a more efficient method for the public to make payments for the provision of health services/goods. Revenue collection by the Cashier be closely supervised by the Accountant and reconciled on a regular basis.

### **6.2.3 Utilisation of Revenue Collections for Expenditure/Private Use**

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, it was noted through observation and discussion with both NRH (prior to June 2005) and NMS (prior to March 2006) personnel that revenue collections were often utilised by the Accounts Section to fund Hospital and the Stores expenditure, this was evidenced by the fact that the revenues collected have been traced into their operating account rather than the Headquarter Account or Treasury.

OAG noted examples of National Medical Stores receipts totalling \$21,079 being deposited into the National Medical Stores Operating Account.

The implication is that Departments/Divisions failed to deposit revenue into the operating account upon collection and allowed these funds to be either used for expenditure or borrowed, which results in a loss of accountability of cash and the possibility of theft or misappropriation.

**Recommendation 22**

We recommended that all revenue is paid-over to MHMS Headquarters on a regular (preferably daily) basis, this is to be recorded on a register as evidence of monies being handed over. Any Hospital and stores expenditure requirements paid through the normal Payment Voucher system.

## **7. ACCOUNTS RECEIVABLE**

### **7.1 Background**

Accounts Receivable are an internally generated source of income for the Department/Division.

The types of invoices raised are for the following services/products provided by the Ministry:

- Hospital admissions;
- Medications;
- Clinical products;
- Operating fees;
- Embalming services; and
- Medical reports/certificates; etc

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

The following is a summary of OAG findings and recommendations:

#### **7.2.1 Fee Determination**

The imposition of fees for services rendered or products provided needs to be appropriately managed to ensure that the charges are reasonable (and approved) and that they are consistently applied. Financial Instruction 77 states that it is the Accountable Officers responsibility for the calculation of all assessments, rents, dues and other charges leading to the issue of invoices (debit notes) in respect of revenue due to the Government and that these fees/charges will be reviewed at least once a year. This is supported by Financial Instruction 98 which requires that a review of the level of all fees, licences, charges, on-cost additions, etc shall be carried out by all Accounting Officers, for all Divisions under their control, by 30 May each year.

The implication is that the Fees are not approved (nor consistent) which may result in inappropriate charges being raised by Hospital and NMS personnel that are significantly more (or less) than the cost of the services/goods provided. Furthermore, the irregularity of the charges also raises concerns over the potential for misappropriation of funds upon receipt.

**Recommendation 23**

All fees charged (including those specified in foreign currencies) for the provision of goods/services should be clearly documented in a schedule and approved by the Permanent Secretary, prior to the amounts being invoiced to the public.

**7.2.2 Invoice Follow-up**

The regular follow-up of accounts receivables is essential to ensure the timely collection of outstanding debtors. Financial Instruction 78 specifies that the Accountable Officers are responsible for ensuring that invoices (debit notes) are settled and there are attempts to collect revenue no later than the current terms. The Accountable Officers shall check their invoice (debit note) registers at least once a month, in order to ascertain those invoices (debit notes) still unpaid and to ensure that appropriate follow up action is being taken and noted in the invoice (debit note) register.

The invoices raised by NMS Accounts Section do not specify credit terms. Furthermore, there is no evidence of any follow up of outstanding unpaid invoices. There has been no notation on the invoices of discussions with or reminder letters sent to the outstanding debtors.

Staff at the NMS was not able to provide OAG with a debtors report from M Supply (inventory system also used to create invoices), that stated the total amount outstanding at the time of the audit. OAG reviewed each debtor on M Supply, manually to determine the total amount outstanding as at 9<sup>th</sup> June 2006 to be \$145,133.

As per Financial Instruction 15 (1) the Ministry is required to retain receipt books and schedules of accounts for three years provided that they have been audited. OAG was advised by the staff at the NMS that prior to the implementation of M Supply a spreadsheet was used to record the details of the invoices issued. This spreadsheet was not able to be located by the NMS staff. Further more a NMS receipt book could not be located for the financial period 2005.

