



SOLOMON ISLANDS GOVERNMENT

# **Status of Audits of Solomon Islands Government Entities as at 30 June 2008**

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**Prepared by:**

**Office of the Auditor-General  
P O Box G18  
Honiara  
Solomon Islands**

**28 August 2008**

**National Parliament Paper No. 18 of 2008**

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Mr Speaker

Pursuant to section 39 (1) of the Public Finance and Audit Act [Cap 120] I submit this Report on the outcome of audits for the period ended 30 June 2008 for laying before the Parliament.

The report provides a summary of over 200 audits undertaken since the Auditor General's last Report tabled in August 2007.

A handwritten signature in dark ink, appearing to read 'Eric Muir', written in a cursive style.

Eric Muir  
Acting Auditor General

28 August 2008

## Foreword

This report includes the result of twenty five (25) audit areas completed during the period to 30 June 2008 and follows the previous report tabled in August 2007 for audits concluded in the previous year. The intention of such report is to inform Parliament of the major outcomes of audits undertaken within Ministries, Provinces and the various statutory bodies and State Owned Enterprises. Included in these audits are some 143 provincial government audits which have been counted as one audit for simplicity. Similarly, audits of the 10 major Ministries' key systems were discreet audits with separate reports and action plans. Over 200 separate audit reports are summarised in this report.

The reports represent a summary of the issues that have been raised with the management of the various public sector entities including recommendations for improvement. Wherever possible comments from management of the respective entity have been included and in each audit an action plan has been also provided by management providing a timeline for the action to be taken on each recommendation.

The OAG emphasis in 2007-2008 was to catch up on the significant backlog of accounts of both the Ministries and National Government Accounts and in the various Provinces. The successful completion of these audits for periods up to and including 2006 for the National Accounts and 2007 for the Provincial Accounts marks a significant achievement for the various entities and OAG. We are now targeting the Statutory Bodies and State Owned Entities and are working closely with a donor funded project to assist in the preparation of the accounts and audit of such entities.

In addition as part of the 2007 and 2008 audit coverage a series of special audits have been conducted as part of the general audit coverage of Ministries associated with forming an opinion on the SIG National Accounts for 2007 and 2008.

Whilst there have been some tangible differences in the standard and quality of reporting this report identifies fundamental control and recording issues that are of paramount concern as they permeate all levels of government.

Another major issue in the Solomon Islands Government is the lack of accountability at Ministerial level compounded by an intrusion by the Ministry of Finance and Treasury to process transactions impacting on Ministry budgets without authorisation of the relevant Ministry. Unless accountability is enforced at Ministerial level the ownership of the budget and financial outcomes will not occur.



ERIC MUIR  
Acting Auditor General  
28 August 2008

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## **1.0 EXECUTIVE SUMMARY**

Pursuant to section 39 of the *Public Finance and Audit Act* (the Act) and section 108 of the Constitution of the Solomon Islands the Auditor General is required to audit and report annually on all entities of government.

In recent years the Auditor General has reported on the Annual Accounts of Solomon Islands Government (SIG) for the periods up to 2003 and the results of various special audits undertaken in Ministries and Statutory Bodies. During 2007 the Auditor General reported on the Annual Accounts of SIG for the period 1998 to 2003 plus the results of several special investigations in the report Status of Audits of Solomon Islands Government Entities as at 30 June 2007. At the time of writing this report the Public Accounts Committee has still to review those reports.

The period to 30 June 2008 has been particularly productive for the SIG Ministries and the Provincial Governments. This Report includes the results of the audits of the SIG Annual Accounts for the most current periods 2004 to 2006. Further, the financial statements of all provincial Governments were brought up to date, with financial statements produced for all years not previously submitted to audit up to 2007. The results of the audits of these accounts are summarised in this report.

This report also includes summaries of the results of some 17 special audits and investigations completed by OAG during this period.

### **1.10 SIG National Accounts**

The audits of the 2004, 2005 and 2006 Annual Accounts of the Solomon Islands Government (SIG) were concluded and reported to the Minister for Finance and the Speaker of the National Parliament. The format and the supporting work shows significant improvement over prior years as a result of ongoing work by the Ministry of Finance and Treasury. OAG continues to work closely with the Ministry to effect further improvements in the accuracy and presentation of the financial statements. It is noteworthy that it is anticipated that the 2007 annual accounts are expected to be submitted by the Ministry of Finance and Treasury within the statutory timeframe, the first for many years.

I also acknowledge the work of the Ministry in bringing the reconciliations of numerous accounts further up to date and eliminating most of the unexplained variances in the major account balances. I congratulate the officers of the Ministry for their efforts to date and encourage the Ministry to ensure sufficient skilled officers are available to continue this task.

As stated above, I found the quality and reliability of the financial data supporting the Annual Accounts was far improved over previous periods. However, some weaknesses had not been fully remedied, which led to an inability to form an opinion on many of the account balances. This was mainly due to the lack of reconciliation of bank accounts in the line Ministries, and incomplete or lack of reconciliations of many asset and liability general ledger accounts.

There were fewer issues which led to the qualified audit opinions for 2004, 2005 and 2006 than in previous years, and progressively fewer issues within this period, reflecting the continual improvement in financial accounting and reporting processes in the Ministry of Finance and Treasury. The issues which led to qualifications in the accounts for this period included:

- The Annual Accounts were not prepared and submitted for audit within the statutory timeframe;
- A large number of bank accounts operated by the line Ministries had not been authorised by the Permanent Secretary Finance and Treasury and many had not been reconciled during this period;
- Many of the asset and liability accounts in the general ledgers had not been reconciled to supporting ledgers;
- The accounts of the Special Funds had not been prepared and submitted for audit within the statutory timeframe; and
- Inadequate internal controls within the expenditure and revenue processes within both line Ministries and the Ministry of Finance and Treasury.

## **1.20 Solomon Island Government Controls**

OAG conducted detailed testing of controls within the Ministries for the years 2004, 2005 and 2006 and found significant lack of compliance with the Financial Instructions and other requirements. Of particular concern was the volume of supporting documentation which could not be located. Without access to the source records, OAG was unable to verify the accuracy and validity of the transactions recorded.

OAG raised concerns regarding the lack of compliance with the basic control processes prescribed in the Financial Instructions, including the lack of:

- supporting documentation for a large proportion of all types of transactions;
- acquittal of imprests;
- reconciliations and cash books for a large proportion of bank accounts;
- compliance with the competitive bidding requirements in the Financial Instructions for purchasing. OAG also noted instances where it appears orders were deliberately split into smaller values in order to avoid Tender Board processes;
- documentation of Tender Board processes as evidence of compliance with proper procedures;
- authorisation of expenditure by the proper delegate;

- asset registers and stocktakes for SIG plant and equipment, property and inventory. In particular, OAG was unable to locate a large proportion of assets purchased during the years 2004, 2005 and 2006; and
- reconciliation and check of receipts to the banking and ledger records.

OAG noted that the lack of compliance with Financial Instructions was fairly consistent across all Ministries, but that there was a pattern of progressive improvement in compliance during the period 2004 to 2006.

### **1.30 Ministries of Solomon Islands Government**

#### **Ministry of Home Affairs**

OAG conducted two special audits within the Ministry of Home Affairs.

##### *(i) Earthquake and Tsunami Disaster Relief Fund*

OAG identified many weaknesses both in operational and financial aspects within National Disaster Relief which has resulted in poor coordination and planning of the Response and Recovery Action for the 2007 Tsunami & Earthquake Disaster. The inadequate controls over revenue and expenditure resulted in major shortfalls and suspected fraudulent activities. Record keeping was a major concern.

One key weakness highlighted in this report is that the financial management of the funds received was very poor. In particular the majority of the funds were used for logistical reasons, rather than directly to assist the victims in the affected Western and Choiseul areas.

The other key reason why NDC did not operate effectively in carrying out its duties is due to:

- Since the inception of NDC in 1989 the manpower consisted of 2 staff up until April 2007 when the earthquake and tsunami occurred;
- When the disaster occurred in April 2007 the NDC and NDMO had only the 1987 National Disaster Plan to use. There was no current operational plan established to cater for the 2007 current disaster;
- The lack of staff and resources resulted in an immediate deployment of public officers to Tsunami affected areas (Memorandum dated 5 April 2007). This resulted in many public officers who were not briefed or experienced in disaster relief distributing and assisting but not reporting back to NDMO; and
- There are no written procedures or processes on how to cater for current disasters.

(ii) *South Pacific Games Grant 2007*

Overall, the 2007 South Pacific Games (SPG) grant was poorly managed. The Ministry was not in control as it allowed NOCSI to manage and control the use of the Games' funds. The Ministry was merely processing payments as instructed by NOCSI. As a result Financial Instructions which guide and control the management of public finance were not complied with and generally accepted principles of managing public funds such as advance planning and preparation was not done. The legislated sports body, Solomon Islands National Sports Council (NSC) was not involved in the management of the Games' funds as required under the Solomon Islands National Sports Council Act. This led to the lack of open and transparent processes for assessing and approving funds. Also, there were weak mechanisms to ensure that grant moneys were used for the intended purpose. Furthermore, the Ministry does not have processes in place to assess the effectiveness of sports grants such as the SPG grant.

**Ministry of Communication, Aviation and Meteorology**

The Ministry administers the Civil Aviation Special Fund under the Civil Aviation Act to receive airspace fees and pay for maintenance of international aviation infrastructure and operating costs. Under the Public Finance and Audit Act all Special Funds are required to have financial reports prepared annually and audited by the Auditor General. The audit of the 2006 financial statements of the Civil Aviation Special Fund was concluded but owing to the absence of documentation to support many of the expenditure transactions the audit report was qualified.

**Ministry of Education and Human Resource Development**

OAG undertook two special investigations of schools under the control of the Ministry of Education and Human Resource Development – King George VI and Adaua Provincial Secondary School. In both schools OAG found a lack of accountability for cash received and noted that expenditure was claimed to have been made for supplies using the cash received and held.

**Ministry of Finance and Treasury**

During 2007 the Ministry of Finance and Treasury identified that two days of receipts were missing. After the Ministry had conducted an internal investigation, OAG conducted a review of the controls in the IRD Cashiers procedures. OAG found there was a lack of segregation of duties, poor physical security over cash, cheques and receipts and long delays in balancing and banking moneys received.

**Ministry of Fisheries and Marine Resources**

OAG undertook a special investigation into the administration of the 2007 Fisheries Projects. OAG found that the management, monitoring and administration of project submissions for funding was poor and identified many weaknesses which created the opportunity for fraud and misappropriation of SIG funds.

The extent of breaches of normal procedure and the Financial Instructions suggests there was a deliberate act to circumvent the process for legal use of government moneys. The manner of distribution suggests political favouritism during a critical period of political uncertainty in the government, rather than consideration of the areas of greatest need in the Solomon Islands.

A significant sum of money has been illegally expended and it is questionable whether the government will be able to exercise any control over the use of the moneys that were supposed to be for fisheries projects.

**Ministry of Forestry, Environment and Conservation**

OAG undertook two special investigations within the Ministry of Forestry, Environment and Conservation.

(i) *SPRIG and Seed Trust Accounts*

OAG concluded that the lack of management oversight and independent bank reconciliations had allowed the suspected misappropriation of funds from the SPRIG account to occur, and recommended the matter be referred to the Police. With regard to the Seed Trust Account, OAG also noted a lack of internal controls to allow monitoring and proper accounting for funds received. The lack of control was so poor that OAG was unable to determine whether funds had been misused or had not been accounted for.

(ii) *2007 Forestry Project*

The extent of breaches of normal procedure and the Financial Instructions suggests there was a deliberate act to circumvent the process for legal use of government moneys. The manner of distribution suggests political favouritism rather than consideration of the areas of greatest need in the Solomon Islands.

A significant sum of money has been illegally expended and it is questionable whether the government will be able to exercise any control over the use, location and condition of the equipment purchased.

A large sum of money was expended on “downstream processing” which is the exact opposite of the purpose for which the funds were appropriated. The appropriated purpose was reforestation which is planting, nurturing and maintaining plantations of trees for eventual harvesting, in at least 20 years time.

### **Ministry of Health and Medical Services**

OAG undertook a special investigation of the School of Public Health and Tropical Medicine (SIMTRI) and noted a serious lack of controls over the management and administration of SIMTRI since its establishment in 2003. This resulted in the inability of the Director and the Accountant to account for \$1.4million which needs to be referred to the Police for investigation. There was no regard for government regulations and procedures and neither were good practice and generally accepted practice of managing public funds followed. The establishment of the school for trial purposes was illegal as there was no parliamentary approval or appropriation to collect fees and spend the same for the schools operational expenses.

### **Ministry of Infrastructure Development**

OAG conducted two special audits within the Ministry of Infrastructure Development.

(i) *Motor Vehicle for a Member of Parliament*

The audit revealed serious allegations that a former Honourable Member obtained a replacement vehicle for his own benefit and use and did not follow the proper procedures to report this accident to the Ministry of Infrastructure and Development. As a result of these actions there was a loss of property to the Solomon Islands Government of \$126,000 which cannot be accounted for, which is the difference between the value of the replacement motor vehicle \$198,000 and the settlement payment of \$324,000. The actions taken were inappropriate and not in accordance with approved procedures.

(ii) *SIRIP Project Audit*

The Auditor General completed the annual audit of this donor sponsored project, and certified the financial statement without qualification.

**Ministry of Lands, Housing and Survey**

OAG completed two special audits within the Ministry of Lands, Housing and Survey.

(i) *Compensation Claim by a Member of Parliament*

Based on the evidence obtained and the investigation carried out by the Office of the Auditor General there is no evidence that a parcel of land was ever transferred to the Honourable Member. As there is no supporting documentation to justify the claim, therefore audit concludes that the compensation claims and caveat lodged by the Honourable Member were unable to be proven and the payments made in relation to this compensation are questionable.

(ii) *Sale of Government Houses*

OAG identified that the main issue in relation to the sale of government houses is the lack of documentation and evidence to support the allocation or disposal of government property. This is further exacerbated by the lack of guidelines or disposal policies in relation to the sale of government property. This increases the opportunity for the abuse of official powers by public servants with the authority to register and allocate land. In addition to this, there is a lack of coordination or communication between provincial and national governments in relation to the registration of titles which has sometimes led to the registration of titles which are contrary to the documentation in lot files and contrary to the direction of provincial government.

**Office of Prime Minister and Cabinet**

OAG conducted two special audits within the office of the Prime Minister and Cabinet.

(i) *2007 Diaries*

A review of donor funded procurement of 2007 diaries by the Office revealed non-compliance by the Office with required procurement and payment processes which seriously undermines public accountability and transparency. Certain public officers within the Office were perceived to be serving their own interests rather than following relevant regulations. The payment was authorised by the former Permanent Secretary of Finance and Treasury.

The audit has revealed many serious problems in the procedures and practices as well as deficiencies in internal controls and wastage of public funds.

(ii) *Commission of Inquiry into April 2006 Civil Unrest*

A special review of the funding and outlays associated with the Inquiry revealed that the costs of operating the Inquiry were either under budgeted or costs were not controlled to keep within the budget. Over \$1.2 million was expended on set up costs. Over \$2.4 million was expended on salaries for key positions. In addition to this, at least \$223,000 of expenditure did not relate to the Inquiry. This includes payment of personal legal fees for a public officer and a Member of Parliament which not only were not related to the Inquiry, but were not costs which should be borne by SIG. Several other items of expenditure were either in excess of contractual agreements or not properly managed.

**Ministry of Provincial Government and Institutional Strengthening**

OAG undertook two special audits within the Ministry of Provincial Government and Institutional Strengthening.

(i) *DOMA Provincial Headquarters Project*

The Ministry of Finance and Treasury did not consult or obtain the approval of the PS of MPG&IS before authorising the transfer of the Guadalcanal Province office project funds to the Guadalcanal Provincial Government account instead of the MPGR&IS project account as required under the project approved Work Plan. Project funds had been used on activities not related to the project. OAG noted that the MPG&IS Project Development Officer had authorised these expenses contrary to the requirements of the project work plan. The MPG&IS needs to therefore liaise with the Project Committee to ensure that controls are in place to prevent the use of project funds on activities not related to the project or have the funds transferred back to the MPG&IS.

(ii) *2007 Premiers Conference*

OAG noted that there were weak controls over the assessment, approval, disbursement and accountability of funds disbursed to lodges and home stays approved to accommodate conference participants and officials. Owners of two lodges alleged to OAG that they did not receive all the funds they should have received.

Similarly OAG noted weak controls over the management of funds to run the conference. The imprest of \$189,000 issued to the Chief Accountant in August 2007 has yet to be retired. Furthermore, there were irregularities noted over the expenses claimed by the Chief Accountant to be met from the imprest. The same expenses were noted to have been paid through general payment vouchers.

OAG also noted that the decision to hand the majority of the conference assets over to an individual rather than to the Provincial Government for the benefit of the wider provincial population was inappropriate.

#### **1.40 Results of Audits of Provincial Government**

During the period of this report the OAG actively participated in a RAMSI-funded Provincial Financial Management Improvement Project (PFMIP) to bring up to date outstanding accounts covering 143 financial years for the Provincial Governments. The OAG undertook an audit program at the same time and issued audit reports on all Provinces for all outstanding accounts up to and including the period ended 31 March 2007.

The main deficiencies identified as a result of the audits of the 2007 financial year were as follows:

- Executive management of public finances was ineffective;
- Provincial-sourced revenue was uncontrolled and unaccounted for;
- Expenditure was uncontrolled and unaccounted for;
- Assets were unrecorded;
- Investments and the results of business undertakings were unrecorded;
- Government borrowings not brought to account;
- Usurious loans accepted from unapproved lenders;
- Trade creditors are unrecorded; and
- Imprests and personal advances were uncontrolled.

All of the Provincial Governments were issuing imprests and personal advances without properly recording them in the Registers in a timely manner, nor were they following up recipients for retirement or repayment respectively.

#### **1.50 Results of Audits of Statutory Bodies**

During the past twelve months the OAG has taken a number of initiatives to catch up a backlog of outstanding accounts amounting to 108 financial years. Aside from a concerted effort by OAG to conduct audits of some of the statutory bodies involving 28 financial years of outstanding accounts, OAG is also participating in the design and conduct of a RAMSI-funded State Owned Enterprises Accounts Strengthening Project (SOEASP) intended to bring up to date 80 financial years of accounts for nine of the state owned enterprises (SOEs), comprising:

- Commodities Export Marketing Authority;
- Investment Corporation of Solomon Islands;
- Solomon Airlines Limited;
- Solomon Islands Broadcasting Corporation;
- Solomon Islands Electricity Authority;

- Solomon Islands Ports Authority;
- Solomon Islands Postal Corporation;
- Solomon Islands Printer Limited;
- Solomon Islands Water Authority.

During the period of this report the Solomon Islands Government also extended the mandate of the Auditor General under the *Sate Owned Enterprises Act 2007* to cover some SOEs which were created under the Companies Act which is normally outside of the authority of the Auditor General. The OAG is taking steps to review and bring under control the audit of those entities over the next period.

## **2.0 SOLOMON ISLANDS GOVERNMENT ACCOUNTS**

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

Pursuant to Section 38 of the Public Finance and Audit Act (the Act) the Permanent Secretary for Ministry of Finance and Treasury is responsible for the preparation of the Solomon Island National Accounts each year for presentation to the Auditor General for certification. The report to Parliament Status of Audits of Solomon Island Government Entities as at 30 June 2007 included my report on the Annual Accounts for the years 1998 to 2003.

The Permanent Secretary submitted the signed Annual Accounts for 2004 and 2005 in November 2007, and the 2006 Annual Accounts in May 2008. The Permanent Secretary has advised an extension of time is required for the completion of the 2007 Annual Accounts to 30 September 2008. This will mean that the 2007 Annual Accounts may be submitted for audit within the legislative timeframes.

During 2007, OAG undertook controls testing of the basic financial processes within all Ministries. The results of those audits are summarised in Section 3.0 of this Report. Transactions were audited within the main systems of Imprests, Bank Accounts, Procurement, Expenditure, Assets and Revenue.

Payroll processes had been the subject of a detailed special audit which was reported in 2006. Therefore OAG did not perform testing within each Ministry as part of the audits undertaken in 2007. Rather, OAG concentrated on the interfaces between the payroll system and the general ledger system.

The purpose of these audits was to assess the reliability of the financial information contained in the SIG general ledger and assess the strength of the controls operating in the Ministries as well as the central processing areas in the Ministry of Finance. Reports were provided to the Permanent Secretary of each Ministry, meetings were held to discuss the audit findings and recommendations, and written responses were received from the Permanent Secretaries with their Action Plans for implementing the audit recommendations.

The audits of the SIG Annual Accounts were then undertaken to assess whether the financial statements fairly reflected the transactions and financial position of SIG for each of the three years. The results of these audits are summarised at below.