Through discussions with various Account Staff, it has been indicated that debts collected are not deposited into the consolidated fund. It was further indicated that certain cash receipts are used to replenish the Petty cash at the NMS. OAG noted \$12,315 in receipts deposited into the NMS operating bank account.

The implication is that the follow-up process for the collection of revenue for the outstanding invoices is inadequate, with concerns that Ministry's staff may have received payment without the knowledge of the Accounts Section. Furthermore, the proceeds from the invoices are not being appropriately accounted for in the cashbook, which may result in misappropriation of funds.

**Recommendation 24**

We recommended that:

- Policies and procedures are developed and implemented to ensure that all invoices outstanding are followed up on a regular basis;
- Ensure that all accounting records are maintained in accordance with Financial Instruction 15 (1); and
- Authority should be obtained for the depositing of revenue into the operating bank accounts.

## **8. PAYROLL**

### **8.1 Background**

Payroll expense is the largest proportion of the Ministry's expense. It is over 50% of the total expenditure. The payroll function is dispersed amongst Public Service Division, Central Payroll Treasury and MHMS.

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

The following is a summary of OAG findings and recommendations:

#### **8.2.1 Reference to the Establishment Register**

An Establishment Register is produced by the Public Service Department. The main purpose of the register is to aid the Ministry in facilitating and planning their human resources. From our discussion with the Ministry, OAG noted that they do not refer to the establishment register to determine if there is a vacant position prior to applying for a new staff member.

There is the potential risk that the Ministry will exceed their budgeted employee expenditure.

#### **Recommendation 25**

The payroll division within the Ministry should ensure that only vacant and approved positions (as per the Establishment Register) are advertised/filled.

#### **8.2.2 Acceptance of Employment**

As per the General Orders Chapter B section 119 "no appointment is effective until written offer has been made by government and accepted in writing by the candidate". OAG found a number of instances where the employee had not signed their appointment letter from Public Service Division (PSD) indicating their acceptance of the offer of employment, however, OAG noted that these appointments were still processed by Central Payroll (at Treasury). This is a contradiction to the Financial Instructions.

The implications associated with processing these appointments without the evidence of the employee accepting the offer of employment:

- Employees that do not accept the position can be incorrectly loaded onto the payroll system and effectively become a “ghost” employee;
- Without the employees signature there is no indication that the employee has agreed to the terms and conditions of their employment; and
- The appointment is not effective as per the General Orders Chapter B section 119.

#### **Recommendation 26**

New appointments should not be processed until the appointment letter has been signed by the employee. Letters that have not been signed should be returned back to the relevant Department/Division for the employee to sign.

### **8.2.3 Commencement of Work Before Being Officially Appointed**

Audit Testing identified 19 instances where employees had started employment within the Ministry prior to being officially appointed by the Public Service Division (prior to receiving the appointment letter).

The implications are as follows

- Non official employees are working in the capacity as a public servants;
- No contractual agreement between the government and these employees for the period prior to their official appointment;
- The delay in starting dates can affect whole of government budgeting for salaries and wages for the financial year; and
- The integrity of the employee start dates is questionable.

#### ***Payment for Voluntary Services***

During further investigation of one of the samples selected in audit testing, OAG identified that a employee who was employed by the Ministry of Health had been paid for work conducted as a volunteer. The appointment letter from the Public Service Division was dated 19/08/2002 however the employee had backdated his acceptance of the offer on the letter of appointment to 01/05/2001. Further Investigation noted that the employee was previously employed by the Medical Laboratory Division in 2001 as an unpaid Volunteer to support his training at SICHE and USP Centre.

OAG reviewed the employee's personnel file and Salary Authority form and concluded that the employee's pay was incorrectly back dated to 2001 resulting in incorrect payment of wages and salaries of \$9,377.72 for services that were rendered as a volunteer and not as an employee.

**Recommendation 27**

We recommended that:

- the Ministry does not allow employees to commence duties prior to them being officially appointed by the Public Service Division and
- recovery action be taken in regards to the \$9,377.72.

**8.2.4 Inadequate Independent Verifications of Additions to Payroll**

New additions to the payroll system are not independently verified by someone other than the officer who is responsible for entering the data into the system. This increases the risk of fictitious or duplicated employees being able to be loaded onto the system. A report highlighting the additions to the payroll for a particular fortnight is not produced and distributed to the Ministry.

As a result of the Ministry not reviewing the additions report increases the risk of "ghost" or duplicate employees being loaded onto the system.

If an 'Additions' report was created listing all the new additions to the payroll for each fortnight and sent to the Ministry this would assist in minimising duplications.

**Recommendation 28**

It is recommended that the Payroll Division within the Ministry as well as the Permanent Secretary should be obtaining and reviewing the additions report to ensure that they are aware of all new employees that have been added to their Ministry during that fortnight. This will also enable the Ministry to identify employees that have been appointed and have commenced work but have not been added onto the payroll system.

**8.2.5 Independent Review of Changes Processed by Payroll**

During the review of the changes made to the payroll process, OAG noted that there is no independent review performed by the Ministry to ensure that the changes that have been inputted into the payroll system is correct and authorised.

OAG did note that "Exceptions Reports" have only been used for the last two months (April and May 2005) by the Central Payroll Division, however the exception report have not been utilised for almost two years prior. The exception report is used to identify any exceptions in the payroll such as payment greater than or less than 25% of the employee's basic fortnightly pay, however, there is a lack of adequate segregation of duty with the review being conducted by the same officer responsible for entering the information into the payroll system.

OAG noted that an "Edit Audit Report" is also produced which identifies all changes made to the payroll for the pay period. Occasionally changes to employees fortnightly pays identified within the edit OAG report are checked against Salary Authority Forms. However, this control procedure is often performed by the same officer responsible for inputting the information into the system. Furthermore audited could not substantiate whether or not these reports being produced were being reviewed other than sighting the odd markings on the reports.

It was noted that the above two reports are required to be printed off as per the "Payroll Processing Checklist", however, the reports were not produced for a lengthy period of time. Central Payroll staff believed that the reason these reports were not produced was due to the staff members not knowing how to run the reports from the system.

Without an independent review of changes to Salary Authority forms errors can go undetected or in extreme cases payroll staff within Treasury can process unauthorised payments for their own personal gain.

**Recommendation 29**

Treasury and MHMS should coordinate, document and implement a procedure in regards to the preparation and review of the "Edit OAG Reports" along with "Exception Reports". The coordination should also ensure that there will be no duplication of work.

As a part of the procedures the reports should detail exactly how the reports are to be produced and in addition the report should be signed and dated by both the preparing and reviewing officers as evidence that the two functions was performed by separate officers.

### 8.2.6 Proof Listing Report

OAG noted that the reviews of key reports that help to identify errors in the payroll are not being produced. Through discussions with senior management it was noted that the “Proof Listing Report” has not been produced since mid 2005, even though the report is listed on the “Payroll Processing Checklist”. This report identifies any large changes in employee pays by comparing the previous fortnights pay to the current fortnights pay.

OAG was advised by management that this report was no longer being produced due to technical difficulties associated with printing the report. This report is an important tool in determining any irregularities such as overpayments and underpayments in the fortnightly pay runs.

Without the use of the “proof listing report” irregularities such as excessive overtime payments that may have not been supported by adequate documentation from the relevant Ministry or Department may go undetected.

#### **Recommendation 30**

This report is an important tool in determining any irregularities such as overpayments and underpayments in the fortnightly pay runs and should be run for each pay run.

### 8.2.7 Salary Charges Report

The salary charges report details the names of all employees within a Ministry and shows which account number and pay code they are charged to as well as the amount of salary and wages they are presently being paid. At present the “Payroll Processing Checklist” only requires the payroll officer to supply this report to Ministries that request it, however, OAG believes that this report should be printed after each pay run and sent to MHMS for their review.