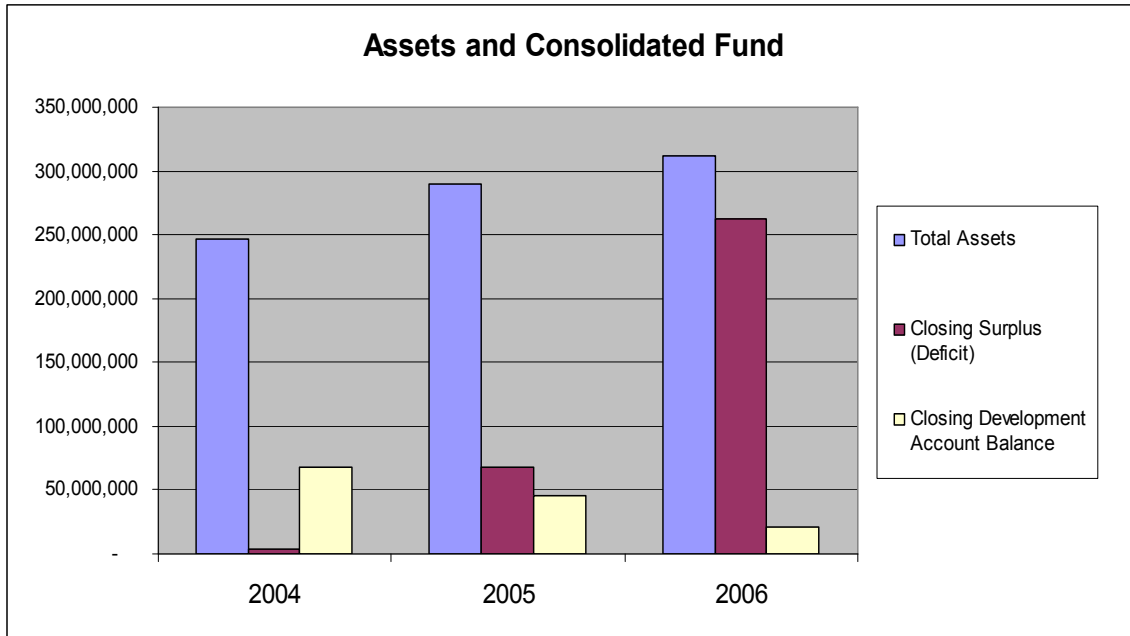
## 2.20 Financial Statements 2004, 2005, 2006

Section 38 of the *Public Finance and Audit Act* prescribes the various financial statements required to be prepared annually as part of the SIG National Accounts.

### 2.21 Statement of Assets and Liabilities

The following extract is provided for the years 2004-2006 to provide an overview of the trend during this period.

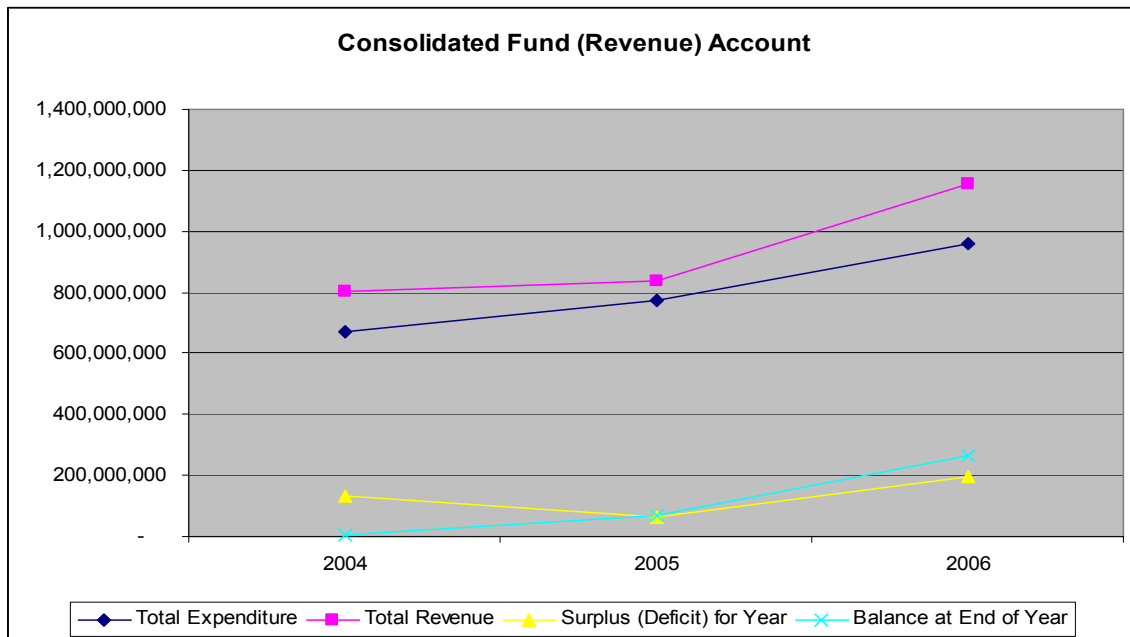
	2004	2005	2006
<b>Assets</b>			
Bank - Headquarters	(7,873)	(14,519,715)	11,465,179
Bank - Sub Accounts	27,511,452	17,890,777	39,570,381
Bank - Overseas	412	412	412
CBSI	204,540,425	268,984,418	242,663,203
Special Funds			
Other Assets	11,804,387	15,850,761	18,277,815
Advances see 1E	2,036,334	1,234,956	228,413
<b>Net Overdraft</b>			
<b>Total Current Assets</b>	<b>245,885,137</b>	<b>289,441,609</b>	<b>312,205,403</b>
Investment see 1D	-		
On Lent Loans			
<b>Total Assets</b>	<b>245,885,137</b>	<b>289,441,609</b>	<b>312,205,403</b>
<b>Consolidated Fund</b>			
Opening Revenue Account Balance	(127,859,134)	3,962,968	68,031,776
Surplus (Deficit) see 1A	131,822,102	64,068,809	194,741,664
<b>Closing Surplus (Deficit)</b>	<b>3,962,968</b>	<b>68,031,777</b>	<b>262,773,440</b>
Opening Development Account Balance	64,951,901	67,722,445	45,728,635
Surplus (Deficit) see 1B	2,770,544	(21,993,810)	(24,495,914)
<b>Closing Development Account Balance</b>	<b>67,722,445</b>	<b>45,728,635</b>	<b>21,232,721</b>
Special Fund (Deficit)			(125,832)
<b>Total Accumulated Deficit</b>	<b>71,685,413</b>	<b>113,760,412</b>	<b>283,880,329</b>
<b>Liabilities</b>			
Deposits see 1C	(89,248)	(427,144)	(1,458,056)
Other		1,825,277	92,517
CBSI Advance Account	174,288,971	174,283,065	29,690,614
Public Debt Liability			
<b>Total Liabilities</b>	<b>245,885,136</b>	<b>289,441,610</b>	<b>312,205,404</b>



This graph shows the improving asset and net surplus position of the government during this period.

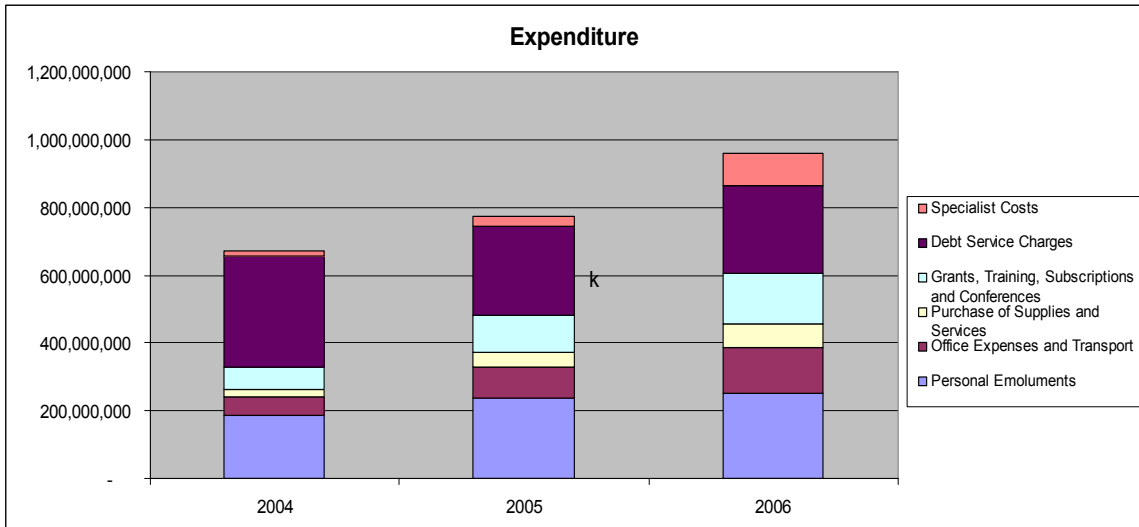
**2.22 Summary of Consolidated Fund (Revenue) Account**

The following is a summary of revenue and expenditure recorded against the Consolidated Fund (Revenue) Account during 2004 - 2006:



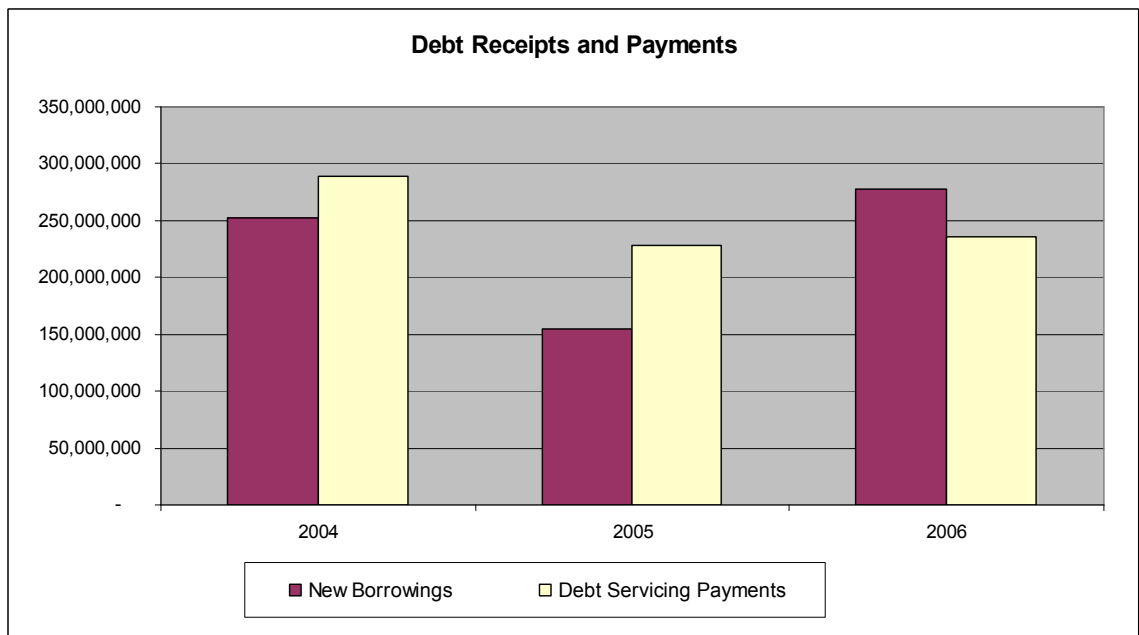
This chart demonstrates the degree of improvement in the government’s receipts during the period from 2004, which provided for increased expenditure. It should be noted that the revenue and expenditure figures include funds received from debt raising and debt servicing payments in addition to government revenues such as taxes and fees.

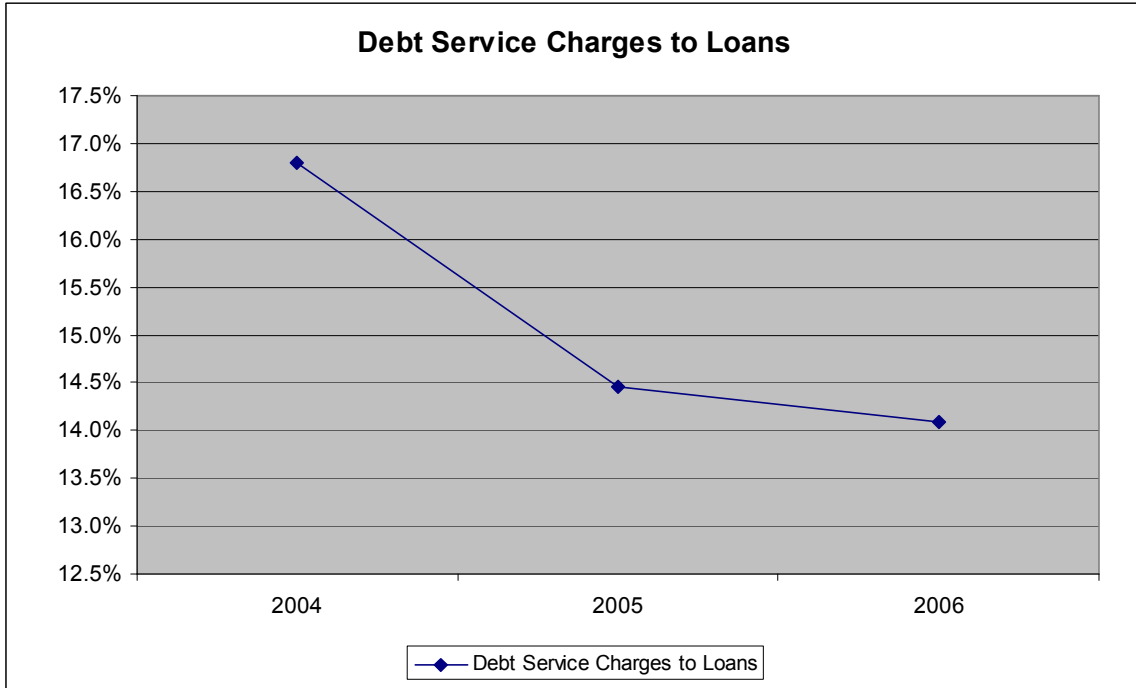
Expenditure patterns during this period are indicated in the following graph:



During 2004 to 2006 debt servicing increased substantially and expenditure on normal government services also increased significantly.

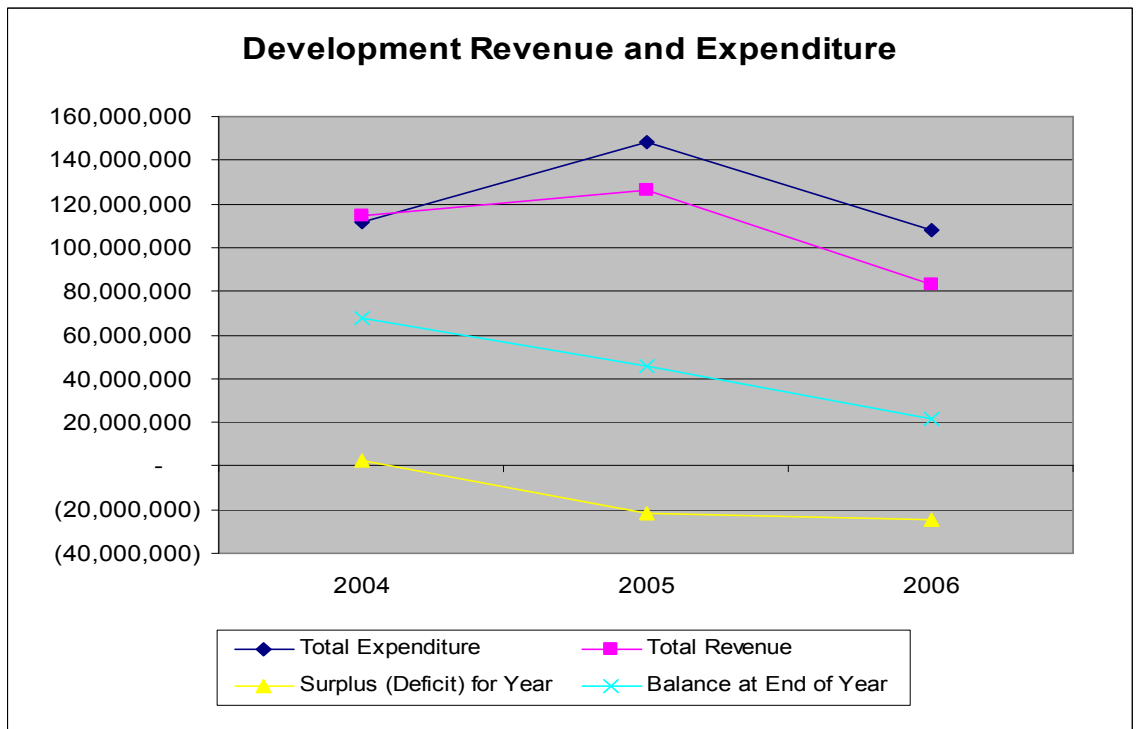
The significant increase in expenditure was mainly due to increased borrowings which increased the capacity to pay other debt, as shown in the following chart:

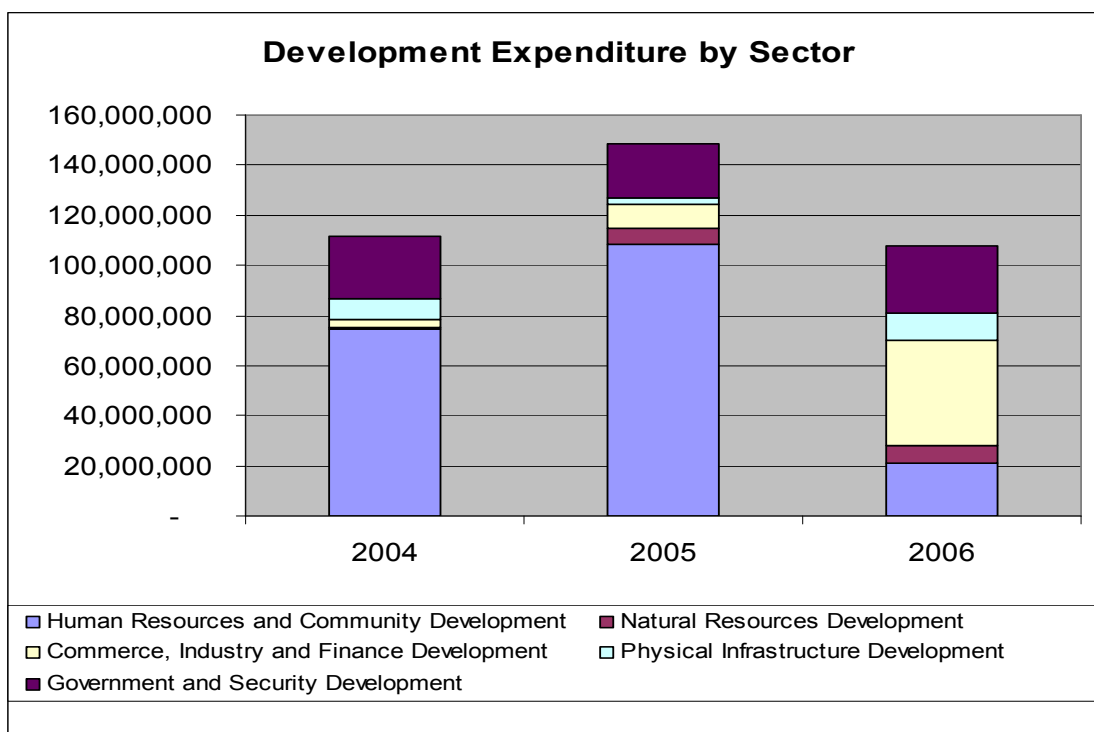




Debt servicing payments recommenced significantly from 2004, but as previously stated were approximately matched by new borrowings.

**2.23 Summary of Consolidated Fund (Development) Account**





Development expenditure in 2004 and 2005 was mainly comprised of education grants for tertiary and secondary education. The Tertiary Scholarships Program administered by the Ministry of Education and Human Resource Development was the subject of an Auditor General’s Report to Parliament tabled in October 2006. In 2006 there was a greater variety of sectors covered by development expenditure and the total amount of expenditure decreased due to the reduction in tertiary scholarships paid.

### 2.30 Presentation of Accounts

Chapter 27 of the Financial Instructions 1994 states that “*The Permanent Secretary shall ensure that the Government’s accounts comply with the relevant National and International Accounting Standards*”. Section 38 of the *Public Finance and Audit Act* states that the annual financial statements of the Solomon Islands Government shall include a statement of assets and liabilities, a statement of receipts and payments as well as other prescribed statements of account.

There are no Solomon Islands National Accounting Standards at this point in time. Most of the International Accounting Standards relate to the accrual basis of accounting. The Solomon Islands Government uses the cash basis of accounting. There are International Public Sector Accounting Standards (IPSAS) published by the International Federation of Accountants. While most of these also relate to the accrual basis of accounting, they include a large and detailed standard “*Financial Reporting under the Cash Basis of Accounting*”.

OAG seeks to ensure that there is uniformity in the financial reporting in Government and has strongly advocated globally to ensure consistency and wider usage by all stakeholders. OAG support a transition to eventual full accrual accounting in accordance with the International Accounting Standards. The SIG financial reporting requirements must eventually be brought into line with international requirements. This will by necessity be phased in over several years.

The Ministry of Finance and Treasury has commenced a review of the format and presentation of the annual accounts with a view to gradual introduction of the IPSAS standard “*Financial Reporting under the Cash Basis of Accounting.*”

## 2.40 Timeliness of Reporting

The following is a table of the dates each set of financial statements were submitted to me for audit, the dates of completion of the audits and of reporting to Parliament.

Year Ending	Date Signed by Permanent Secretary	Date Audit Certificate Signed	Date Reported to Parliament
31 December 2004	5 November 2007	24 July 2008	August 2008
31 December 2005	5 November 2007	24 July 2008	August 2008
31 December 2006	15 May 2008	24 July 2008	August 2008

Section 38 of the Public Finance and Audit Act requires the Permanent Secretary to submit signed statements of accounts to the Auditor General within 6 months of the end of the financial year. The 2004 and 2005 annual accounts were submitted to the Auditor General two and a half and one and a half years late respectively. For the 2006 Annual Accounts the Permanent Secretary requested and was given a six month extension of time to submit the annual accounts under section 38 of the Public Finance and Audit Act. However, the 2006 annual accounts were actually submitted to the Auditor General in May 2008, five months after the extended timeframe granted.