This report is an important tool for Ministry as it allows them to review which employees on the payroll are being charged against their Ministry.

Without the regular review of the salary charges report, employees who are being incorrectly charged against the Ministry will not be identified. This will result in the incorrect allocation of payroll charges to a Ministry. There is also an increased risk that employees that should have been terminated from the payroll system but are still on the payroll are less likely to be identified.

**Recommendation 31**

It has been drawn to our attention that as at April 2006 salary charges reports are now being prepared by the payroll manager and sent on a monthly basis to the Ministry. This practice should continue to be adopted by the Central Payroll Division and if the report is not forwarded to the Ministry the Payroll Officer (at the Ministry) is responsible for contacting Central Payroll Division requesting the report.

**8.2.8 Termination Reports**

The purpose of the Termination report is to confirm the removal of terminated employees from the system. Ministry should check to ensure that:

- Termination Reports are received fortnightly within the Ministry and
- all terminations that should have been made according to the Ministry's records have been made.

Review of the Terminations process identified that a report identifying terminated employees off the system for the fortnight is not received by the Ministry to confirm that the employees have been removed from the system. There is a risk that terminated employees are not removed from the system in a timely manner. This could occur as a result of the Salary Authority Form requesting an officer to be terminated was lost or not processed by Treasury.

**Recommendation 32**

The termination reports should be obtained and reviewed by an officer independent of the personnel and payroll duties at the Ministry to confirm the removal of the employees from the system.

**8.2.9 Delay in the Removal of Terminated Employees**

Employees should be removed from the payroll system in a timely manner so that they are not overpaid. OAG reviewed a small sample of employees that have been terminated and checked to ensure that they had been removed from the Salary System in a timely manner.

Out of the forty terminated employees tested, twenty seven of them which is approximately 67% had been paid after the date they had been terminated.

The delay in the removal of these terminated employees along with the lack of current policies and procedures in relation to the recovery of overpayments to terminated employees exposes the government to unnecessary financial losses. OAG also found that there was no evidence to suggest that attempts were made by either Treasury central payroll division or the Ministry to recover the overpayments.

The delay in the removal of employees from the payroll system primarily lays with the Ministry who appears to have a problem with informing central payroll of the terminated employees in a timely manner. Compounding the problem was the lack of adequate supporting information kept on the personal files, such as termination letters from PSD or employees out at the Ministry.

### **Recommendation 33**

We recommended that:

- Policies and Procedures in accordance with the Financial Instructions for the recovery of overpayments be implemented by the Ministry;
- The calculation of termination payments be conducted for all terminated employees to ensure that any monies owed to the government are recovered. The calculation of terminated payments is to be performed by the Ministry. However, Central payroll should be responsible for checking termination payments;
- Ministry should commence the recovery of significant overpayments made to terminated employees; and
- Ministry should be reminded of their responsibilities to inform Central Payroll of any changes to the payroll in a timely manner.

#### **8.2.10 Nominal Rolls not being Submitted**

Financial Instruction 416 (1) requires by the 1<sup>st</sup> of June each year or such earlier date as may be prescribed by the Permanent Secretary; all Accounting Officers will submit Nominal Roll of all officers employed on permanent condition of service in their Ministry or Department whose salaries are allocated to Personal Emoluments. OAG noted that the Ministry is not completing Nominal rolls and submitting them to Treasury.

The Nominal Roll should be in a format prescribed by the permanent secretary however at a minimum it must contain the following details for each officer.

<b>Name</b>	<b>Salary Scale and Point</b>	<b>Allowances, if applicable, as at 1<sup>st</sup> January that year</b>
<b>Staff Number</b>	<b>Top of Salary Scale</b>	<b>Incremental Date</b>
<b>Position or Title</b>	<b>Annual Salary as 1<sup>st</sup> January that year</b>	<b>Station</b>

The Certificate at the foot of the Nominal roll must be signed by the Accounting Officer (Permanent Secretary) responsible for its submission. The completion and signing of the certificate is written authority to the Treasury Division to make salary payment to the officers listed in the Nominal Roll, at the gross rates of salary shown, until further notice or until receipt of staff changes return form.