OAG notes that the timeliness of submission of accounts has improved significantly as the Ministry of Finance has dedicated a team to addressing the backlog, and that the Ministry expects to submit the 2007 annual accounts to the Auditor General within the statutory timeframe.

**Recommendation 1**

OAG recommended that the Ministry of Finance ensure additional officers with the appropriate skills and experience are recruited or trained to resource the annual accounts preparation project in order to complete and submit the 2007 and future annual accounts within the statutory deadline.

**Management Response**

The Permanent Secretary advised that additional staff will be recruited based on the 2009 establishment.

**2.50 Outcomes of Audit - Limitation of Scope**

As stated in the previous Report to Parliament, the accounting records of the Solomon Islands Government have not been properly maintained for many years. The Public Finance and Audit Act, Financial Instructions and General Orders prescribe the procedures that are required to be performed and the requirements for authorisation of transactions etc. These documents prescribe procedures which, if followed, would provide a minimum standard of internal control and quality of accounting and record keeping for the accounts of the Solomon Islands Government. Many of these requirements have not been followed within the various Ministries during this period.

The poor control environment of the Solomon Islands Government was assessed from the state of weaknesses identified and included:

- Lack of sufficient audit trail;
- Reconciliations not performed on a timely basis;
- Disregard and non-adherence to legislation, regulations and financial instructions; and
- No monthly financial reports and untimely production of Annual Accounts.

OAG noted significant improvement in some areas of financial and internal control during the period 2004 to 2006. Bank reconciliations were performed for more bank accounts progressively during the period. However, the extent of non-performance of bank reconciliations for bank accounts controlled by the line Ministries meant I was not able to form an opinion on whether all transactions had been recorded and whether they were materially correct in the SIG general ledger.

In addition to this, many accounts and records were not able to be located. Again a pattern of progressive improvement was noted during the three years in that in 2003 and 2004 more than half the vouchers sought by OAG could not be located. This reduced significantly in 2005 and reduced again in 2006.

Proper record keeping and document retention is a basic tenet of public administration. Section 108 (3) of the Solomon Islands Constitution states that the Auditor General or any person authorized by him shall at all times be entitled to access all books, records, returns and all other documents relating to such accounts of the Solomon Islands Government.

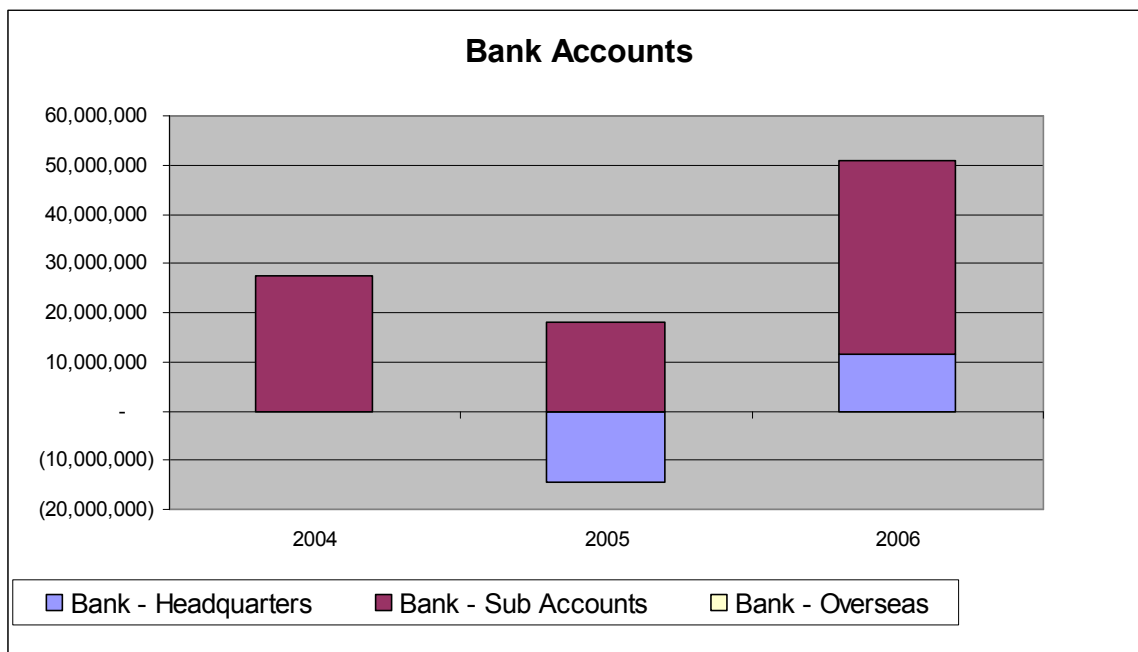
Also, the Government Records Management Policy requires all Government Ministries and departments to maintain good records management by ensuring that all actions of all public servants carrying out their official duties have been recorded in an official recordkeeping system and the system to be managed so that the information can be found quickly when needed, is secured and cannot be tampered with and not be destroyed before it is no longer needed.

Therefore I provided modified audit opinions on each set of Annual Accounts to explain that I was able to form an opinion as to whether the Annual Accounts are true and correct.

**2.60 Audit Qualifications**

The following qualifications and major inadequacies were noted which led to me forming a modified opinion on the respective accounts.

**2.61 Bank Accounts**



The graph above illustrates the extent to which the government’s combined bank balances have fluctuated during the period 2004 - 2006.

### **Audit Findings**

During the audit of the bank accounts held during 2004, 2005 and 2006, OAG noted that most of the bank accounts operated by the Ministries were not reconciled at all during this time. The net total of the accounts identified by OAG varies between \$7 million and \$12 million during this period. In addition, there were no cash book records for many of these. OAG also noted that, while the major bank accounts which are operated by the Ministry of Finance had been reconciled at least annually, there were unexplained discrepancies remaining in some of these bank reconciliations.

OAG notes that the Ministry of Finance has undertaken a major program of work to progress these reconciliations, and that there has been a significant improvement in the balancing of these bank accounts. However, the presence of unexplained variances in the main bank accounts operated by the Ministry and the lack of reconciliation of bank accounts by the line Ministries means that OAG is unable to obtain assurance that all transactions have been recorded in the Government's accounts, and is unable to ascertain the value and therefore the materiality of any error that may exist in the accounts for each of 2004, 2005 and 2006.

### **Audit Qualification**

Therefore I was not able to and did not express an opinion on Bank balances for the years ending 31 December 2004, 2005 and 2006.

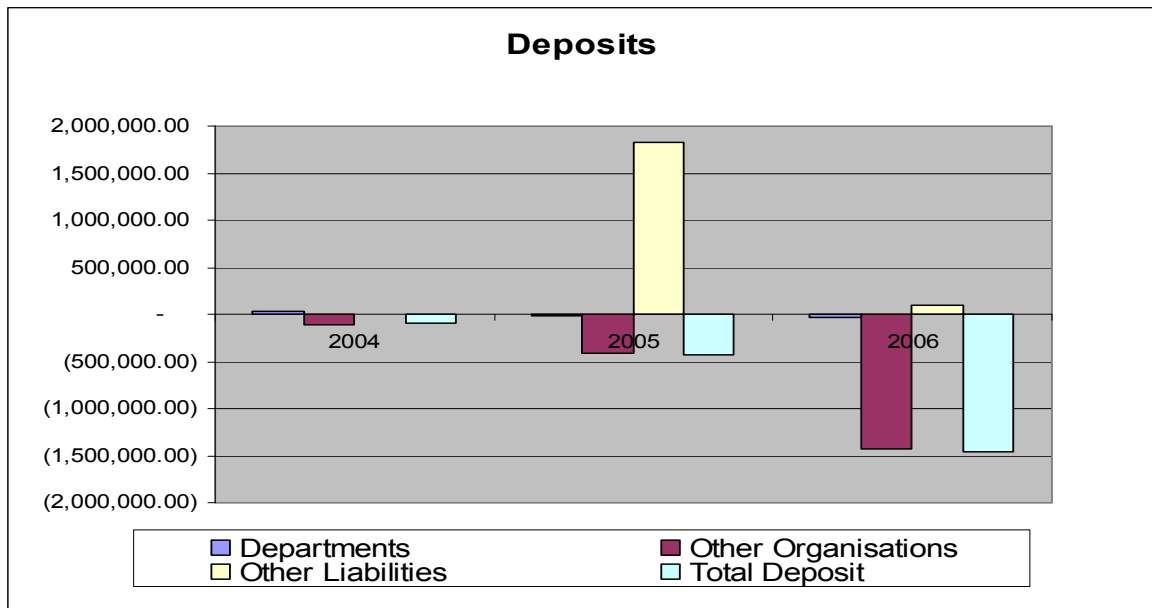
### **Recommendation 2**

OAG recommended that the Ministry of Finance and Treasury continue to dedicate appropriately trained and experienced officers to complete the bank reconciliation work in the Ministry, and to assist the line Ministries in performing bank reconciliations for the bank accounts they control.

### **Management Response**

The Permanent Secretary advised that this is currently being discussed and ways to bring it in to the SIG annual accounts are yet to be finalised; however, bank confirmation has been obtained and necessary steps have been taken to close the dormant accounts. Banking process and procedures have been established to monitor and approve opening of new accounts. The responsibility for reconciling Ministry bank accounts rests with the Ministries. This responsibility will be conveyed to them by FF&R.

**2.62 Assets and Liabilities**



The fluctuation in balances and the “negative” balances are indicative of likelihood of significant errors or problems in these account balances due to lack of reconciliation of the general ledger balances to listings or registers of deposits.

**Audit Findings**

**Other Assets**

The “Other Assets” item in the Statement of Assets and Liabilities includes dishonoured cheques, the accounts receivable control account and other advances. Some of the component general ledger accounts have not been reconciled to demonstrate that the balances actually represent items that the government will reasonably expect to receive cash or other benefits from in the future. For example, the dishonoured cheques balance includes items from several years in the past. It is not reasonable to expect that funds from cheques which had been dishonoured more than a couple of years ago would be able to be recovered. Another example is the Accounts Receivable Control Account which has not been reconciled at all. OAG is not able to determine whether the balance of this account is correct and represents debts which are reasonably expected to be paid to the government, or contains significant or material accounting errors.

### **Deposits**

Deposits are funds held on behalf of other entities, and do not form part of the Consolidated Fund. This includes payroll deductions from public officers' salaries which are waiting to be paid to the credit union, union or other payee, as well as moneys paid in error or overpaid to the government. It also includes debit balances – negative liabilities or assets – for each of the three years - \$(89,248) in 2004, \$(427,144) in 2005 and \$(1,458,056) in 2006.

OAG noted that some of the general ledger accounts which comprise these balances have not been reconciled to independent registers. As the debit balances are progressively increasing, there is a strong indication that there are accumulating accounting errors in these accounts. Many of these accounts are holding accounts for payroll deductions from the Telepay system, and it is believed this system has caused errors due to unreliability or communications problems. Due to the lack of reconciliation of the general ledger to supporting ledgers, OAG was unable to determine whether the balances were materially correct.

### **Other Liabilities**

Other Liabilities were first recorded in the government's annual accounts in 2005 with a balance disclosed of \$1,825,277 and a much smaller balance of \$92,517 in 2006. OAG noted that some of the general ledger accounts which comprise these balances have not been reconciled to independent registers. As the accounts payable control account had a debit balance in 2004, there is a strong indication that there are accumulating accounting errors in these accounts. Due to the lack of reconciliation of the general ledger to supporting ledgers, OAG was unable to determine whether the balances were materially correct.

### **Audit Qualification**

Accordingly I was unable to and did not express an opinion on Deposits as at 31 December 2004, 2005 and 2006.

### **Recommendation 3**

OAG recommended that all 8000 series and 9000 series clearing, asset and liability accounts be reconciled to supporting registers at least annually. Higher volume accounts will need to be reconciled more frequently.

## **Management Response**

The Permanent Secretary advised that most of the below the line accounts have been reconciled; however, other suspense accounts that have transactions automatically generated by the system or system errors can't be fixed. A scoping group for Maximise upgrade has been alerted to these errors and it hoped these will be fixed in the new upgraded version. Training in reconciling these accounts has been done and Reporting staff are currently carrying out these tasks. There has been a discussion that AP and AR modules be done by the responsible sections.

## **2.63 Investments**

The Ministry of Finance ceased to record Investment transactions in 1998.

### **Audit Findings**

Investments have not been included in the Statement of Assets and Liabilities for a number of years. In the 2004, 2005 and 2006 the Statement of Investments has included information on the percentage of ownership of various government owned entities. There is a Note to this Statement explaining that those values have not been recorded for investments as the State Owned Entities have not prepared financial statements for a number of years, and therefore there is no reliable financial information to use for this Statement.

Similarly, other non-current assets are not recorded in the Statement of Assets and Liabilities. OAG conducted an audit of assets purchased in 2004, 2005 and 2006 and identified potential assets purchased for a total of over \$71 million just in these three years. OAG noted that the Government owns a significant value of assets in houses, other buildings, land, plant and equipment in addition to these purchases identified. In addition, donors have contributed significant infrastructure and other assets over many years. As these have been provided "in kind" or paid directly by the donor agency, these acquisitions are not recorded in the government's books of account. Therefore the assets recorded in the Statement of Assets and Liabilities are materially understated.

### **Audit Qualification**

Therefore I was unable to and did not express an opinion on Investments or Non-Current Assets for the years ended 31<sup>st</sup> December 2004, 2005 and 2006.

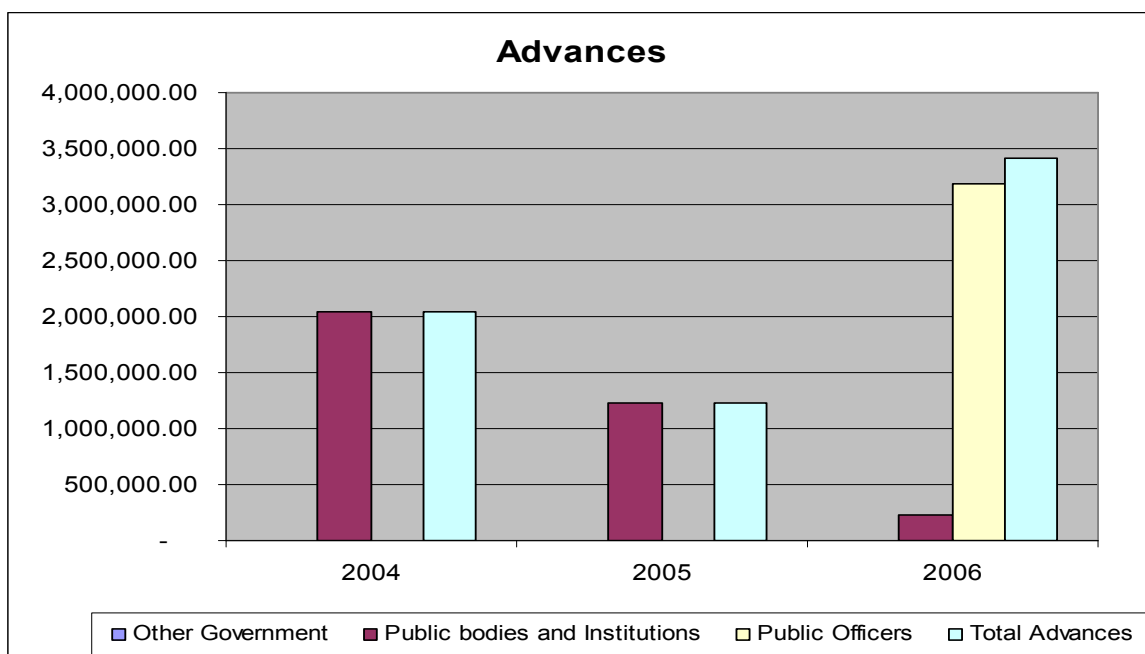
### **Recommendation 4**

OAG recommended that the Ministry require all line Ministries to create an assets register and conduct a stocktake annually to enable reporting of non-current assets in the Statement of Assets and Liabilities.

**Management Response**

The Permanent Secretary advised that at this stage the task itself is huge and needs a project of its own. Ongoing discussions are being held on this matter.

**2.64 Advances**



As of 2003, the Ministry classified imprests as “above the line” items, that is, they were expensed as soon as they were issued. This means that unretired imprests are not shown as moneys due to the government in the financial reports.

**Audit Findings**

The balance of Advances in the Statement of Assets and Liabilities does not include unretired imprest accounts. The Ministry adopted a practice of expensing all imprests at the time they are issued – that is, recording them as payments and not as amounts due to the government – from the 2003 financial year. This practice is contrary to Financial Instruction 319 (1) which states that all imprests issued are to be recorded to a “below the line” account until the imprest has been acquitted.

Unretired imprests are included in the Statement of Advances in the 2006 annual accounts, even though the amount is not included in the Statement of Assets and Liabilities. This is inconsistent accounting treatment which may confuse users of the annual accounts.

**Audit Qualification**

Accordingly I did not express an opinion on Advances for the years ended 31 December 2004, 2005 and 2006.

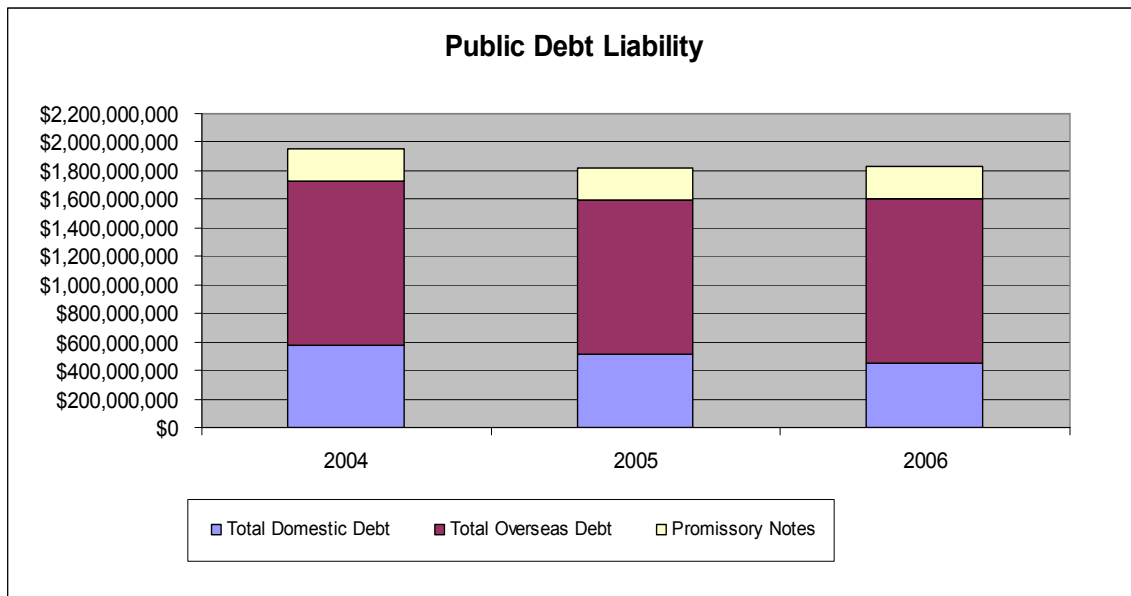
**Recommendation 5**

OAG recommended that the Ministry of Finance revert to the procedure of accounting for imprests as “below the line” items in order to comply with the Financial Instructions and to provide ledger records to ensure all imprests are acquitted and accounted for.

**Management Response**

The Permanent Secretary advised that this has been done.

**2.65 Public Debt Liability**



There was a trend of increasing dependence upon foreign debt, peaking at \$1,950 million during 2003 and 2004. Promissory Notes were reclassified in the annual accounts to be included in Public Debt from 2003. The graph shows the level of public debt stabilised during 2005 and 2006.

**Audit Findings**

The annual accounts for these years record the Public Debt Liability of the Government as over \$1,800 million. This liability is disclosed as a Note to the Statement of Assets and Liabilities, and in a supporting schedule, but is not included in the actual Statement of Assets and Liabilities.

This balance is about ten times greater than the value of total liabilities which are recorded on the Statement of Assets and Liabilities. Total liabilities included in the Statement are less than \$200 million in each of the years. If Public Debt Liability were included, the value of total liabilities in the Statement would increase to about \$2,000 million. Liabilities of \$2,000 million compared to assets of \$300 million would lead a reader to a very different conclusion compared to the current disclosure of total liabilities of \$200 million and total assets of \$300 million. It is considered that this would have a material affect on the understanding of the Government's overall financial position that a user of the annual accounts would reach and therefore that the Statement of Assets and Liabilities is materially distorted. OAG noted that there is a clarification of the discrepancy by way of a suitable Note to the accounts.

Elsewhere in this report it is noted that property, plant and equipment are not included in the Statement of Assets and Liabilities either. However in that situation there is no reliable estimate of the value of these assets.

OAG was advised that SIG outsources the administration and recording of a portion of the public debt ledger to CBSI, and that SIG does not hold the details and documents for these loans. OAG was advised that CBSI provide schedules to the Debt Management Unit which summarise the debts held. Therefore OAG sought independent verification of the public debt by tracing the figures from the financial statements to CBSI's 2007 Annual Report which includes audited figures. The CBSI Annual Report amounts differ to the SIG Annual Accounts. Therefore OAG could not determine whether the public debt figures disclosed are materially correct.

**Audit Qualification**

Accordingly I was unable to and did not express an opinion of the Public Debt Liabilities for the years ended 31 December 2004, 2005 and 2006.