The nominal roll has not been submitted to Treasury for at least the last two years. As a consequence simple errors may have occurred such as terminated employees have not been taken off the payroll system. Employees, who have simply just transferred to another government agency but have not been taken off their previous agencies payroll may result in employees receiving duplicate payments. The risk of these types of errors occurring in future could be reduced if Nominal Rolls were submitted on a yearly basis to the Treasury.

#### **Recommendation 34**

The Ministry must comply with the requirements under Financial Instructions 416 (1) to Submit Nominal Rolls on an annual basis. This will enable Treasury to compare the information from the Nominal Rolls to the employees on the payroll to ensure only valid employees exist on the master payroll listing.

#### **8.2.11 Overtime Allowance for Officers Level 6 and above**

Chapter F section 6 of the General Orders states that only “locally engaged officers holding posts graded level 5 or below may be paid overtime allowance” OAG noted instances where this section of the General orders had been contravened with central payroll processing claims for overtime allowances for officers level 6 and higher.

OAG noted that between the years 2001 to 2005, \$165,305 had been paid in overtime to offices graded level 6 and higher. These officers have received payments that they are not entitled to receive as per the General Orders.

**Recommendation 35**

We recommended that payroll officers should make sure that only officers level 5 and below are to claim for overtime.

**8.2.12 No Policies or Procedures Manuals**

Section 27 of the Financial Instructions 2004 requires accounting officers to ensure adequate training is provided to staff under their control as well as supplementing their training wherever possible, with the use of written departmental instructions (Policies and Procedures Manual). Currently there are no policies and procedures manuals in place for any of the processing cycles within the Ministry.

This manual should detail how processes within the Ministry are to be performed. The implications of not having a policies and procedures manual are:

- Non-compliance with section 27 of the Financial Instructions 2004;
- Policies and procedures for all the Departments/Divisions are not documented;
- There is no written reference or guidance for staff performing the variety of functions within the Ministry;
- Knowledge of processing procedures could be lost when officers leave the Ministry; and
- Controls and processes that have been established to ensure the integrity of the information within the Ministry may not be complied with.

**Recommendation 36**

We recommended that:

- A policies and procedures manual be developed for all the functions within the Ministry, that incorporates the requirements of the relevant General Orders and Financial Instructions;
- Policies and procedures manual to be made available to all staff at all times. An example would be to store the manuals on a shared network drive; and
- Once the policies and procedures manual has been developed any changes and maintenance should be made in accordance with section 27 of the Financial Instructions Act 2004.

## 9. NATIONAL MEDICAL STORE (NMS)

### 9.1 Background

The National Medical Store (NMS) is responsible for the procurement and distribution of medical supplies for the Departments/Divisions within MHMS. A small proportion of the medical supplies purchased are on sold to public. The price that the supplies are on sold at is the cost of the supplies multiplied by a percentage (the percentage represents the administration fees).

In April 2005 the inventory system M Supply was implemented at the National Medical Store. M Supply replaced an outdated inventory system. M Supply allows NMS to establish maximum and minimum stock levels for each medical supply. M Supply has many reporting functions allowing management the possibility to improve the re decision making in relation to the management of medical supplies.

### 9.2 Summary of OAG Findings and Recommendations

The following is a summary of audit findings and recommendations:

#### 9.2.1 Stock Usage Trends

Due to the critical nature of the stock held by NMS, it is essential that good management is undertaken to ensure stock levels of medication and dressings (medical supplies) are maintained at sufficient levels to minimise the possibility of stock outages. From review of medical orders it was evidenced that drug supplies can take up to half a year before the medical supplies are received.