**Recommendation 6**

OAG recommended that:

- The Debt Management Unit takes a more proactive role in monitoring and managing the public debt register.
- The schedules from CBSI are accompanied with a covering letter to evidence that they were prepared by CBSI.
- CBSI be requested to provide a schedule at year end which agrees and reconciles with the information they publish in their Annual Report.

**Management Response**

The Permanent Secretary advised that the Debt Management Unit manages and prepares the actual payments of servicing the loans and are working closely with CBSI.

**2.66 Contingent Liabilities**

During preparation of the 2006 Annual Accounts the Ministry decided that the data on Contingent Liabilities was not reliable, and that some of the figures which had been included in previous years should not be included until more reliable information is available.

**Audit Findings**

OAG noted that the Ministry does not have a register of contingent liabilities, nor a process for ensuring the ongoing completeness of guarantees granted by SIG or other contingent liabilities. It is noted that the 2006 annual accounts include a Note bringing users attention to the fact that this information cannot be reliably estimated as most State Owned Entities do not have current, audited financial statements in order to provide this information.

**Audit Qualification**

Therefore I was unable to and did not express an opinion on Guarantees and Promissory Notes for the years ended 31 December 2004, 2005 and 2006.

**Recommendation 7**

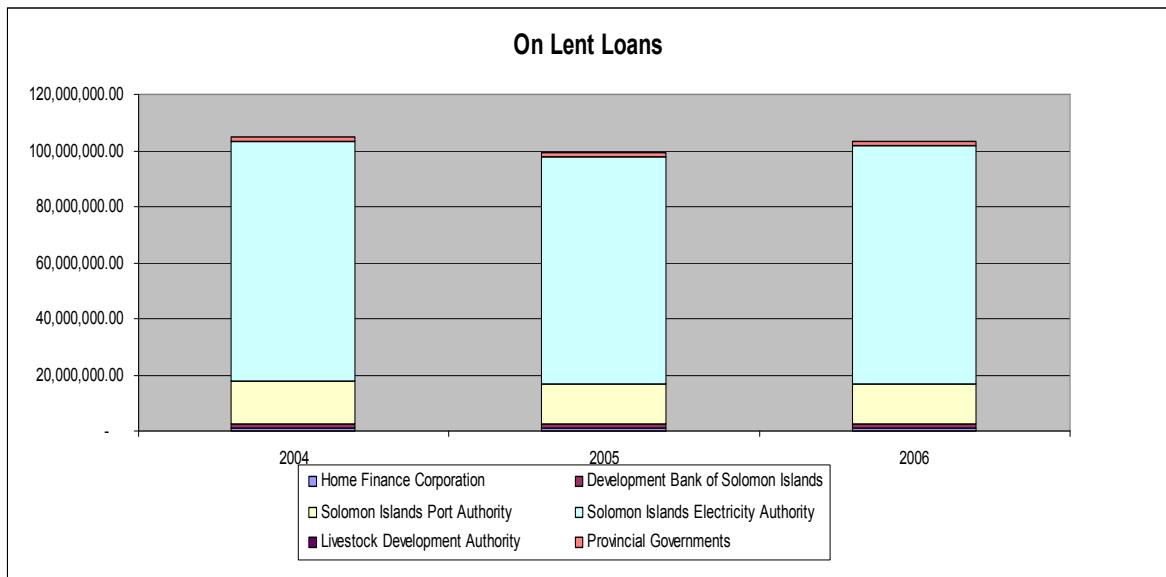
OAG recommended that the figures disclosed in the Financial Statement have supporting documents to support the figure in the statement where possible. Where amounts cannot be reliably estimated, they should not be included.

OAG further recommended that where foreign currency is involved, that care be taken to ensure the exchange rate as at the correct balance date be used.

**Management Response**

The Permanent Secretary advised that all figures disclosed are supported; however, missing documents have been noted in the working papers. All foreign currency transactions and rates are reconciled and supported.

**2.67 On Lent Loans**



On Lent Loans are moneys which the Government has borrowed and then in turn on-lent to a government entity. These loans have contributed to the debt burden of the Government. During the period covered in the chart above, the most significant On Lent Loans have been to the Solomon Islands Electricity Authority which has recorded poor financial performance for a number of years.

### **Audit Findings**

OAG noted that the amount of interest arrears is not included in the On Lent Loan balance disclosed. There is a Note to the Statement of On Lent Loans which states the total of interest arrears which have not been disclosed. It is also noted that On Lent Loans are not recorded as either assets or liabilities in the Statement of Assets and Liabilities. As the total is approximately \$100 million, it is material in comparison to the total assets disclosed of approximately \$300 million.

It is also noted that these are assets of the government, which have not been included in the Statement of Assets and Liabilities. Given the nature of the debts and the poor financial performance of many of the entities to which funds have been on-lent, there is significant doubt whether these amounts will ever be repaid to the government. Therefore an assessment of the recoverability of the debts should be made and provision for doubtful debts raised if considered necessary. The net amount could then be disclosed in the Statement of Assets and Liabilities.

The Post Balance Date Event of the forgiveness of debt to the Solomon Islands Electricity Authority was disclosed in a Note to the 2006 annual accounts, but not in the 2004 and 2005 annual accounts as these accounts had been signed by the Permanent Secretary before the debt forgiveness occurred.

### **Emphasis of Matter**

I raised an emphasis of matter to bring readers' attention to the post balance date event in my audit certificate for the years ending 31 December 2004, 2005 and 2006.

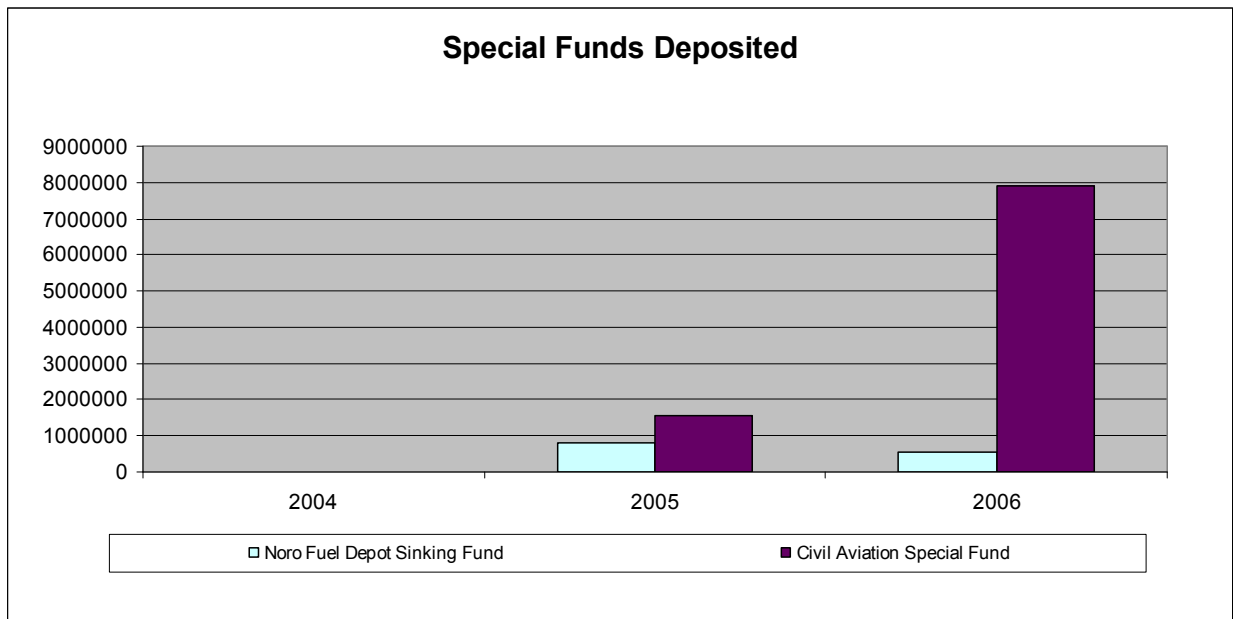
### **Recommendation 8**

OAG recommended that the Ministry consider the value of On Lent Loans, in particular whether the debt is likely to be recovered, and On Lent Loans be included in the Statement of Assets and Liabilities.

### **Management Response**

The Permanent Secretary advised that these loans are unlikely to be recovered; however, interest has been accrued. FF&R will liaise with Debt Management Unit to obtain a value for reporting purposes.

**2.68 Special Funds**



There were two significant Special Funds during this period. The Noro Fuel Depot Sinking Fund has had little activity. The Civil Aviation Special Fund was opened in accordance with new legislation during 2005.

**Audit Findings**

Under section 5 of the Public Finance and Audit Act, the Minister of Finance, with the approval of Cabinet, is authorized to make financial provision for the establishment of Special Funds. Under section 100 of the Constitution, Special Funds do not form part of the Consolidated Fund and the receipts, earnings and accruals of Special Funds and the balances at the close of each financial year are not paid into the Consolidated Fund but are retained for the purposes of the Special Fund. In practice this means that Parliament is not required to authorize in advance annual expenditures of Special Funds, as is the case with the Consolidated Fund.

In order that Parliament is kept fully informed about the operation of Special Funds, the Accounting Officer responsible for administering a Special Fund is required under section 38(2) of the Public Finance and Audit Act to prepare an account of the Fund within two months of the end of each financial year. The Auditor General is then required to audit the accounts, which the Speaker shall lay before Parliament. This is to enable Parliament to have a full picture of the transactions carried out through the Special Fund during the financial year.

The Statement of Special Funds includes the Civil Aviation Special Fund. The 2006 financial statements for this fund were submitted to the Auditor General in May 2008, over a year later than the legislative requirement. The Noro Sinking Fund has not had financial statements presented to the Auditor General for audit. OAG is aware of another Special Fund, National Disaster Special Fund, which has never had financial accounts prepared and presented to the Auditor General for audit. Therefore OAG is unable to certify this Statement as materially correct and presentation and disclosure is not in accordance with prescribed requirements.

### **Audit Qualification**

Therefore I was not able to and did not express an opinion on the Special Fund balances disclosed as at years ended 31<sup>st</sup> December 2004, 2005 and 2006.

### **Recommendation 9**

OAG recommended that the Financial Reporting Section review the accounts in the trial balance before preparation of each year's financial statements to determine whether Special Fund transactions have been included in the recurrent or development ledger in error, so that accounting adjustments may be made.

OAG further recommends that the Ministry ensure that all administrators of Special Funds prepare annual financial statements and submit them to the Auditor General in order to comply with section 38 (2) of the Public Finance and Audit Act, which will also allow this portion of the SIG financial statements to be verified by OAG.

### **Management Response**

The Permanent Secretary advised that Special Funds transactions have been reviewed and arrangements made for a re-imbusement of what has been spent from Recurrent Funds. Preparation of Special Funds accounts has been done. However, delays have been experienced in obtaining the necessary documentation from administrators and lack of resources sometimes affects the submissions.

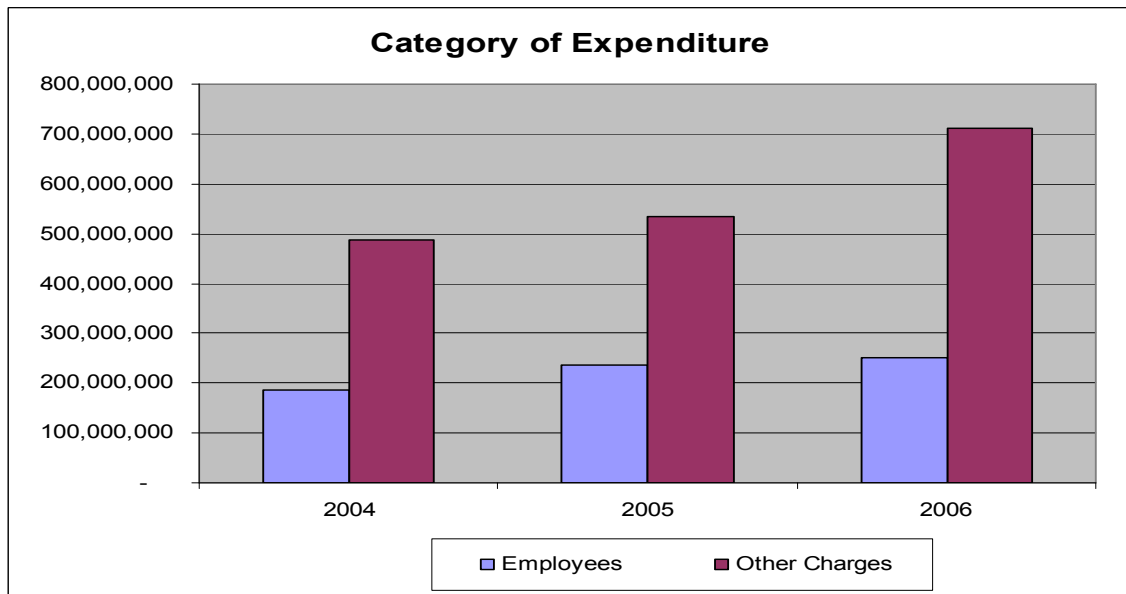
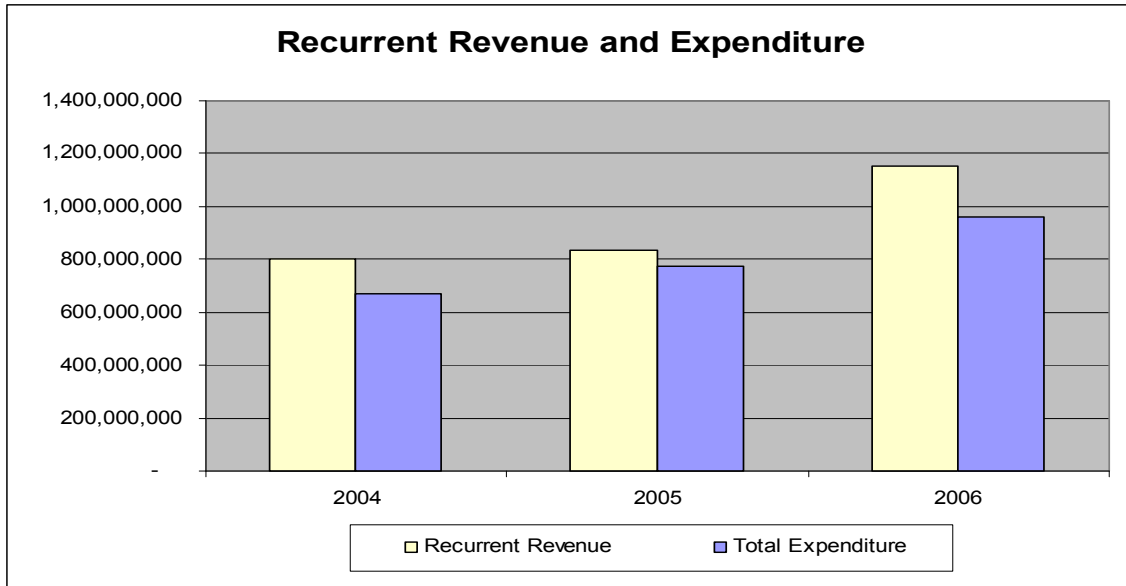
## **2.69 *Going Concern***

I recorded an Emphasis of Matter in my audit opinion for each of the years covered by this Report. The Solomon Islands Government recorded an accumulated deficit in most years and a significant public debt liability of up to \$1.95 billion.

During this period, the Government was dependent upon the continued support of donor partners to continue its activities on a normal basis and to pay its debts as and when they fell due.

## 2.70 Other Audit Findings

### 2.71 Recurrent Revenue and Expenditure



These graphs show the level of revenue increasing during this period, and of expenditure being kept within revenue each year. It should be noted however that the “revenue” figures include debt raisings and expenditure includes debt servicing.

### **Audit Findings**

Due to the lack of bank reconciliations in most of the Ministries, and unexplained variances in some of the bank accounts maintained by the Ministry of Finance, OAG cannot gain assurance that all revenues and expenses have been brought to account. In addition, many of the asset and liability accounts have not been reconciled and may include material errors which need to be adjusted against revenue and expenditure. Due to the nature of this lack of internal control, OAG cannot ascertain whether the value of any omissions may be material.

OAG could not locate a significant proportion of supporting documentation sought for audit testing of revenue and expenditure transactions for these three years. It is noted that there has been a substantial improvement over the situation in earlier years. OAG also noted a strong trend of improvement in being able to locate supporting documentation from 2004 to 2005 and from 2005 to 2006. This indicates that processes and controls are improving. However, the extent of documentation not able to be located is still so high as to prevent OAG from being able to determine whether transactions were properly authorised and what was processed was materially correct.

Debt proceeds are recorded as revenue without any special notation as to its nature and how much of total “revenue” is debt proceeds as opposed to recurrent sources. As debt proceeds amount to hundreds of millions of dollars in some years, this source of funds is material and needs to be understood by users of the accounts.

#### **Recommendation 10**

OAG recommended that cash received from debt be disclosed separately to revenue received from normal government activity, that receipts be disaggregated similarly to reflect how expenditure has been disaggregated. The Cash Basis of Accounting Standard published by IPSAS provides guidance in the categories of receipts which are appropriate to be separately disclosed in government financial statements.

### **Management Response**

The Permanent Secretary advised that treatment of these revenues has been disclosed separately and reviewed.

## ***2.72 Excess Expenditure and Shortfalls in Revenue***

### **Audit Findings**

The Solomon Islands Government has failed to compile and prepare a statement of expenditure in excess of approved appropriations as required by Section 102 (4) and 108 (3) of the Constitution. No statements were presented to Parliament for 2004 to 2006 despite the fact that each year recurrent heads of expenditure were overspent and in several years development heads of expenditure were overspent.

### **3.00 SOLOMON ISLANDS GOVERNMENT CONTROLS**

OAG has audited the systems and processes for the financial transactions of SIG for 2004 to 2006. These transactions have been audited from source documents to the general ledger. This was preliminary audit work in preparation for the audit of the financial statements. OAG audited the following core systems:

- Imprest accounts;
- Bank accounts;
- Procurement and expenditure;
- Revenue;
- Payroll;
- Staff Advances; and
- Assets

These systems were audited in each of the main Ministries and Heads of Expenditure in the structure that existed in the years 2004 to 2006:

- Agriculture and Lands;
- Education and Human Resource Development;
- Finance, National Reform and Planning;
- Foreign Affairs, Commerce and Tourism;
- Governor General;
- Health and Medical Services;
- Infrastructure Development;
- Natural Resources;
- Police, Justice and National Security;
- Prime Minister and Cabinet and the Public Service;
- Provincial Government, National Unity and Peace and Home Affairs.

OAG placed reliance upon the work undertaken in earlier special investigations to assess the accuracy and reliability of the general ledger for the purposes of 2004 to 2006 financial statement preparation. These special investigations include:

- Central Payroll;
- Cash and Expenditure – Donor Funds – Ministry of Education and Human Resource Development;
- Fisheries Special Investigation;
- Forestry Special Investigation;
- Ministry of Health and Medical Services; and
- National Referral Hospital.

This work was not repeated in the audits of 2004-2006 transactions. A summary of the results of these audits is reported below.

## 3.1 Imprest Accounts

### 3.1.1 Background

There are two types of imprests provided for in the Financial Instructions – Standing and Special. Each has different rules to cater for the different nature of the purpose of the imprests. In 2004 the process for recording imprests was changed from being “below the line” (ie: assets) to “above the line” (ie direct to expense). This not only makes it more difficult for OAG to identify what imprest accounts exist or have been used, but it increases the risk that the Ministries will not be able to identify and therefore control them either.

From the register of imprests held and currently maintained by the Treasury Division the following statistics of the number of imprests known to have existed during 2004 to 2006 and their value are summarised below:

	2004	2005	2006
Special	564 \$6,156,629	489 \$6,657,473	611 \$9,770,607
Standing	58 \$975,682	67 n/a	100 n/a

The principal objective of the audit was to review the adequacy of processes for the administration, use and acquittal of imprest accounts by each Ministry and assess compliance with Financial Instructions.

### 3.1.2 Conclusion

The audit of Imprests within the Ministries identified a number of serious shortcomings in the procedures and practises as well as deficiencies in internal controls in the management of special and standing imprest accounts. Disregard for the requirements of the Financial Instructions, Chapter 11 relating to Imprests has resulted in a lack of accountability and transparency for the use of these public funds and loss of moneys to the Solomon Islands Government in terms of interest revenue and non-retirement of imprests that have been issued and used. The general ledger has not been accurate for some years, with several million dollars of expenditure over the period 2004-2006 not recorded until 2006 and 2007. Therefore SIG managers have not had reliable financial reports to use to monitor budgets and government activity. A significant sum of money has been written off as unrecoverable from officers who are no longer employed by SIG.

### 3.1.3 Key Findings

The process to issue, manage and monitor imprest accounts is inadequately controlled with little or no regard for the requirements of the Financial Instructions. A summary of the nine audit issues identified are summarised below:

**1. Bank Reconciliations Not Performed**

Bank reconciliations were not performed in 2004, 2005 and 2006 for standing imprests in some Ministries. Non-performance of bank reconciliations may result in improper debits and credits not detected and adjusted, hence balances of the standing imprest account for 2004, 2005 and 2006 as per the Cash Book/Ledger may not be accurate and reliable. Also, non-performance of bank reconciliations increases the risk of misappropriation.

**2. Imprests Have Not Been Retired In A Timely Manner**

There has been a failure to retire special imprests and standing imprests accounts in a timely manner. There is an increased risk of loss or misuse of government moneys when these imprests are not retired on time and multiple imprests are outstanding. Further, the SIG general ledger will not accurately record the expenditure until the imprests have been acquitted and the transactions entered against the correct expenditure code.

**3. Salary Deduction Forms Could Not Be Located**

When imprests are not retired within the required time the Financial Instructions enable the Ministry to recover the monies by deducting from the imprest holder's salary. However these "salary deduction" forms could not be located for some imprest holders and this increases the risk that the Ministry is not able to utilise this recovery action as there is no evidence whether the imprest holder agreed to the salary deduction conditions.

**4. Failure To Maintain A Register Of Imprests**

Some Ministries did not maintain a register of imprests that have been issued and therefore does not monitor imprests. Without a properly maintained register the Chief Accountant cannot ensure that the imprests are being used for proper purposes.

**5. Failure To Maintain Cashbooks**

Some Ministries did not maintain a cashbook for standing imprest accounts. Without a properly maintained cashbook, the Accountable Officer cannot ensure the imprest is being used for proper purposes and there is an increased risk of misuse of funds. Further, the cashbook is necessary to prepare the documents to allocate expenditure to the correct cost codes in the SIG general ledger.

**6. Lack Of Supporting Documentation For Imprests Retired or Replenished**

There was a lack of documentation to support the legitimacy of the payments made from some imprests which had been retired. This increases the risk of loss or misuse of government moneys. Furthermore the Ministries have breached section 108(3) of the Constitution, Section 36(1) of the Public Finance and Audit Act, the Government Records Policy and specific paragraphs of the Financial Instructions.

## 7. Imprest Applications Are Incomplete

OAG found that imprest applications for some Special Imprests were not signed by the imprest holder. When imprest applications are not completed and not signed it is difficult to enforce accountability and commence recovery action. This results in a loss of funds to the Solomon Islands Government and there is no means of ensuring the Imprest Account holder is accountable for the moneys used.

## 8. Compliance With Financial Instructions Is Mandatory

In 2007 the accounting treatment of Imprest Accounts was changed to above the line, to apply to all Imprests from 2004, so that the Ministry of Finance could catch up on the back log of outstanding and unretired imprests across the whole of government. A project team was established in May 2006 to review these backlogs and work is substantially completed. On this basis the accounting treatment for below the line should be made mandatory to comply with Financial Instructions and to ensure from now on imprests are retired in a timely manner. Furthermore returning to the requirements of Financial Instructions will enable penalties and interest charges be imposed as a result of any breaches.

## 9. Treasury Division Coordination and Monitoring of Imprest Recoveries

Over the last two years there has been a failure to retire special imprest accounts in a timely manner. In particular the Treasury Division have been trying to recover outstanding imprests and have written off as at the end of December 2006 a total of \$237,079 or 2.5% in 2005 and \$439,440 or 2.8% in 2004. The recovery process carried out by the Treasury Division does not include Standing Imprests. There is an increased risk of loss or misuse of government moneys when these imprests are not retired in time and multiple imprests are outstanding.

### Recommendation 11

OAG made the following recommendations to each Ministry:

- Paragraph 313 (3) of the *Financial Instructions* provide for recovery of moneys from public officers who have not retired their Special Imprest within a reasonable period. This facility should be utilised to close out imprest accounts which have been outstanding for more than two months past the project completion date. Implementation of this key paragraph will encourage better record keeping and funds management by imprest account holders;
- Ensure supporting documentation exists for imprests that are submitted to be retired or replenished;
- Ensure standing and special imprests are retired in a timely manner;

- Given that backlog of outstanding imprests since 2003 has been reviewed and up to date by the Imprest Section, the Ministry of Finance and Treasury should consider returning to the accounting treatment of above the line for Imprests to comply strictly with Financial Instructions. This will allow the relevant accounting officers to implement and impose penalties and recovery action for public officers who breach Financial Instructions;
- Ensure an adequate records management system is maintained so that critical accounting and procedural documentation, such as Imprest Warrants and Salary deduction forms are retained on file.

### 3.1.4 Management Response

Each Ministry agreed with the audit recommendations and provided an Audit Action Plan to implement the recommendations.

### 3.1.5 Summary of Results by Ministry

The following table summarises which of the nine audit findings above relate to each Ministry:

Ministry	1	2	3	4	5	6	7	8	9
Agriculture & Lands	X	X	X	X	X				
Finance National Reform and Planning		X	X					X	X
Foreign Affairs Commerce & Tourism	X	X	X	X	X				
Governor General	X	X	X	X		X	X		
Health & Medical Services		X				X	X		
Infrastructure Development		X		X		X			
Natural Resources	X	X	X	X	X	X			
Police National Security & Justice	X	X	X	X		X	X		
Prime Minister & Cabinet & the Public Service		X				X			
Provincial Gov'tment, National Reconciliation, Peace and Home Affairs	X	X	X	X	X	X	X		

## **3.2 Bank Accounts**

### **3.2.1 Background**

The Ministry of Finance and Treasury Master List of Government Bank Accounts listed 197 bank accounts held by SIG Ministries. Of these, 43 were held by the Ministry of Finance and Treasury.

Most of these accounts are not recorded in the SIG general ledger. Of these, most are standing imprest accounts which are required under the Financial Instructions to have a nil balance at year end. Some, however, are project accounts.

OAG conducted this audit primarily to verify the accuracy of the bank reconciliation statements prepared by the authorized officers responsible for the operation of the Government bank accounts and to also provide assurance that cash at bank is accounted and controlled in accordance with the Financial Instructions and generally accepted Best Practice.

### **3.2.2 Conclusion**

Overall, OAG noted and acknowledged the Ministry of Finance and Treasury's effort in clearing the 2004, 2005 and 2006 bank reconciliation backlogs in 2007 and in its continuous effort to produce timely, accurate and reliable bank reconciliations. OAG had also identified some control weaknesses which need to be strengthened to improve the timeliness, accuracy and reliability of the reconciliations and to also ensure that cash at bank is effectively managed to avoid wastage of public funds on overdraft charges and bank interest.

OAG identified that most bank accounts operated by line Ministries were not reconciled and many had no cash books prepared. This is a significant lack of oversight of the use of public moneys.

### **3.2.3 Key Findings**

Key findings arising from the audit are listed below.

#### **1. Many Bank Accounts Have Not Been Reconciled**

OAG noted that bank reconciliations were not performed for most bank accounts controlled by the line Ministries. OAG noted and acknowledged that in 2007 the Ministry of Finance and Treasury had brought up to date backlogs in the 2004, 2005 and 2006 bank reconciliations. OAG also acknowledged the Ministry's effort in improving the status of cheques outstanding for more than a year and included in the bank reconciliations as unrepresented cheques. OAG also noted and acknowledged the Ministry's effort in improving the status of un-reconciled debits and credits.

Bank reconciliations are an essential internal control to ensure that all transactions have been recorded in the general ledger, and to detect unauthorised bank transactions. The Ministry of Finance and Treasury promptly detected the large fraud through theft of a blank cheque in 2007 because bank reconciliations of the bank account concerned were being performed regularly. Conversely, it is suspected that some bank accounts in the line Ministries were the target of theft and fraud during the 2004-2006 period due to lack of oversight and, in particular, independent bank reconciliations.

Without this key control having been applied throughout 2004 to 2006, the Auditor General was not able to express an opinion as to whether the revenue and expenditure recorded in the 2004, 2005 and 2006 SIG financial statements are fairly presented. There is no other means of ensuring the transactions recorded in the SIG general ledger are complete, accurate and valid without reconciliations being performed for all SIG bank accounts.

## **2. Cash Books Not Made Available for Audit**

Financial Instruction 396 requires authorized officers responsible for the operation of a bank account to ensure that all sums paid into the account and all cheques drawn upon the account are promptly and accurately recorded in the cash book.

Cash books for many Ministries bank accounts were not available for audit. This was due to either the cash books not having been prepared or due to loss of electronic files.

OAG could not therefore, determine whether cash books were complete and accurate. Cash books are the means by which bank account transactions are entered into the SIG general ledger. As many cash books were not prepared, the transactions from those accounts were not recorded in the SIG general ledger.

## **3. Some Bank Accounts Were Overdrawn Between 2004 and 2006**

Contrary to Financial Instruction 399 (2), OAG noted that some bank accounts were overdrawn at times during between 2004 and 2006. Lack of proper cash management as required under Financial Instruction 400 resulted in wastage of public funds, which could have been available for more productive use.

## **4. Lack of Controls to Ensure Accuracy and Reliability of Bank Reconciliations**

Many bank reconciliations which were performed were not signed and dated by the preparer and an independent checking officer. The absence of a name, signature and date to indicate the officer responsible for the reconciliation and the timeliness of performing the reconciliation does not provide an audit trail of accountability. Also, the absence of a supervisory review does not provide internal control to provide management with assurance that the reconciliations were performed accurately.

**5. Improvements in the Backlog of Bank Reconciliations and Status of Unpresented Cheques and Un-reconciled Items**

OAG noted and acknowledged that in 2007 the Ministry of Finance and Treasury had brought up to date backlogs in the 2004, 2005 and 2006 bank reconciliations for most bank accounts controlled by the Ministry. OAG also acknowledged the Ministry's effort in improving the status of cheques outstanding for more than a year and included in the bank reconciliations as unpresented cheques. OAG also noted and acknowledged the Ministry's effort in improving the status of un-reconciled debits and credits.

**6. Significant Differences in the Cash Book Balance as per the Bank Reconciliations and as per the Maximise System**

OAG noted significant differences in the cash book balances as per the bank reconciliations and cash book balances as per the Maximise system for the two main accounts SIG Creditors and SIG Revenue for financial years 2004, 2005 and 2006. These accounts are operated and administered by the Ministry of Finance and Treasury. As a result the bank balances in the general ledger for 2004, 2005 and 2006 will not be accurate and reliable and the SIG financial statements for these years will not also be accurate and reliable.

**7. No Evidence that Bank Reconciliations for SIG Revenue and Creditors Were Performed Daily**

Financial Instruction 397(2) requires bank reconciliations be done daily for the SIG Revenue and SIG Creditors accounts as bank statements were received daily. OAG could not however determine whether this was done as evidence of daily reconciliations were not available. OAG however noted that there are records to evidence that the reconciliations were performed monthly. Documentation of reconciliations provides vital information for management decisions and also provides an audit trail necessary for OAG to be able to substantiate the correctness of year-end bank balances. Without complete and documented reconciliations being performed frequently and within a few days of each statement date, there is a high risk that fraud or theft may occur undetected.

**8. Concern With Use of Some Bank Accounts**

OAG had concerns with some specific bank accounts where not only had bank reconciliations not been performed and cash books prepared, but there was conflict of interest, lack of management oversight, records of payment were missing and/or were for inappropriate payments. During this period some of the Ministries concerned reported officers or former officers to the Police for suspected fraud or theft resulting from lack of oversight of use of Ministerial bank accounts.

**Recommendation 12**

OAG recommended that the Ministries implement the following in order to improve administration and control of bank accounts:

- Monitor administration of bank accounts to ensure that bank reconciliations are performed and cash flow is managed as required under the Financial Instructions;
- Officers responsible for performing bank reconciliations be made accountable for non-performance of bank reconciliations;
- Supervisory review of bank reconciliations to determine accuracy and reliability of reconciliations be required and implemented;
- The Maximise System be upgraded to enable reconciliations by date and to enable re-print of reconciliations previously performed;
- In the meantime, the Ministry of Finance and Treasury to ensure that hard copies of all reconciliations are printed as soon as it is performed and maintained for audit purposes; and
- The Ministry of Finance and Treasury to organize basic training on the contents of the Financial Instruction for its accounting staff at headquarters, its various departments, divisions and provinces.

**3.2.4 Management Response**

Each Ministry agreed with the audit recommendations and provided an Audit Action Plan to implement the recommendations.

**3.2.5 Summary of Results by Ministry**

The following table summarises which of the eight audit findings above relate to each Ministry:

<b>Ministry</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Agriculture & Lands	X	X						
Finance National Reform and Planning	X		X	X	X	X	X	
Foreign Affairs Commerce & Tourism	X	X						X
Governor General	X			X				
Health & Medical Services	X		X	X				
Infrastructure Development	X	X		X				
Natural Resources	X			X				X
Police National Security & Justice	X	X		X				
Prime Minister & Cabinet & the Public Service	X	X		X				
Provincial Government, National Reconciliation and Peace and Home Affairs	X			X				X

### **3.3 Procurement and Expenditure**

#### **3.3.1 Background**

Most purchasing is conducted through Local Purchase Orders (LPOs) through the Ministries. These purchase orders were tested in conjunction with expenditure testing. The procurement audit concentrated on larger purchases and expenditure with emphasis on probity and propriety and compliance with applicable legislative requirements.

The emphasis of the procurement audit was on purchases over \$50,000 and whether the supplier selection decisions were transparent and in accordance with prescribed requirements. Purchases over \$500,000 were tested in an audit of the Central Tender Board within the Ministry of Finance.

An analysis by a consultant<sup>1</sup> identified that the greatest volume of transactions of purchasing by SIG is under \$50,000. According to the Financial Instructions 2004, the purchase decisions for these should be based on 3 quotations. Purchases over \$50,000 should go to tender through the Ministerial Tender Board and over \$500,000 is required to go to the Central Tender Board.

Expenditure payments are processed centrally in the Ministry of Finance and Treasury from source documents prepared by the Ministries.

The principal objective of the audit was to review the adequacy of processes for the procurement and payment of goods and services by each Ministry and assess compliance with Financial Instructions, Public Finance & Audit Act and Stores Instructions (if applicable).

#### **3.3.2 Conclusion**

OAG noted that the Ministries poorly managed the documentation and maintenance of the tender process and tender documents and also breached critical provisions of the Financial Instructions (FI) relating to Procurement of goods and services. OAG noted a number of large purchases which were not assessed by the Ministerial Tender Board (MTB) or the Central Tender Board (CTB) as is required by the Financial Instructions. Also, OAG noted a number of purchases which were split into smaller units. These purchases should have been treated as combined purchases and assessed by the MTB or CTB.

OAG also noted a general lack of control over payments. A significant portion of the sample selected to audit could not be verified further to determine their validity and correctness as neither the original nor the copies of the payment vouchers and supporting documents were available for audit.

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<sup>1</sup> PFTAC Consultancy on Financial Instructions October 2006 (Analysis of 2005 Payments)

The lack of adherence to the Financial Instructions has led to the risk of inadequate value for money, poor quality of goods or services, non-delivery of goods or services and fraud or corruption in purchases and payments. Some of the special audit investigations reported in later sections were of transactions for which the Financial Instructions were not adhered to, which allowed the inappropriate transactions to occur.

### **3.3.3 Key Findings**

The process to issue, manage and monitor procurements and expenditure is inadequately controlled with little or no regard for the requirements of the Financial Instructions. A summary of the audit issues identified is summarised below:

#### **Procurement**

##### **1. Documentation of Tender Process and Maintenance of Procurement Documents Poorly Managed**

For a large proportion of the sample selected to audit, there was no documentary evidence to indicate that tenders were called for procurement of goods and services in excess of \$50,000 in 2004, 2005 and 2006 as required under Financial Instruction 519 (4). Tender advertisements and applications were not sighted. Also, evidence that tenders were opened and evaluated by the MTB was not always available. Improper tendering process can result in goods and services procured without due regard to value for money. Also quotations could be obtained from related companies and public funds can possibly be diverted or misused for personal gains.

Some Ministries stated that the tenders for construction and civil works were processed and evaluated by the Ministry of Infrastructure and Development (MID) MTB. Although the Ministry controlled the Budget, it was not involved in the tender process, the Ministry was only involved when MID sent the Progress Certificates to the Ministry for payments. The Ministry therefore assumed that all tenders for construction and civil tenders should be done by MID.

The Secretary of the MTB for MID advised OAG that it has always been the practice and is still the current practice that at the request of the Ministries the MTB for MID processes, evaluates and approves all government tenders for construction and civil works. MID also supervises and certifies progress of the works and sends Progress Certificates to the respective Ministries for payment. The Ministries are not involved in the tender process.

OAG however noted that the Financial Instructions do not state that the MTB for MID should be responsible for processing and evaluating tenders for construction and civil works. It does however specify that prior to the award of any contract, the appropriate technical officer will submit a written report on each tender with his recommendation to the Board for acceptance, the report will advise the Board on the details of each tender (FI 529 (1)).

The Ministries need to discuss and clarify with MID and Ministry of Finance and Treasury responsibilities for processing, evaluating and approving tenders for other Ministries construction and civil works, where the funds for the works are in the Ministry's Budget and not MID's. The Permanent Secretary of each Ministry is the Accounting Officer for the Heads of Expenditure for his Ministry.

## **2. Order Splitting to Avoid CTB or MTB Approval**

OAG noted a number of instances where purchase orders were processed in a manner which suggests they were split to avoid greater scrutiny by the MTB or CTB. There were a number of orders placed for amounts under a threshold where there were two or more orders placed with the same supplier on the same day from the same Ministry. In many of these cases the order numbers were sequential.

OAG is concerned at the incidence of this practice as it may indicate some officers are attempting to avoid a competitive bidding process in order to place orders with family or in order to obtain a kickback from the supplier.

## **3. Lack of Proper Competitive Bidding Process and Assessment**

OAG noted that some ministries made large purchases which were not advertised, received and evaluated by the CTB but by the Ministry Tender Opening Panel, defeating the purpose of having a CTB and in breach of Financial Instruction 527(3) and 528(1). This can result in goods and services procured without due regard to value for money and increases the risk of possible corruption, misuse or theft of public funds.

OAG also noted instances where purchases over \$50,000 did not go to the MTB as required by the Financial Instructions. In some cases there was no evidence of any competitive bidding process at all.

## **4. Ministerial Tender Board Administration**

MTBs were not administered in accordance with the Financial Instructions in some Ministries. OAG noted the following:

- MTB was not chaired by the Permanent Secretary and/ or the Permanent Secretary was not a member of the MTB;
- Minutes of meetings were not available;
- Minutes of meetings were not recorded in sufficient detail to include whether all members were present when the tenders were opened, reasons for decisions, etc.

Non-compliance with Financial Instructions relating to MTB membership and documentation of meeting minutes increases the risk of possible corruption, misuse or theft of public funds.

## Central Tender Board

### 5. Inadequate Records at CTB

The signed Minutes for the Central Tender Board for 2004 and 2005 have not been retained on a file but kept on the Secretary's laptop. Furthermore, the 2006 Secretary keeps minutes in electronic form as well. A folder of the signed versions was kept but it was missing when the audit was conducted. The lack of minutes to support key decisions by the Board increases the risk of fraud. OAG noted that the signed Minutes were currently with Internal Audit and the CTB Secretary would provide them to audit shortly.

Opening and Awarding of Tenders includes a process that requires a listing prepared by a tender board and a written report with recommendation for acceptance, respectively. For 2004 and 2005 there was no documentation to support the opening and awarding of Tenders. The lack of accountability and transparency increases the risk that tenders awarded did not follow an equitable or fair process.

## Expenditure

### 6. Payment Vouchers and Supporting Documents not Available to Audit

Original payment vouchers and supporting documents for payments in 2004, 2005 and 2006 were not available to audit. The 2004 vouchers and supporting documents were filed haphazardly at the Ministry of Finance and Treasury without any order making it very difficult for OAG to locate the entire sample selected to audit. OAG noted a strong trend towards improvement in availability of documentation. However the rate at which documents could not be located for 2006 was still excessively high.

OAG could not therefore determine whether these expenses were genuine and incurred in accordance with SIG Policies and Financial Instructions. The Ministry of Finance and Treasury and the line Ministries are not able to demonstrate accountability and transparency of decision making which is a basic tenet of public administration. Further, the absence of a proper records management system will result in Ministries not being able to find information/records quickly when needed and information/records being lost or destroyed when it is still needed. There is a significant risk that fraud, error or corruption may occur and not be detected if proper records are not kept as required. Without sufficient supporting documentation there is a risk of money being misappropriated. The legitimacy of expenditure is unsubstantiated as there are insufficient documents such as requisitions and payment vouchers to confirm verification, approval and authorisation by the delegated officers to substantiate the payment.

## **7. Control Weaknesses in the Processing of General Payment Vouchers**

OAG noted control weaknesses when processing general payment vouchers. Vouchers were not counter-signed as evidence that they were checked before payment. Some Ministries did not ensure to obtain from Ministry of Finance & Treasury “PAID” copies of Vouchers. The Ministry could not therefore match the “PAID” copy with the copy originally held as required under FI 243. The Ministries do not keep a record of authorised officer’s specimen signatures.

OAG noted in some Ministries lack of segregation of duties in that some officers signed as both authorised purchasing officer and authority to incur expenditure. In some cases officers signed as the authority to incur expenditure when they were not in fact delegated to do so.

In some construction contracts there was no independent certification that works had been completed to the stage for which payment was claimed.

There were several instances noted where payments were made for unusual items such as third party legal fees or compensation for alleged damage which did not have adequate documentation for the reasoning for the payment on file.

OAG noted isolated instances of payments based on copies of invoices, rather than the original. OAG also noted instances where items were purchased which had not been provided for in the budget.

## **8. Ministry Vote ledgers (Commitment Cards) Not Recorded for all Expenditure**

Some Ministries did not update the Commitment Cards for some payments. This is in breach of Financial Instruction 220(1) and results in inaccurate information recorded on commitment cards and the risk of over expenditure.