It must be noted that through discussion with the Pharmacy staff and observation of the Standard Monthly Order Forms and Supplementary Order Forms received from NRH, it was identified that a large number (estimated at 30%) of the stock items requested/ordered were out of stock.

The implication is that patient treatment may be affected if stock items are not available for use within the Hospitals.

#### **Recommendation37**

With the introduction of M Supply in April 2005 usage trends can now be established based on the data collected over the last year. OAG suggest that reports from M Supply are used to determine at what point the medical supply should be re-ordered to ensure that there is no shortage.

### **9.2.2 Request/Issues from National Medical Stores**

Standard purchasing by Departments/Divisions is undertaken in accordance with the timetable specified by NMS, whereby each Department/Division is nominated with one ordering date (approximately one day each month). Indications from NRH staff suggest that the monthly orders normally take about a week to be filled by NMS.

Monthly ordering to NMS by the Hospital is performed through the completion of the Standard Monthly Order Form. This form lists the Hospital's standard medication/medical stock items, is compiled by the Ward Supply Section after identifying the stock on hand from the monthly stocktake. The stock on hand and order quantities are detailed on the Order Form by the Ward Supply staff, however, there is no evidence of purchase authorisation by the Senior Pharmacist.

In between the Standard Monthly Orders, the Pharmacy also completes Supplementary Order Forms which are sent to NMS if there are stock items (or non-standard stock) which are required prior to the filling of the next monthly order. As with the Standard Monthly Order Forms, there is no evidence of requisition authorisation by the Senior Pharmacist. Urgent supply of drugs from NMS can be filled immediately if the item is in stock at NMS and the NRH Pharmacy staff has a vehicle available for collection. It must be noted that there appears to be extensive periods whereby certain items are out of stock at NMS.

The implication is that inappropriate/unauthorised Pharmacy supplies will be ordered from the National Medical Store. There is also concern that the Pharmacy does not have an adequate follow-up mechanism for stock items that have been over/under supplied, have been identified as out of stock for numerous orders or are received close to the expiration date or have already expired.

**Recommendation38**

We recommended that, although Departments/Division do not currently incur any expenditure through the purchase of Pharmacy stock from NMS, controls should be in place to ensure proper stock management is undertaken, including:

- Ensuring that all order forms are evidenced as authorised by an approved officer. The purchasing officer(s) need to be formally appointed to authorise order forms (for both monthly and supplementary orders);
- NMS to communicate with Departments/Divisions the duration of stock outages to ensure that patient treatment is not adversely affected; and
- Stock items delivered by NMS be checked for expiry, and if the stock is close to or has already expired, NMS is to advise the Department/Division as to the stocks suitability for use after expiry and returned to NMS if the item is identified as unsuitable.

**9.2.3 Physical Storage within National Medical Store**

The National Medical Store (NMS) warehouse environment is generally adequate with regard to lighting, temperature/humidity through air-conditioning and backup power for refrigeration, should the power be unavailable for an extended period of time.

Through observation it was noted that, although storage areas appear relatively clean, there is a degree of disorganisation, with the same stock items often in multiple locations throughout the Warehouse, whether as new or bulk stock.

Limited security exists within the Warehouse, as the main door is always unlocked during work hours. The only deterrent that may exist is the number of staff throughout the Warehouse that may observe an unauthorised person entering the Warehouse. It was also noted that the alarm system had not been turned on for an extended period of time due to it being faulty.

Discussion with the Warehouse staff indicated that new stock is positioned on the shelves based on the expiry date, however, observation has identified that expired stock items continue to be held and often disbursed to wards or dispensed to the public. NMS is able to produce an “expired items” report so that it is able to dispose of items that are no longer effective or become harmful, however this report has not been utilised. A review of the expired items as per M Supply indicated that eighty (80) stock items had expired with an approximate value of \$1.1 million, however, the stock were still on the shelf to be distributed to hospitals.

From a sample of 21 Pharmacy stock items located in the Warehouse OAG identified that only two (2) of these stock items had physical balances on the shelf that agreed with the inventory system M Supply.