## **9. No Reconciliation of Ministry Vote Ledgers (Commitment Cards) and Treasury General Ledger Reports**

Some Ministries did not obtain Treasury ledger printouts or reports from Ministry of Finance and Treasury. Reconciliations of the Ministry Vote Ledger and Treasury’s Ledger Reports were not therefore performed. Non-performance of reconciliations between the Vote Ledger and the Treasury Ledger will result in the Ministry not being able to determine whether Treasury has recorded accurately and completely the Ministry’s commitments and results in the risk of over-expenditure.

**Recommendation 13**

OAG recommended that the Ministries implement the following key recommendations:

- Improve records management system for Tenders and ensure that all documentary evidence relating to advertisement of the tender, opening of the bids, technical evaluation and deliberations and decisions of the Board as per the signed Minutes are properly filed for future reference and audit trail;
- All Tenders to be managed in accordance with FI 523, 524, 525 (2), 528, and 529;
- Supporting documentation for procurement and expenditure be located and made available to OAG in accordance with Government Records Management Policy and other regulations; and
- Financial Instruction 630 states “*Any Accounting Officer who fails to obey these Financial Instructions is guilty of misconduct in office and will be subject to disciplinary action*”. The Ministries should consider disciplinary action according to this Financial Instruction.

Ministry officers should be reminded of Section 22 of the Public Finance and Audit Act, that the Minister may surcharge a person who is or was a public officer if he or she “(a) *has failed to collect any moneys owing to the Government, the collection of which he is or was responsible; and (b) is or was responsible for improper payment of public moneys or for any payment of such moneys which is not duly vouched; (c) is or was guilty of negligence or misconduct in relation to any deficiency in or for the destruction, damage or loss of any public moneys, stamps, securities, stores or other Government Property; or (d) is or was responsible for causing any financial loss to the Government through failure to obey any order or instructions properly given or issued to him.*”

**3.3.4 Management Response**

Each Ministry agreed with the audit recommendations and provided an Audit Action Plan to implement the recommendations.

**3.3.5 Summary of Results by Ministry**

The following table summarises which of the nine audit findings above relate to each Ministry:

<b>Ministry</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
Agriculture & Lands	X		X			X	X		X
Education & Human Resource Development	X	X		X		X	X		
Finance National Reform and Planning	X			X	X	X	X	X	
Foreign Affairs Commerce & Tourism	X		X			X		X	
Governor General			X			X			
Health & Medical Services	X	X	X	X		X	X		X
Infrastructure Development	X		X	X		X	X	X	
Natural Resources	X		X	X		X	X	X	
Police National Security & Justice	X		X	X		X	X	X	
Prime Minister & Cabinet & the Public Service	X	X		X		X	X		
Provincial Govt, National Reconciliation and Peace and Home Affairs	X		X	X		X	X		

## 3.4 Assets

### 3.4.1 Background

Section 38 of the Public Finance and Audit Act requires that the National Accounts include a Statement of Assets and Liabilities. However the assets disclosed in this Statement include only bank accounts, imprests, advances and investments.

OAG summarised from the Accounting General Ledger the possible Fixed Assets that were procured in 2004, 2005 and 2006:

<b>Ministry</b>	<b>2004 \$</b>	<b>2005 \$</b>	<b>2006 \$</b>	<b>TOTAL \$</b>
Agriculture & Lands	2,185,662	3,348,209	7,389,612	12,923,483
Education & Human Resource Development	266,141	686,838	543,573	1,496,552
Finance National Reform and Planning	822,994	860,212	6,659,570	8,342,776
Foreign Affairs Commerce & Tourism	727,696	595,220	1,755,274	3,078,190
Governor General	121,345	37,854	74,163	233,362
Health & Medical Services	1,069,254	2,340,489	4,579,427	7,989,170
Infrastructure Development	3,875,268	3,548,784	7,767,805	15,191,857
Natural Resources	439,784	1,407,275	2,233,924	4,080,983
Police National Security & Justice	5,698,431	5,600,999	2,244,894	13,544,324
Prime Minister & Cabinet & the Public Service	431,441	678,498	530,008	1,639,947
Provincial Government, National Reconciliation and Peace and Home Affairs	709,947	781,323	1,137,482	2,628,752
<b>TOTAL</b>	<b>16,347,963</b>	<b>19,885,701</b>	<b>34,915,732</b>	<b>71,149,396</b>

This summary highlights the value of assets purchased annually is increasing, therefore it is of paramount importance that good controls and recording systems are in place to capture assets purchased to prevent the risks of theft and fraud, and to facilitate an asset management strategy.

The principal objective of the audit was to review the adequacy of processes and controls relating to assets held by each ministry and assess compliance with Financial Instructions, Public Finance & Audit Act and Stores Instructions (if applicable).

OAG auditors conducted interviews with the Chief Accountant and relevant senior officers at the Ministry to assess actual processes for the recording and monitoring of Assets and selected a sample of assets to sight for existence including Motor Vehicles.

The audit coverage was for the financial years from 2004 to 2006.

### **3.4.2 Overall Conclusion**

OAG could not locate a significant proportion of assets which had been purchased during 2004, 2005 and 2006. Of the sample OAG selected for examination, many assets could not be identified due to lack of detail on the invoice and payment documentation. Of the remainder of the sample of assets purchased during 2004 to 2006, OAG could not locate assets to a total value of \$2,187,679.

OAG noted that there are no controls in place within Ministries in relation to safeguarding, recording or monitoring assets. This not only is a breach of Financial Instruction 581(2) but the lack of an assets management process increases the risk of theft, misuse of assets and a potential loss of funds to SIG.

### **3.4.3 Key Findings**

The process to record and maintain an asset register does not exist and a summary of the audit issues identified is listed below:

#### **1. Lack of an Assets Register, Assets Policy and Assets Management**

OAG noted that there is no central or divisional record of assets that exist in any of the Ministries, with the exception of the Ministry of Infrastructure Development (MID). MID is required to keep a record of all government vehicles. However, OAG noted that this register is incomplete with many vehicles not recorded at all. MID advised that often vehicles are collected by the allocated Minister or officer direct from the supplier, which does not allow MID to make the appropriate records and to monitor the allocation of vehicles.

Ministries did not have an assets policy and did not conduct asset stocktakes. The lack of assets registers and stocktakes has contributed to the extent of “missing” assets that OAG noted which is reported below.

Given that the estimated total value of assets purchased has increased since 2005 from approximately \$16million in 2004 to \$34million in 2006, it is important that these assets are recorded, monitored and secured to prevent theft and misuse. Breach of Financial Instructions and lack of an assets policy to secure valuable assets increases the risk of theft and loss of funds to SIG.

## 2. Assets Could Not Be Located

A significant value of assets could not be sighted or located by OAG in every Ministry as a result of the following:

- (a) Claims that the supplier has not delivered the assets;
- (b) Officers had taken the asset home to use (particularly in the case of laptops);
- (c) Officers had kept the asset when they left employment or were transferred;
- (d) Assets simply could not be located;
- (e) Assets which have been sent to provincial locations (OAG did not visit these locations). However there was no documentation to demonstrate that the assets had been sent to another location, nor that an officer at that location had received and taken responsibility for the asset;
- (f) Claims that assets had been stolen, but the matters had not been reported to the Police, Ministry of Finance and Treasury or OAG; and
- (g) Claims that assets had broken or been destroyed. However, there was no correspondence to the Ministry of Finance requesting the approval to write off the item or record it as a Loss.

In a number of cases the original payment vouchers and supporting documents for assets purchased were not available at the Ministry of Finance and Treasury. OAG could not therefore obtain the required details to be able to verify physical existence of the assets.

The lack of controls over the security of assets increases the risk of theft resulting in a loss of SIG funds.

### Recommendation 14

OAG emphasised the need for an assets management strategy to ensure the Ministry's assets are secured from theft or misuse. OAG's key recommendations are to:

- Immediately undertake a stock take of all assets to develop an accurate and up to date assets register of all assets that exist within the Ministry. The assets register should include details such as:
  - Date of original purchase
  - Amount or value of original purchase
  - Details of type, make, model and any serial numbers
  - Estimated useful life of the asset
  - Location that the asset is held

This stock take will also highlight any assets that have been stolen, lost, destroyed or simply do not exist.

- Establish an Assets Policy which amongst other things details the process to follow for disposal of obsolete or old assets.

### 3.4.4 *Management Response*

Each Ministry agreed with the audit recommendations and provided an Audit Action Plan to implement the recommendations.

### 3.4.5 *Summary of Results by Ministry*

The following table summarises which of the two audit findings above relate to each Ministry:

<b>Ministry</b>	<b>1</b>	<b>2</b>
Agriculture & Lands	X	X
Education & Human Resource Development	X	X
Finance National Reform and Planning	X	X
Foreign Affairs Commerce & Tourism	X	X
Governor General	X	
Health & Medical Services	X	X
Infrastructure Development	X	X
Natural Resources	X	X
Police National Security & Justice	X	X
Prime Minister & Cabinet & the Public Service	X	X
Provincial Government, National Reconciliation and Peace and Home Affairs	X	X

## 3.5 Revenue

Each Ministry which collects government revenue have differing types of revenue to collect under a variety of legislation. As there is less commonality in revenue than in expenditure systems, each ministry has different processes for determining the amount of revenue to be collected. Therefore the revenue systems which were examined by OAG for the years 2004 – 2006 are reported separately below.

### 3.5.1 *Ministry of Education and Human Resource Development*

The Ministry of Education and Human Resources Development is responsible for administering the Education Act Cap.69., which requires the collection of tuition and boarding fees by the schools established under the Act. The Ministry, in addition to collecting tuition and boarding fees from the two government owned schools, King George VI and Waimapuru Secondary School, also collected the following revenue from 2004 to 2006:

- Exam Fees;
- Medical Fees;
- Trade Testing Fees;
- Research Fees;
- Sale of Education Materials; and
- NZ Government Budget Supplement

The NZ Government Budget Supplement is an annual aid of \$40million provided by the New Zealand Government from 2004 to 2006 as budget support for education.

#### **Scope and Objective**

The principal objective of the audit was to review the adequacy of processes and controls relating to the collection of revenue by the Ministry of Education and Human Resources Development and assess compliance with Financial Instructions and the Public Finance & Audit Act.

The audit was confined to the review of processes and controls relating to the collection of tuition and boarding fees for the two government owned schools and the NZ Aid Budget Supplement and covered financial years 2004 to 2006.

#### **Conclusion**

In addition to school fees received from the government schools, the Ministry also collected annually since 2004 substantial sums of revenue in the form of aid from the New Zealand Government to help fund the Education Reform Programme in the country. It is important that the amount of NZ Aid received by the Ministry is correctly reflected in the General Ledger as its understatement and/or overstatement can materially affect the reliability and accuracy of the National Accounts. OAG noted that as at the date of the audit in January 2008, the NZ Aid funds received by the Ministry were not correctly recorded in the 2006, and 2004 General Ledger. The National Accounts for the respective years will not be therefore reliable.

Also, the processes for banking and maintenance of important records, such as receipts and bank deposit slips need to be improved. School fees collected in cash were paid over to the Ministry of Finance and Treasury at irregular intervals. Copies of receipts which should be attached to the Revenue Collectors cash book at the Ministry of Finance and Treasury could not be located and neither could the book copies be located as the receipt books were not also available for audit. The accuracy of the fees received as recorded in the cash book and in the general ledger could not be therefore substantiated.

## **Key Findings**

The controls for recording and maintaining important records such as receipts, revenue collectors cash books and bank deposit slips needs to be improved. A summary of audit issues identified is listed below:

### **NZ AID BUDGET SUPPLEMENT**

#### **1. NZ Aid Fund Receipts Not Accurately Reported in the General Ledger**

OAG noted that as at the date of audit in January 2008, the New Zealand Aid Fund account as per the General Ledger was overstated in 2006 by \$1,799,950 and understated in 2004 by \$4,808,174. Since the General Ledger does not correctly reflect the total aid funds received by the Ministry in 2006 and 2004, the total SIG Revenue disclosed in the National Accounts for the respective years will be understated by the amount that was received and not reflected in General Ledger.

### **SCHOOL FEES**

#### **2. Receipts Cannot Be Located**

The accuracy of school fees accounted in the 2004, 2005 and 2006 cash books and in the General Ledger could not be determined as OAG could not locate some of the sample receipts selected to audit. The used receipt books which contain the book copies retained inside could not be located and neither could OAG locate the duplicate of the receipts which should be attached to the original Revenue Collectors Cash book kept at the Ministry of Finance and Treasury. Therefore OAG was unable to determine whether the General Ledger for 2004, 2005 and 2006 accurately reflects the school fees received.

#### **3. Cash Paid Over to Ministry of Finance and Treasury at Irregular Intervals**

OAG noted that cash collected by the Ministry and paid over to the Ministry of Finance and Treasury for banking was delayed for 4 to 7 working days in respect of 3 out of the 15 sample receipts selected to audit. Cash is susceptible to misappropriation or theft. If it is not banked within 4 to 7 working days from the date it was received, it increases the risk of misappropriation or theft.

#### 4. Bank Deposit Slips Not Attached to Cash Book and Receipts

Bank deposit slips were not attached to the Ministry Revenue Collectors Cash books kept at the Ministry of Finance and Treasury as evidence that the fees collected from the Ministry had been banked. There is a significant risk that fraud, error or corruption may occur and not be detected if proper records are not kept as required.

##### **Recommendation 15**

OAG emphasised the need for immediate improvement in the processes of recording and maintenance of important records relating to the collection of revenue within the Ministry to reduce the risk of inaccurate reporting and non-detection of theft, misuse or fraud. OAG's key recommendations were:

- The Ministry obtain quarterly from the Ministry of Finance and Treasury, the General Ledger transaction report for the NZ Aid Budget Supplement revenue account and reconcile it to the receipts as per the bank statement for the Education Sector Investment Reform Programme/NZ Account no. 4208461 with ANZ. Any understatement and overstatement in the General Ledger be reported to the Ministry of Finance and Treasury for adjustment;
- Ministry of Finance and Treasury to collect and bank daily cash received by the Ministry for school fees; and
- The Ministry ensure that cash yet to be banked and held overnight be kept in a securely locked cashbox inside a securely locked filing cabinet.

##### **Management Response**

The Permanent Secretary Education and Human Resource Development provided a detailed Action Plan which provided for all of the recommendations to be implemented.

### 3.5.2 *Ministry of Finance and Treasury*

#### **Background**

The Ministry of Finance and Treasury (the Ministry) collects revenue through three major units:

- Central Revenue Collection (CRC)-Honiara
- Custom & Excise – Honiara, Noro and Gizo Revenue Collection points
- Internal Revenue Division (IRD) – Honiara, Auki and Gizo Revenue Collection points

The Central Revenue Collection (CRC) Unit is a division within the Ministry of Finance and Treasury with the main purpose to collect, receipt and bank revenue from customers and clients for payments of various taxes, licences, fees and charges imposed by the Government. There are two cashier desks located at the Ministry of Treasury and Finance, one for CRC and the other is for IRD for the collection of government taxes.

The following Ministries have cashiers within their Ministry to collect revenue. Each Ministry issues a receipt but the monies are all sent or collected by CRC to deposit within the SIG Revenue Bank Account; Education, Health, Infrastructure & Development, Lands, Housing and Survey, Aviation, Fisheries, Magistrates and the High Court.

The following is a summary of the estimated revenue that was collected within this Ministry based on the figures recorded as actuals for each respective year:

<b>Year</b>	<b>Total Estimates \$,000</b>
<b>2004</b>	472.8
<b>2005</b>	569.3
<b>2006</b>	710.9
<b>Total</b>	<b>1,753.0</b>

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

The principal objective of the audit was to review the adequacy of processes for the collection of revenue and to determine whether it has been properly accounted for in accordance with the relevant orders, regulations and legislation by the Ministry of Finance and Treasury (the Ministry), particularly within the CRC and IRD Units.

The audit coverage was for the financial years from 2004 to 2006 and included the processes for the Honiara based CRC and IRD collection units.

## Overall Conclusion

OAG noted that this Ministry plays a vital and important role through the centralised receipting processes at the CRC and IRD Unit. Therefore it is important that all revenue collected is captured and accounted for. However the controls over revenue processes exist are weak and this needs to be improved immediately. These weaknesses are not only a breach of some provisions of the Financial Instructions but increase the risk of theft, misuse of funds and potential loss of funds to SIG. Further, the weaknesses in internal control and a lack of availability of documents are so severe that the Auditor-General will not be able to certify that revenue recorded in financial reports is complete and accurate.

## Key Findings

The main audit issue identified within this Ministry is summarised below:

- **Inadequate Processes At Central Revenue Collection Unit and IRD Cashier**

The following serious weaknesses were identified within the CRC and IRD collection units in relation to collection and receipting of revenue:

- Cashbooks, receipts and bank deposit slips were not available for all revenue received. In particular \$1.2million revenue received for gaming and lotteries for Ministry of Home Affairs could not be verified to receipts, cashbooks or deposit slips which should have been filed at CRC unit;
- No central record or registry of all receipt books used or unused by CRC and IRD;
- Lack of segregation of duties for IRD cashiers;
- Lack of checking balancing of cash book for revenue totalling \$77,865 in 2006;
- Delay in banking of monies received; and
- An alleged fraud totalling \$2.7million was identified by IRD in 2007. A special audit investigation highlighted weaknesses in the CRC unit whereby staff did not ensure receipts and cash received are balanced.

Record keeping, monitoring and verification of revenue collected are core functions of the CRC and IRD units in determining the correct amount of revenue received by SIG. This lack of internal controls increases opportunities for misappropriation, theft and substantial loss of public monies. Furthermore it is difficult to substantiate the revenue receipted and recorded in the Accounting General Ledger by the Ministry of Finance and Treasury.

**Recommendation 16**

OAG emphasised the need for immediate improvement in the processes of collection and recording revenue within CRC and IRD collection units to reduce the risk of theft, misuse or fraud and to ensure the accuracy and reliability of financial reporting. OAG's key recommendations to improve cash collections were to establish a good records management system to file and retain all accounting records such as receipts, receipt books, cashbook, bank deposit slips, according to the Government Records Management Policy:

- Ensure monies received are banked in a timely manner;
- Establish a Receipts Book Register to account for all used and unused receipt books; and
- Ensure segregation of duties between collection/receipting of revenue, banking, reconciliations and general ledger data entry.

**Management Response**

The supervising Permanent Secretary for Finance and Treasury provided a detailed Action Plan to implement the audit recommendations.

### **3.5.3 Ministry of Natural Resources**

#### **Background**

The Ministry of Natural Resources is made up of the following Departments which collected estimated revenue in 2006 totalling \$39,085,404<sup>2</sup>:

##### *Department of Forestry, Environment and Conservation*

This Department promotes the utilisation, conservation and sustainable management of forest resources for the continuing benefit to the environment and people of the Solomon Islands.

##### *Department of Fisheries and Marine Resources*

The fisheries sector which is almost exclusively tuna makes an important contribution to the national economy. The major objective of this Department is to ensure the nation's realisation of its maximum revenue capture, derived from these resources through its commercial fisheries activities, both at the national scale, as well as the provincial and rural scale.

##### *Department of Mines and Energy*

This Department develops and manages the natural non-living resources of Solomon Islands for the social and economic benefit, advancement and well-being of the people of Solomon Islands.

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

The principal objective of the audit was to review the adequacy of processes for the collection of revenue and that it has been properly accounted for in accordance with the relevant orders, regulations and legislation by the Ministry of Natural Resources (the Ministry).

According to our analysis of revenue collected during these years, the main source of revenue comprised of fishing licence fees and forestry timber royalties, hence, we focused our audit in this area.

The audit coverage was for the financial years from 2004 to 2006.

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<sup>2</sup> Source of information : "SIG Year 2006 Approved Recurrent Estimates"

## Overall Conclusion

OAG noted that within this Ministry the main source of revenue is from fishing licences and timber royalties therefore it is important that all revenue collected is captured and accounted for. However, the collection of revenue processes that exist are weak and this needs to be improved immediately. These weaknesses are not only a breach of some provisions of the Financial Instructions but increase the risk of theft, misuse of funds and potential loss of funds to SIG. Furthermore the SIG accounting records are not up date and therefore the financial accounts will not be complete. Also significant sums of money are not banked and therefore not available to be used in providing government services.

## Key Findings

A summary of the audit issues identified is below:

- **Collection Process of Fishing Licence Fees Is Inadequate**

There are many shortcomings and non compliances with Financial Instructions in relation to revenue collection for Fishing Licence Fees such as receipts are not issued in a timely manner, some telegraphic transfer documents could not be found, no register of receipt books, untimely completion and balancing of cashbook with monies received and cash not securely locked away at all times. Given that the fishing sector make an important contribution to the national economy it is imperative that the revenue collection processes are adequate to ensure cash and cheques are accounted for and to reduce the risk of theft and fraud.

- **Lack of Assurance over Completeness of Timber Royalty Revenue**

OAG noted that there are no proper records maintained for receipting of royalty payments within the Ministry. This lack of monitoring and poor record keeping and not being able to identify outstanding timber royalties increases the risk of fraud and unaccounted SIG funds. This is an audit issue that was raised in a special audit report tabled in parliament in 2005 and the situation has not changed.

**Recommendation 17**

OAG emphasised the need for immediate improvement in the processes in the collection of revenue within the Fisheries and Timber Royalties division to reduce the risk of theft, misuse or fraud. OAG's key recommendations to improve cash collections were:

- Establish a good records management system to file and retain all accounting records according to the Government Records Management Policy;
- Ensure cash and cheques received and not yet banked are kept in a securely locked cashbox or filing cabinet;
- The Ministry consult with the Ministry of Lands, Housing and Survey to determine who is responsible for the completeness and monitoring of Timber Royalties; and
- Upon consultation with the Ministry of Lands, Housing and Survey, if the Ministry of Natural Resources are to be responsible for revenue collection of Timber Royalties then ensure that proper accounting records are maintained to gain assurance over the completeness of revenue.

**Management Response**

The Permanent Secretary of Fisheries and the Permanent Secretary of Forestry each provided detailed action plans to implement all of the audit recommendations.

### ***3.5.4 Ministry of Provincial Government, National Reconciliation and Peace and Home Affairs***

Commercial Gaming and Commercial Lotteries and administering of Citizenship applications are governed by the Gaming and Lotteries Act, CAP 139 and Citizenship Act 1978, of the constitution. The Ministry of Home Affairs is responsible for administering these Acts through the Citizenship Commission and Gaming and Lotteries Board. Fees charged for services provided are stipulated under the Citizenship Act and Gaming and Lottery Act, CAP 139. There are only two registered companies operating commercial gaming (casinos) in the entire Solomon Islands. These are Honiara Casino and Supreme Casino.

The non-existence of Inspectors and the Board's inactivity pose a high risk of understatement and unaccountable revenues. It is of paramount importance that good controls and recording systems are in place to ensure revenues earned have been properly accounted for to prevent the risks of understatement, theft and fraud.

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

The principal objective of the audit was to review the adequacy of processes and controls relating to revenue receipted by the Ministry of Home Affairs (the Ministry) and assess compliance with Gaming and Lottery Act, Financial Instructions, Public Finance & Audit Act. The audit coverage was for the financial years from 2004 to 2006.

#### **Overall Conclusion**

OAG noted that the Ministry of Home Affairs needs to take a proactive role to carry out its responsibilities as required by the Gaming and Lotteries Act. The non existence of Inspectors and the Boards inactivity in recent years poses a high risk of understatement and under-receipt of revenue due to the government.

#### **Key Findings**

The process to record and maintain levies due to the government does not exist and a summary of the audit issues identified is listed below:

- **Functions and Appointment of the Gaming and Lotteries Board**

There are some inconsistencies with the functions and appointment of the Board members as required by section 19 and 20 of the Gaming and Lotteries Act, CAP 139. The Board's poor compliance in relation to the Gaming and Lotteries Act and lack of prompt action to ensure the Minister appoints Inspectors and carries out its function contravenes the Board's purpose of existence.

- **Appointment And Powers Of Inspectors**

The lack of appointment of Inspectors resulted in non-performance of the Board's statutory functions required by section 23 of the Act. In past years it was noted that Inspectors were financially illiterate and lacked understanding of how the gaming machines operate which resulted in non inspection and monitoring on a regular basis. This has increased the risk of the Ministry under receiving the levies properly due.

- **Lack Of Cashbook, Receipts and Bank Deposits Records At Treasury**

In 2004 audit could not verify the total revenue of \$1,256,796.35 from gaming and lotteries as there were no receipts, cashbooks and bank deposits available for audit verification. This is due to misplacement and poor storage of records by the Ministry of Finance and Treasury. This made it difficult to substantiate the revenue recorded in the General Ledgers.

**Recommendation 18**

OAG recommended that the Minister review the Gaming and Lotteries Board to ensure it performs its statutory functions, including appointing qualified and knowledgeable Inspectors which are of paramount importance.

**Management Response**

The Permanent Secretary, Home Affairs provided a detailed action plan to implement the recommendations and advised that Board members and a Principal Inspector have been appointed and that regular inspections have been scheduled.

## **3.6 Staff Advances**

### **3.6.1 Background**

There are two types of advances – Personal/Salary Advances and Casual Payments Advances which are both a liability of the officer applying for it and shall be recovered by deduction from salary or wages.

Personal/Salary Advances are granted for the following:

1. On compassionate grounds such as serious illness of officers parents, spouse or children or unexpected domestic calamity or other personal circumstance which the officer could not have foreseen and therefore has not been able to provide for;
2. When proceeding on annual leave; and
3. To contribute towards the cost of an air passage for the spouse of the officer who is on a course of instruction overseas for a period of 12 months or more.

Casual Payments Advances are commonly from:

1. Salary/Wages Authority forms (or SA Forms) for new appointments being received after pay run cut off;
2. SA Forms for allowances being received after pay run cut off (Overtime, Charge Allowance, Acting Allowance and Responsibility Allowance);
3. Annual leave application being received after pay run cut off and officer proceeding on leave before the next payday;
4. Leave conversion – when an officer is recalled from leave and chooses to be paid out for the leave rather than have the leave recredited;
5. Recall salary – where the deposit of an officer’s salary is rejected by the bank; and
6. Omission of Salary – where for an inexplicable reason Telepay Payroll System drops a pay out of the system.

The principal objective of the audit was to review the appropriate supporting documentation for expenditure and recoveries of advances and assess compliance with Financial Instruction for Advances being Chapter 13.

The audit coverage was for the financial years from 2004 to 2006.

### **3.6.2 Conclusion**

Advances are moneys provided to government bodies or public servants as short term loans and the increase in Advances emphasises the need for adequate internal controls to monitor these transactions.

### 3.6.3 *Key Findings*

The process to issue, manage and monitor advances is inadequately controlled. A summary of the audit issues identified are below:

- **Lack of Supporting Documentation for Advances**

OAG noted for 2004 the lack of documentation to support advances. The Ministry has breached the Government Records Management Policy and specific paragraphs of the Financial Instructions, as the supporting critical records and information which were requested by OAG were not produced for audit. Furthermore, without sufficient supporting documentation there is a risk of money being misappropriated.

- **No Reconciliation of Advance Control Accounts**

No monthly reconciliations have been carried out for the Advance Control Accounts which is in breach of Financial Instruction 365(1) which requires that these advance accounts are checked regularly, at least once a month. Non-performance of monthly reconciliations results in monies not recovered which is a loss of funds to Solomon Islands Government and increases the risk of misappropriation.

#### **Recommendation 19**

OAG's key recommendations were to:

- Ensure supporting documentation for advances are located and made available to OAG in accordance with Government Records Management Policy and other regulations; and
- Monthly reconciliations of these advance accounts are conducted immediately and continue to be carried out on a regular basis.

### 3.6.4 *Management Response*

The Permanent Secretary Finance and Treasury provided a detailed Action Plan in response to the audit recommendations. He advised that all of the recommendations would be implemented; however, the current computer system for payroll does not provide reports to enable regular reconciliations. The new computer payroll system will provide a basis for regular reconciliation to the General Ledger System.

## 4 RESULTS OF OTHER AUDITS IN MINISTRIES 2006/2007

### 4.1 Ministry of Home Affairs

Until the end of 2006 this Ministry was a Department within the Ministry for Provincial Government, National Peace and Reconciliation and Home Affairs.

	Revenue	Expenditure
Revised 2006 Actual	\$926,989	\$18,165,092
2007 Estimate	\$653,015	\$37,305,732
2008 Budget	\$2,675,000	\$16,646,412

The Key Outputs for the Ministry in 2007 were:

- Strengthened disaster management services;
- Active and strengthened women's participation;
- Strengthened child right development program;
- Strengthened Youth network and mechanism for promotion of youth development;
- Effective electoral and civil registration systems;
- MOU between Government and NGO is established and adopted;
- Sports and recreational development programs and facilities are developed and implemented nationally;
- BID document produced and presentation to the SPG Council.

#### 4.1.1 *Earthquake and Tsunami Disaster Relief Fund*

##### Background

The National Disaster Council (NDC) is the Government's mandatory agency under the Constitution to deal with natural disasters by coordinating and administering relief assistance from the Government and other local and overseas donors. The NDC is a statutory body established in 1989 under the National Disaster Council Act 1989 (the Act).

The National Disaster Management Office (NDMO) is the Secretariat for the NDC. The Provincial Disaster Committees (PDC) are responsible for disaster preparedness in the Provinces. The coordination and administration of disaster relief at the Provincial level is however the responsibility of the Provincial Disaster Committee chaired by the Provincial Secretary.

The NDC formulates its provincial disaster plan with respective Provincial Disaster Committees as required by the Act. NDC is the responsibility of the Minister charged with responsibility for national disaster which in 2007 was the Ministry of Home Affairs. According to the Act the NDC shall establish Provincial Disaster Committees in each province for the purpose of administering this Act at the provincial level.

Following the April 2007 earthquake and tsunami disaster that struck Western and Choiseul Provinces significant assistance was received both in cash and in kind (including materials) from individuals and organisations in the Solomon Islands and international donor governments and agencies.

Cash donations were channelled through the Ministry of Foreign Affairs while other donations were received and deposited directly into the NDMO's operational bank account. Some overseas and local organisations and individuals had facilitated their assistance directly to the victims.

Table 1 Funding and Sources for the Tsunami and Earthquake Relief  
April to December 2007

<b>Donors</b>	<b>Amount \$</b>
SIG 2007 Funds	14,941,095
SIG 2008 Funds	15,000,000
Overseas Donations	9,412,248
Local Donations	338,627
Unidentified Deposits	280,053
<b>TOTAL</b>	<b>39,972,023</b>

A summary of the disbursement of these funds from the accounts for the Tsunami operations for the period April 2007 to December 2007 is shown in the table below:

Table 2 Summary of Disbursements – April to December 2007

<b>BANK</b>	<b>Name of Account</b>	<b>Funds Expended \$</b>
SIG Expenditure 2007	SIG Recurrent Budget	14,941,095
SIG Expenditure 2008	SIG Recurrent Budget	15,000,000
Bank South Pacific	NDC Operation Account (Special Fund)	1,742,611
CBSI	Disaster Relief Special Fund (MOFT)	4,687,917
	<b>TOTAL</b>	<b>\$36,371,623</b>

The above tables include \$15 million approved by Cabinet in January 2008 to be distributed through the Members of Parliament for the Second Phase of the Relief Assistance in relation to the Earthquake and Tsunami Disaster. OAG noted that approximately \$4 million in donated funds are still to be utilised to assist the victims of the earthquake and tsunami.

### **Audit Objectives and Scope**

The principal objective of the audit was to determine how the tsunami and earthquake funds of SBD\$21 million were distributed during the emergency period; in particular, how these funds were used and who the recipients were. Furthermore the \$15 million distributed to Members of Parliament to implement Phase 2, the Recovery Action Plan, was also reviewed to the extent of activity to date but this Phase will require additional audit review later. The audit mainly covered the period April 2007 to December 2007.

### **Overall Conclusion**

OAG identified many weaknesses both in operational and financial aspects within National Disaster Relief which has resulted in poor coordination and planning of the Response and Recovery Action for the 2007 Tsunami & Earthquake Disaster. The inadequate controls over revenue and expenditure resulted in major shortfalls and suspected fraudulent activities. Record keeping was a major concern.

One key weakness highlighted in this report is that the financial management of the funds received was very poor. In particular the majority of the funds were used for logistical reasons, rather than directly to assist the victims in the affected Western and Choiseul areas.

The other key reason why NDC did not operate effectively in carrying out its duties is due to:

- Since the inception of NDC in 1989 the manpower consisted of 2 staff up until April 2007 when the Natural Disaster occurred;
- When the disaster occurred in April 2007 the NDC and NDMO had only the 1987 National Disaster Plan to use. There was no current operational plan established to cater for the 2007 current disaster;
- The lack of staff and resources resulted in an immediate deployment of public officers to Tsunami affected areas (Memorandum dated 5 April 2007). This resulted in many public officers who were not briefed or experienced in disaster relief distributing and assisting but not reporting back to NDMO; and
- There are no written procedures or processes on how to cater for current disasters.

It has been one year since the Earthquake and Tsunami Disaster, and despite the donations and government expenditure of nearly \$21 million, the continued media coverage of complaints from victims and the lack of any infrastructure or new housing or buildings being constructed indicates dissatisfaction by the victims and that nothing significant had been done to assist the victims after the emergency period.

## Key Findings

### Phase 1 - Initial Response

The following is a summary of the funds available as at the end of 31 December 2007. This summary takes into account all other deposits and payments to arrive at the balance of the Bank South Pacific and CBSI bank statements:

BANK	Name of Account	Deposits SBD	Expenditure SBD	Balance per Bank Statement
SIG Recurrent Budget	SIG Recurrent Budget	14,941,095	14,941,095	Not applicable
BSP	NDC Operation Account	3,300,677	1,742,611	1,558,065.73
CBSI	Disaster Relief Special Fund (MOFT)	6,730,250	4,687,917	2,042,333.40
Bank South Pacific	*Western Provincial Disaster Committee A/c	3,583,822	3,574,994	8,828.05
Bank South Pacific	**Choiseul Provincial Disaster Committee A/c	1,203,580	1,129,403	74,177.00
<b>TOTAL FUNDS REMAINING IN BANK ACCOUNTS AS AT 31/12/07</b>				<b>\$ 3,683,404.18</b>

\* WPDC Deposits - includes other deposits in addition to the funds for Tsunami \$3,460,949.

\*\* CPDC Deposits - includes other deposits in addition to funds for Tsunami \$500,000

OAG reviewed each of these accounts and raised audit issues which are detailed in the following

### Recurrent SIG Budget

- **\$7.9 Million Expenditure in Excess of Appropriation**

The original provision for Regional Disaster Relief under the 2007 Recurrent Budget was \$420,000. A Contingency Warrant was approved for \$6,650,000, bringing the total approved budget to \$7 million. However OAG noted the total expenditure up to December 2007 was \$14.9 million, thus resulting in an excess expenditure of \$7.9 million.

- **Review of \$14.9 Million Expenditure from SIG Recurrent Budget**

OAG reviewed the nature of the expenditure for \$14.9 million and highlighted the following audit issues:

- Accommodation (\$356,000) and boat charter (\$473,000) should have been paid and processed through an account called “Other Related Disaster Assistance Costs” to distinguish that these costs were not directly for the victims.
- The charter of a boat MV Bikoi was at a rate of \$60,000 per day which is far in excess of the average cost of \$20,000 per day as set by the Superintendent of Marines.
- A private charter boat was paid \$131,168 for delivering goods, however the goods (15 water tanks) were not delivered but were returned to Honiara.
- Food, rations, bedding and clothing totalling \$1.8 million which are not only attractive items but essential for relief to victims were not properly coordinated or distributed by NDC. This lack of control over distribution and logistics leads to a lack of assurance that victims received the benefit of these goods.
- Overtime claims for \$288,888 are questionable because, under a directive from the Ministry of Public Service, payroll related expenditure should be processed through the normal SIG Payroll process.

As a result of the very weak and lax internal control mechanisms put in place OAG is of the opinion that significant sums of money have been illegally expended. Furthermore it is questionable whether the Government will be able to exercise any proper control and management over the use of these funds, let alone account for them and determine whether these funds have been distributed and/or disbursed for the purposes intended. Full details of the various categories of expenditure and funding sources is contained in Attachment A.

- **Lack of Accountability for \$1.65 Million Paid to Members of Parliament**

SIG funds amounting to \$1,650,000 were directly transferred to eleven (11) Members of Parliament Constituency Accounts for the purpose of assisting victims in those affected areas within their constituencies in the Western and Choiseul Provinces. OAG noted that the Government, either or through the NDC, does not require the MPs to provide details of how these funds were used. This lack of transparency and accountability increases the opportunity for theft, misuse and/or abuse of public funds and therefore resulting in potential significant loss to SIG.

- **Lack of Monitoring of Assets Purchased**

During the disaster relief period NDC purchased assets totalling \$2,457,126 which comprised vehicles, canoes/boats, OBM, Printers, Computers, Chainsaws and Generators etc. However no assets register is maintained and there is no mechanism in place to ensure that these assets are returned to be used by NDC in future natural disasters. This is a clear breach of Financial Instructions 581(2) and the lack of accountability for assets increases the risk of theft and loss of funds to SIG. OAG found during a visit to the Western PDC that the assets purchased by NDC for alleviating logistical pressure during the emergency period were not in the direct control and custody of the PDC. Furthermore the PDC is no longer functioning after the disaster a year ago. Some of the items were missing and others were in poor condition.

- **Lack of Documentation to Support Payments**

There was a lack of documentation for 21% of the total expenditure of \$8.3 million for the Regional Disaster Fund account and 41% of \$6.6 million of expenditure for the Disaster Relief and Rehabilitation Fund account. Without sufficient supporting documentation there is a risk of money being misappropriated or of SIG not obtaining best value for money. The transparency and accountability over the use of these funds is critical to ensure planned objectives under the Disaster Action Plan are achieved. All areas of expenditure reviewed at the central and provincial levels there was a recurring issue with lack of source documentation. The transparency and accountability of the use of funds becomes critical when disaster relief is concerned. In total, of the \$36.3 million expended, OAG was unable to validate \$9.3 million due to inadequate documentation.

### **Distribution of Food/Rations was Inadequate**

The Director of NDMO advised that the coordination and distribution of food/rations/bedding and clothing totalling \$1,783,941.00 was not properly coordinated due to the lack of experience or trained relief staff (Refer to Audit Issue 19). Furthermore the deployment of public officers meant staff accompanied the boats with the goods and a list of recipients however they never returned with a list or reported back to NDMO. The lack of coordination and reporting for the distribution of these goods does not give assurance that these essential items were delivered to victims.

- **Lack of Monitoring of Refundable Fuel Drum Deposits**

Drum deposits for fuel purchased are refundable and according to the General Ledger Accounting System there is \$59,500 in refunds to which NDC is entitled from the fuel supplier. However OAG noted that NDC was not aware of this and has not pursued it. This lack of monitoring and control over these assets will result in an unnecessary loss of funds to SIG to fund further activities of the Council under the Disaster Relief Program.

- **Payment of Relief Bills Outside the Processes of NDC**

A Member of Parliament purchased goods on credit from various companies in Honiara totalling \$158,697 and requested the Acting Prime Minister and Minister of Finance at the time to settle these bills, because the goods were given to the victims of the tsunami in good faith. Although incurred in good faith only \$8,800 was accepted by the Ministry of Finance and Treasury and the balance was in dispute. By not following proper process SIG has been exposed to a potential liability to local suppliers and the Member of Parliament may be held responsible for the shortfall

## **Disaster Relief Special Fund (DRSF)**

- **Establishment of the DRSF is Ultra Vires**

The Ministry of Finance and Treasury established a Disaster Relief Special Fund in April 2007 under section 5(1) of the Public Finance and Audit Act. However, OAG noted that a Special Fund had already been established under the National Disaster Council Act 1989 and is of the opinion that this later account is ultra vires because the NDC had already established such a Special Fund. The purpose of this 1989 special fund under the Act includes the very purpose for what the April 2007 Special fund was set up to do. The creation of the new fund enabled the Ministry of Finance and Treasury to override the statutory role of the NDC by the use of the second fund. In that context, it would appear that the establishment of the Disaster Relief Fund by MOFT is illegal. Furthermore, the statutory responsibility for management and coordination of natural disaster response is NDC, which is under the Ministry of Home Affairs and not the Ministry of Finance and Treasury.

- **No Annual Reports Audited as Required by Public Finance & Audit Act**

For any Special Fund established under s5(1) of the Public Finance and Audit Act, s38(2) of the same requires that at the end of the financial year an account of such fund shall be prepared, signed and transmitted to the Auditor General within two months of the end of the financial year. Since the establishment of this Special Fund in April 2007, no financial statement has been submitted; therefore the Ministry of Finance and Treasury, responsible for this Special Fund is in breach of the Public Finance and Audit Act.

- **Review of Expenditure for Donations of \$4.7 Million**

Of the \$4.7 million disbursed from this Fund, OAG noted \$3.8 million has been charged to Consolidated Fund in the general ledger. However this is a Special Fund and the Constitution states at s100(2) that Special Funds do not form part of the Consolidated Fund. Therefore the 2007 SIG National Accounts will be overstated by \$3.8 million in expenditure. Furthermore \$900,000 of the expenditure cannot be verified due to the lack of documentation. OAG also noted that \$2 million remains in this account and there is no work plan to support how this is to be utilised.

- **Unauthorised Payments to Contractors**

Two payments were identified by OAG totalling \$2,500,000 for cleanup costs and civil works in Gizo which were charged to 'Unidentified Charges' code in the general ledger. This represents "suspense" type transactions pending authorisation. Although charged eventually to the tsunami account code there was no documentation available to OAG to support these two payments and the payments were at the direction of the then Minister. Although normal procurement processes were not expected during this critical time, such significant payments should have appropriate justification to ensure transparency in the selection process and reasonableness of the expenditure incurred.

## **NDC Operational Account - Special Fund**

- **Inadequate Revenue Process**

Donations totalling \$3,300,677 were received and deposited into this account. However deposits receipted totalling \$446,700 could not be matched to receipts held by NDC. OAG was unable to confirm some deposits totalling \$280,052 which resulted in an unaccountable difference of \$166,648 which was never banked. The key weaknesses in relation to the receipting process are summarised as:

- a. The 3 receipt books used contained cancelled receipts and missing receipts (torn off)
- b. No cashbook was maintained, only a receipts listing which did not reconcile to the bank deposits, and
- c. No details of the deposits were retained on file

These weaknesses create the risk that there may be donations not accounted for and increases the opportunity for theft and misuse of cash/donations received.

- **Delay in Deposits of Donations**

Donations totalling \$662,420 were received during May to July 2007 but were only deposited into the Bank Account in November 2007, which is nearly 6 months later. At first OAG was informed that the cheques were lost. But then not long after OAG's query, the cheques were found and deposited into the bank. The delay in deposits resulted in a lack of accountability of money and there are security concerns over large amounts which are not banked promptly.