Ten (10) Dangerous Drugs of Addictions (DDA) were chosen and counted by OAG. OAG could not match our count to the records of M Supply. OAG however, noted that the Warehouse staff also recorded the DDA movements into a Register Book that had to be signed by two staff members whenever DDA’s were either distributed or acquired, and only three items did not agree to the register (as a result of new items being received but not yet recorded).

Of the seven (7) clinical items counted, only two counts agreed to M supply.

Of the thirty eight items counted by OAG only four items quantities agreed to the inventory system M Supply. The variances that OAG noted amounted to an understatement of \$439,896.46.

The implication is that inadequate stock control may lead to the following:

- attrition of stock through loss or theft from unsecured areas;
- incorrect stock balances may lead to unnecessary drugs being ordered;  
and
- possible health ramification from the dispensing/administering of expired stock to patients.

**Recommendation 39**

We recommended that there is an effective stock management introduced and below are OAG's recommendations:

- ensure that stock balances within M Supply are correct (i.e. agreement between stock on hand and M Supply) and that all disbursements of stock from the Warehouse can be accounted for;
- increase security of the Warehouse with the replacement of the defective alarm system;
- reduction of the locations within the Warehouse where each stock item may be located (especially highlighting the contents of boxes for new supplies that have not been unpacked); and
- implementation of a procedure/mechanism for monitoring and managing/removing soon to expire or expired stock.

**9.2.4 Disposing of Pharmacy Stock**

An expired stock disposal listing is currently being initiated, however, this has yet to be fully implemented with indications that expired stock continues to be held on the shelves or disbursed/dispensed. Disposal of stock is not presently being authorised by the Ministry's Executive as approved stock write-offs.

The implication is that expired stock is not appropriately recorded or disposed, which may lead to health complications if used or traded in the black market.

**Recommendation 40**

We recommended that the Warehouse needs to ensure proper controls exist for expired drugs, which should be recorded in an "Expired Stock Register" upon identification, and appropriately stored awaiting disposal/destruction. Any disposal of stock should be authorised by the head pharmacist and presented to the Ministry Executive Committee Meetings.

### 9.2.5 Proportion of Medical Supplies to be sold to Private Customers

The purpose of the National Medical Store (NMS) is to make available medical supplies to the people of Solomon Islands. From discussion with NMS staff and review of the “Health Sector Trust Account Manual” OAG was not able to ascertain what proportion or if priorities exist over the distribution of medical supplies. As a result of a lack in policies and procedures there is the risk that government requirements may not be met due to medical supplies being sold to Private Customers.

#### **Recommendation 41**

We recommended that policies are established to ensure that the needs of the Government are not fulfilled due to medical supplies being sold to Private Customers.

### 9.2.6 Absentee of National Medical Store Accountant

General Order Chapter C 201 (1) states the normal working day for office staff shall be seven and a half hours (7 ½) with the following three options of office hours:

- 8 am to 12 noon and 1 pm to 4.30 pm;
- 7:30 am to 12 noon and 1:30 pm to 4:30 pm; or
- 7:30 am to 12:30 pm and 130 pm to 4 pm.

In addition, Financial Instruction 416 (4) requires “any change in the circumstances of any officer which is likely to affect the payment of his salary in any way whatsoever will be notified to the Treasury Division by submission, by the Accounting Officer, of a Staff Changes Return. The Return will be in the form prescribed by the Permanent Secretary and will be submitted to the Treasury Division no later than the fifteenth of the month in which the changes are to become effective.

The Accountant at the National Medical Store was of very little assistance as he was never present at work within officer hours during the period January 2006 to May 2006. OAG staff visited the National Medical Store at least 30 different occasions within varying times of the above mentioned office hours and only saw him once. We also called at least another 30 times to see if he was present at work so that he would be able to assist us with obtaining the required information for the audit, we were unsuccessful on all occasions. OAG was advised that he was on leave for one of the months during the audit visit.

As a result of the lack of cooperation from this key person, there were delays in obtaining the required information to complete the OAG. Furthermore, Jerry's lack of attendance is resulting in the government paying salaries and wages for work not performed.

**Recommendation 42**

Office employees should be working within the prescribed office hours stated in General Order Chapter C 201 (1). If officers cease to attend work the Accounting Officer is to ensure that a Staff Change Return is submitted to the Treasury Division as per Financial Instruction 416 (4).

## **10. PERFORMANCE MANAGEMENT**

### **10.1 Background**

Performance management is the measurement of outputs and outcomes against planned goals and objectives. The measurement of outputs and outcomes can be undertaken at various levels within an organisation, from the outputs of individuals (eg. employee productivity) to the outcomes of the entire organisation (eg. overall profitability).

Performance management is reliant upon the existence of systems to measure the efficiency and effectiveness of resource utilisation within an organisation. These systems consist of the establishment of goals/objectives (eg corporate plans) and the mechanisms used to identify the extent to which they have been achieved (eg. key performance indicators).

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

The following is a summary of OAG findings and recommendations:

#### **10.2.1 Public Service Employee Performance Management Requirements**

Performance management processes for public service officers (level 3 and above) are documented (including example forms) within the General Orders - Chapter B - Section 5. The General Orders require that the Staff Reports are to be completed annually (by 30 September) for the reporting year from 1 September to 31 August.

Within the annual Public Service Staff Report (as specified within Annexure A of Chapter B) the Officer (employee) being reported on is to outline their Qualifications and Job Description, whilst the Reporting Officer makes an evaluation/assessment of the employee's performance (against their work approach and position duties).

Through discussion with Corporate Services, it was indicated that staff appraisal forms (Public Service Staff Report) have in the past been handed to Departmental supervisors on an annual basis, normally during the middle of the calendar year. The process is for staff to be assessed by their immediate supervisor with the forms (once countersigned) forwarded through to the Divisional Management for review and collation.

Although the Staff Reports are sent to the various supervisors, indications from Department/Division personnel is that the conduct of performance appraisals has been limited, suggesting the lack of resources and busy work schedules as some of the reasons.

Through observation into the content of a random sample of personnel files held by the Ministry it was identified that only a small proportion (estimated to be 10%) of the files contained any staff evaluation documentation. OAG did not note any personnel files that contained yearly staff evaluation documentation.

The implication is that there has been insufficient performance management of staff undertaken within the Ministry, which may result in inadequate/inappropriate practices being executed by employees that are detrimental to the Ministry. Furthermore, the contributions of the Ministry's personnel are not acknowledged which may be a disincentive to those staff that exhibit high work standards.

**Recommendation43**

We recommended that the supervisors within the Departments/Divisions undertake fair performance assessments of all employees on an annual basis.

**10.2.2 Employee Position (Job) Description Forms**

General Orders – Chapter B - Annexure B suggests that an employee's job description would normally follow the list of duties specified in the desk file (where one exists). Job descriptions should be in existence upon the appointment of employees to either new or existing positions within the public service. Furthermore, the job description should specify Key Result Areas/Performance Indicators for the employees that are measurable at the time of a performance management assessment being undertaken.

Under normal public service arrangements the job descriptions documents are made available (and advertised) upon vacancy of the positions. The details contained within the job description, include (among other things) the position duties and the qualifications necessary for the position.

The position duties within Corporate Services, however, are wide and varied, hence these employees require a unique job description for each position held within this Division.

Through discussion and observation, it has been identified that Job Description Forms (JDFs) are not readily available for performance management purposes, nor are they of a nature suitable for measuring staff performance.

The implication is that the current content within the JDFs do not provide a suitable platform for measuring staff performance on an annual basis.

**Recommendation44**

We recommended that each distinct position type within the Ministry should have an individual Job Description Form (JDF). Furthermore, each JDF should include Key Result Areas/Performance Indicators relating to that position that are measurable and aligned with either the Divisional Strategic Plans.