- **Payments from NDC Operational Account**

OAG noted that expenditure totalling \$51,001, categorised as "Other", was used to pay:

- National Day of Mourning costs of \$37,300,
- UNDAC farewell gifts \$2,550,
- Gizo Consultation Costs \$5,000, and
- National Coordination Cell costs of \$6,151.

These expenditures were not directly related to the victims and is considered inappropriate. Furthermore a general payment voucher for \$7,198 was processed but there was no explanation or documentation to support this payment.

## Provincial Disaster Committees

- **Review of Payments by PDCs**

OAG noted some irregular payments consisting of the following which require further explanation as to why they were paid as they were not related to the Tsunami. These included accommodation and alcohol costs for a visiting delegation and payment of airfares for an officer to attend a funeral. Furthermore OAG noted that police officers, nurses, seconded staff and other public officers were paid \$282,385 in Overtime Allowances out of the WPDC rather than their respective Ministry. This was contrary to specific direction from MPS. Expending disaster relief funds for administration and logistics is considered an inappropriate use of donated moneys.

- **Lack of Accountability by the PDCs**

When PDCs requested funds to be reimbursed for expenses for the Tsunami and Earthquake Disaster, they provided only a summary of expenses to the Ministry of Finance and Treasury. All supporting documentation was kept at the respective PDC office. Furthermore, there is no requirement by NDC or NDMO to review the original documentation or request PDCs to submit a report of their expenditure and operations. The lack of accountability for the funds expended by PDCs increases the risk of misuse or misappropriation of disaster relief funds.

- **Unpaid Invoices**

During a review of the vouchers in Gizo OAG noted that nine payment vouchers for a total of \$10,336 had been incurred by the WPDC and cheques had been drawn for payment but not released due to the lack of funding from NDC or MOFT. In good faith the suppliers had provided the services and SIG has an obligation to ensure these are settled.

## National Disaster Council Improvements

- **Lack of Staff Resources and Manpower at NDC**

OAG identified weaknesses in coordination, planning, internal administration and financial controls within NDC which contributed to the poor response to the Tsunami/Earthquake Disaster. The key reasons as advised by the Director of NDMO are:

- Since the inception in 1989 of NDC the manpower consisted of 2 staff up until April 2007 when the Natural Disaster occurred;
- When the disaster occurred in April 2007 the NDC and NDMO had only the 1987 National Disaster Plan to rely on. There was no current operational plan established to cater for the 2007 disaster;

- The lack of staff and resources resulted in an immediate deployment of public officers to Tsunami affected areas (Memorandum dated 5 April 2007). This resulted in many public officers who were not briefed, trained or experienced in disaster relief, distributing and assisting with no reporting back to NDMO; and
- There are no written procedures or processes on how to cater for current disasters except for an outdated National Disaster Plan written in 1987.

This lack of internal processes, procedures, written action and operational plans, together with a lack of experienced disaster relief staff and management resulted in NDC ineffectively carrying out their duties in dealing with disaster situations.

- **No Annual Reports Audited For 18 Years**

For any Special Fund established under s5(1) of the Public Finance and Audit Act, s38(2) of the same requires that at the end of the financial year an account of such fund shall be prepared signed and transmitted to the Auditor General within 2 months of the end of the financial year. No annual report has been submitted to the Auditor-General since the establishment of this Special Fund in 1989. This lack of transparency and accountability increases the opportunity for fraud and theft and results in total lack of accountability to Parliament.

- **Tsunami/Earthquake Funds Available As At 31 December 2007**

The following is a summary of the funds available as at the end of 31 December 2007. This summary takes into account all other deposits and payments to arrive at the balance of the Bank South Pacific and CBSI bank statements:

<b>BANK</b>	<b>Name of Account</b>	<b>Deposits</b>	<b>Expenditure</b>	<b>Bank Statement Balance</b>
SIG Recurrent Budget	SIG Recurrent Budget	\$14,941,095	\$14,941,095	Not applicable
Bank South Pacific	NDC Operation Account	\$ 3,300,677	\$ 1,742,611	\$ 1,558,065
CBSI	Disaster Relief Special Fund (MOFT)	\$ 6,730,250	\$ 4,687,917	\$ 2,042,333
Bank South Pacific	Western Provincial Disaster Committee A/c	\$ 3,583,822	\$ 3,574,994	\$ 8,828
Bank South Pacific	Choiseul Provincial Disaster Committee A/c	\$ 1,203,580	\$ 1,129,403	\$ 74,177
<b>TOTAL FUNDS REMAINING IN BANK ACCOUNTS AS AT 31/12/07</b>				<b>\$ 3,683,404</b>

OAG noted from the summary above that as at the end of 2007 there remained significant funds totalling \$3,683,404 in the bank accounts. Given the continuing needs of the victims for shelter, housing, food, rations and water it is not clear why there remains such a large balance rather than these funds being sent to the victims. Funds for Phase 2 have been allocated; therefore every effort should be made to ensure there is a plan to use these funds from Phase 1 for the victims of the Tsunami and Earthquake Disaster.

- **National Disaster Plan and Act is Outdated**

OAG noted that the National Disaster Plan required under the National Disaster Council Act (1989) is out of date being written on 18 August 1987. There is more current data, knowledge and technology available now to assist in managing natural disasters which should be reflected in a more up to date National Disaster Plan.

- **Lack of Proper Accounting Records & Reconciliation of Disaster Funds**

Accounting records such as receipts, delivery dockets, assets register, bank reconciliations and cashbooks were not maintained by NDMO and other Provincial Disaster Committees. At all levels of the audit review the standard of accounting and adherence to the relevant Financial Instructions and quality of record keeping was unsatisfactory. Whilst accepting the initial need for urgency possible waiver of some process constraints, OAG noted that there was no improvement even a year after the event.

## **Phase 2 – Shelter and Rehabilitation**

- **Lack Of Accountability For \$15 Million Paid To Members of Parliament**

On 22 November 2007, Cabinet approved \$15million to be distributed to Members of Parliament for 11 Constituencies affected by the 2007 Tsunami for the implementation of Phase 2, being the Government's Commitment towards a shelter and housing programme. From documentation obtained and reviewed OAG noted the following:

- The initial allocation of \$15 million was based on a Red Cross Report and assessment of the housing damage, despite a proposal provided by the National Coordination Unit (NCU) which was costed at \$2 million less.
- A proposal was put forward that rather than distribute the \$15 million to MPs that housing materials etc be purchased through a tender process and shipment/distribution of these materials were given to be directly to victims and communities. A provision for cash for around \$3million would be allocated to the MPs for allocation and distribution where it was needed.
- The disbursement of \$15 million normally would have been through a direct credit to the Members of Parliament constituency funds, but instead cheques were collected from the Manager of NCU rather than the cashier at the Ministry of Finance and Treasury.

- Two cheques had not been collected by the Members of Parliament for Marovo and Gizo/Kolobngara as at 30 April 2008.
- OAG noted that the following cheques had been presented but had not been deposited into the relevant Constituency Account:

	Constituency	Amount	Bank
1	North Vella la Vella	\$1,360,000	ANZ
2	North New Georgia	\$750,000	ANZ
3	Ranogga/Simbo	\$2,720,000	BSP
4	North West Choiseul	\$1,360,000	BSP
5	West New Georgia	\$750,000	BSP

- MPs are not required to report to NCU or NDC any details of the use of the allocation of \$15 million.

OAG noted that the allocation of the \$15 million was not based on the NCU's detailed cost assessments and the proposal to purchase building materials. OAG was concerned about the potential lack of accountability and transparency for the allocation and use of this \$15 million by the Members of Parliament as there is no requirement for the Members of Parliament to acquit the funds to NDC or the Ministry of Finance and Treasury.

- **Inadequate Costings for Phase 2**

OAG noted that the \$15 million allocated to MPs was based on Red Cross Data. However OAG was advised by the Manager of National Coordination Unit and the Acting General Secretary of the Red Cross that the Red Cross Data did not include costings, but provided detail of the houses damaged during the Tsunami and Earthquake Disaster. OAG was advised by NCU that the costings were determined by two ADB Consultants who were working with the NCU during this time and they used generic costings for three categories of damage as follows:

- Damaged Houses \$2,600
- Loss of Houses \$17,550
- Collapsed Houses \$9,100

This process resulted in imprecise estimates and conclusions about the potential costs required to repair or rebuild the identified houses.

- **Redirection of Donor Support**

OAG was advised by the Manager of NCU, PS of Ministry of Planning and Aid Coordination that the Shelter Rehabilitation – Phase 2 was estimated to cost SIG \$40 million. It was envisaged that SIG was to commit \$15 million and the remaining balance was to be provided by donors. Several meetings were held with donors and SIG to determine a strategy for Phase 2. However when in late 2007 SIG decided to allocate the \$15 million directly to Members of Parliament, the donors re-directed their commitments through the NGO network.

**Recommendation 20**

OAG recommended that:

- NDC and the Ministry of Home Affairs monitor expenditure against the approved budget.
- NDC consider creating another General Ledger account to distinguish between the expenditure for “Other related Disaster Assistance Costs” where the expenditure is not directly for the victims.
- NDC improve the coordination and distribution of important items such as food/rations/clothes to ensure these are delivered to the victims. This needs to be supported by adequate documentation.
- NDC monitor expenditure closely to ensure it is appropriate and necessary in order to maximise the benefit to the victims.
- NDC develop a mechanism to ensure Members of Parliament provide reports on how funds allocated to them for disaster relief have been used.
- NDC undertake a comprehensive stocktake to develop an accurate and up to date assets register of all assets that exist, location, description etc.
- NDC and the provincial disaster relief committees improve the records management process to ensure important accounting records such as receipts, invoices, delivery dockets etc are used, then filed so that they can be easily located.
- The 2007 Disaster Relief Special Fund established by the Ministry of Finance and Treasury is closed and the existing NDC Operational Special Fund Account be used for such activities.
- A more rigorous process for revenue and receipting be adopted to ensure that all funds received, especially through donations, are accounted for so that they are used to maximise the benefit to the victims.
- All monies received are banked intact and on a timely basis.
- NDC put in place a mechanism such that all Provincial Disaster Committees provide a report on a regular basis with supporting documentation to justify their expenditure and use of funds.
- NDC prepare and submit to the Auditor-General annual financial statements of the National Disaster Council Special Fund for the years 1989 to 2007 as required under s38(2) of the Public Finance and Audit Act.

- SIG immediately strengthen the National Disaster Council to address the many weaknesses identified by OAG by deploying senior public officers with experience in financial management and disaster operations.
- SIG cross-train public officers so that trained officers can be deployed if and when a disaster occurs or set up a pool of “volunteers” with appropriate training.

### Management Response

The Permanent Secretary for Home Affairs provided a detailed Action Plan to address the recommendations for the areas over which he had control. He noted however that many of the matters raised by OAG were the responsibility of the Ministry of Finance and Treasury as that Ministry had set up a separate bank account to control the receipts and payments.

The Permanent Secretary of Finance and Treasury provided a detailed response to seven of the audit issues:

- The original budget allocation of \$7 million was SIG funding. Our financial Reporting Section, on the other hand, has indicated an expenditure of \$11,335,106 under the Regional Disaster Relief coding. Be that as it may, there are indications that the additional funding may be expended against donor cash contributions deposited in the Disaster Relief Special Fund established at the CBSI. Incidentally the additional expenditure was not provided for under a contingencies warrant nor under the 2007 Supplementary Appropriation Bill.
- The Disaster Relief Fund Special Fund established by MOFT at the CBSI was conceived to be a mere bank account under which donor relief financial assistance would be deposited into. This was for the purposes of ease of retirement and accounting at the end of the relief exercise. The alternative of channelling donor funds through the consolidated fund or the Special Fund established under the NDC Act 1989 would be very tedious and pose to risk of abuse. It was also conceived at the time that the funds in the Disaster Relief Fund Special Fund were reimbursements of additional expenditure advanced by SIG.
- Depending on the definition of the Fund as a bank account MOFT is still utilizing the funds for monitoring and implementation of the Tsunami Shelter Rehabilitation Program of \$15 million disbursed through Members of Parliament early this year. Meanwhile MoFT is making all efforts to account for all expenditures incurred under the Disaster Relief Fund Special Fund with a view to producing a full report on the Shelter Rehabilitation Program at the end of 2008.”
- Issue 10 – “MoFT acknowledge that a sum amount of \$900,000 has been expended to facilitate the work of the National Coordinating Unit (NCU) in the Ministry. Efforts and steps are in train to fully account for the \$900,000.
- MoFT acknowledged the circumstances under which the procurement was made at the time. In this respect MoFT wish to assure OAG that it is doing all it can to ensure the procurement process stipulated in the Public Finance and Audit Act and the Financial Instructions are adhered to and complied with and that such situation is not repeated.

- MoFT fully acknowledge and note the concerns and recommendations of OAG. Be informed that MoFT made its best representation to Cabinet but to no avail. MoFT had as of May this year transferred the function of monitoring the progress of the Shelter Rehabilitation Program to NDC in the Ministry of Home Affairs. MoFT intention is to produce a full Report on the implementation of the Shelter Rehabilitation Program at the end of 2008 for submission to Cabinet.”
- MoFT can confirm the understanding in Section 29 which states that of the estimated \$40 million for the Shelter Rehabilitation Program SIG was to commit \$15 million and the remaining balance was to be provided by donors. The figure of \$15 million was merely a sum amount to demonstrate a serious commitment on the part of SIG.

### **Further Audit Comment**

OAG notes that the purpose of the National Disaster Special Fund which had been established under the National Disaster Act was to provide for accounting for donations as well as funds appropriated by the government for disaster relief. The Public Finance and Audit Act provides that the Minister for Finance may issue specific directions for the management and administration of Special Funds. Specific instructions were issued for the management of the Civil Aviation Special Fund. A properly established Special Fund is the only manner in which to receive and utilise funds other than through the Consolidated Fund. All funds received into the Consolidated Fund are subject to the Appropriation Act. Therefore the properly established National Disaster Special Fund should be used for disaster relief funding, and the Ministry of Finance should establish specific instructions for its use to ensure there is proper management and control of funds in the Special Fund.

## 4.1.2 South Pacific Games

### Background

The Ministry of Home Affairs (the Ministry) in its 2007 Recurrent Budget, provided for a Grant of \$76,490 for the South Pacific Games (the Games). This was subsequently increased to \$276,490 when the Ministry raised a Contingency Warrant of \$200,000. This was further increased to \$5 million through a Supplementary Appropriation based on a request by the National Olympics Committee of Solomon Islands (NOCSI), a non-government body established by the Olympics Charter and registered as a charitable organization under the provisions of the Charitable Trusts.

The Solomon Islands National Sports Council Act Cap.166 requires sports grants be paid to the Solomon Islands National Sports Council (NSC) to administer, control and account to the Ministry the use of such funds. However, this was not complied with for the South Pacific Games as NOCSI administered and controlled these funds while the Ministry was merely processing payments based on instructions from NOCSI and the Sports Council did not participate at all.

The Solomon Islands Government spent \$6,019,780.73 to finance the participation of the country's sports men and women in the Games held in Apia, Samoa from August to September 2007. Details of how the funds were spent are shown in table 1.1 below.

*Table 1.1 shows Payments under the 2007 South Pacific Games Grant cost account as per the Ledger*

<b>Expenditure</b>	<b>Amount (\$)</b>
Airfares, accommodation and other expenses for the boxing contingent to attend the Oceania championship in preparation for the 2007 South Pacific Games	\$200,000.00
Accommodation, Transport and Food	\$1,059,707.95
Air Charter	\$3,070,027.21
Airfare – Rerouting	\$553,954.30
Airport Tax	\$51,000.00
Games Preparation	\$136,146.00
Gifts	\$20,000.00
NOCSI Administration	\$120,000.00
Per Diem	\$495,349.00
Sandals	\$35,516.27
Uniforms	\$278,080.00
	<b>\$6,019,780.73</b>

*Source: Ministry of Finance and Treasury General Ledger*

## **Audit Objective and Scope**

The primary objective of the audit was to review the 2007 South Pacific Games grant disbursement process and assess controls over the process of applying, approving final disbursement and acquittal of funds to sporting bodies by the Ministry of Home Affairs.

The secondary objective of the audit was to determine whether the administration of the fund by NOCSI is legitimate and appropriate under the Solomon Islands National Sports Council Act, the Financial Instructions and other applicable Solomon Islands Government legislation.

## **Conclusion**

Overall, the 2007 South Pacific Games (SPG) grant was poorly managed. The Ministry was not in control as it allowed NOCSI to manage and control the use of the Games' funds. The Ministry was merely processing payments as instructed by NOCSI. As a result Financial Instructions, which guide and control the management of public finance, were not complied with and generally accepted principles of managing public funds such as advance planning and preparation was not done. The legislated sports body NSC was not involved in the management of the Games funds as required under the Solomon Islands National Sports Council Act. This led to the lack of open, transparent processes for assessing and approving funds. Also, there were weak mechanisms to ensure that grant moneys were used for the intended purpose. Furthermore, the Ministry does not have processes in place to assess the effectiveness of sports grants such as the SPG grant.

## **Key Findings**

The Ministry had no control over the disbursement of the 2007 South Pacific Games grant. A summary of the audit issues identified is noted below:

- **South Pacific Games Funds of \$5.2 Million Not Managed and Controlled by the Legislated Sports Body**

OAG noted that although the NSC existed during the preparatory period of the South Pacific Games, the National Olympics Committee of Solomon Islands (NOCSI) prepared and submitted to the Ministry the request for Supplementary Appropriation of \$5.0 million. The Supplementary Appropriation was in addition to the \$276,490 previously approved through 2007 Budget (\$76,490) and Contingency Warrant (\$200,000) prepared by the Ministry.

OAG further noted that NOCSI officials were responsible for the disbursement of funds to Sporting Federations and negotiations with service providers during May to September 2007. There was no evidence available to indicate that in the absence of the NSC, NOCSI had the legal authority to prepare, administer and control the 2007 South Pacific Games grant.

OAG could not determine why the NSC did not manage and control the South Pacific Games Fund as the composition of the members required under the Act consists of the NOCSI president and NOCSI nominee, private sector nominees, Under Secretary of the Ministry of Finance and a Ministry representative responsible for planning and projects. The fair representation of NSC would have ensured that maximum output was achieved with minimum resources and government and national interests were being safeguarded.

Allowing bodies that are not recognized by law to administer public funds increases the risk of mismanagement, misappropriation and fraud as these bodies are not governed by legislation or regulation to control the use of public funds. Also, the objectives of the program or project may not be efficiently and effectively achieved.

- **Games Expenditure Exceeded Approved Budget by \$743,291**

Expenditure for the Games totaled \$6,019,780.73, exceeding the Budget by \$743,290.73. The excess expenditure was not approved by the Minister for Finance through Contingency Warrant or by Parliament through a Supplementary Appropriation. Funds that could have been utilized in other programs had been used to fund the excess expenditure.

The Chief Accountant explained that the Ministry was aware of the excess expenditure but it was being pressured to pay outstanding bills because the Chairman of NOCSI had assured the Ministry that a Supplementary Appropriation was being arranged by the then Cabinet. However, OAG noted that there was no Supplementary Appropriation for the excess expenditure of \$743,291. The Ministry needs to consider taking appropriate action in accordance with Financial Instruction 178(2) and Financial Instruction 630.

- **NOCSI Yet to Provide to the Ministry an Account of How \$1,759,707 Was Expended**

The Ministry deposited a total of SBD\$ 1.75 million into the South Pacific Games ANZ Account 4363222 administered and controlled by NOCSI. While \$1.05M was sent via Telegraphic Transfer to the Samoa Association of Sports and National Olympic Committee account with the ANZ bank in Apia, Samoa, \$700,000 was spent on local expenses by NOCSI. The Ministry is not aware of how the funds were utilized as NOCSI had not sent an acquittal report detailing how the funds were spent.

Also, OAG could not determine the correctness of \$1,059,707.95 paid for accommodation, transport and food costs as there were no proper calculations to support it. OAG noted that the amount of \$1,059,707.95 paid was the balance of the \$5.0 million Supplementary Appropriation available at that date. Proper calculations should have been done taking into account the waiver of per diem for athletes for the period outside of their sport scheduled dates that is for their 1<sup>st</sup> week or 2<sup>nd</sup> week to be free.

- **Per Diem of \$27,237 Yet to be Reimbursed by the Former Minister**

The former Minister did not attend the South Pacific Games as part of the Ministry delegation and did not return the full amount of the per diem of \$27,000. Lack of accountability and responsibility can lead to wastage of public funds which could have been effectively utilized on other programs. In this case, government lost out on the opportunity to utilize more than \$27,000 on other programs as it was spent on services that did not eventuate.

- **Mismanagement of \$50,000 Special Imprest Issued As Accommodation Costs for the Ministry Delegation to the Games**

An imprest of \$50,000 was issued for \$8,654 in excess of the required accommodation cost. Accommodation advance of \$13,782 for the Minister who did not attend the Games was not returned to the Ministry of Finance and Treasury and the imprest which should have been retired on 30/9/07 has not been retired to date. OAG noted that the receipts and details of expenses were being held by the Chief Accountant who advised OAG that the Permanent Secretary had refused to sign clearance until irregularities noted on the details and receipts are explained. OAG examined the un-retired imprest receipts and noted the following issues:

- Accommodation cost of \$13,341 was spent for a Member of Parliament who was not the Minister for Home Affairs at the time. He was then the General Team Manager for the Games and his name was included in the contingent list prepared by NOCSI. His accommodation and airfares should have been met from the funds that were paid to NOCSI to manage the contingent;
- 2005 and 2006 Table Tennis Membership Fee Arrears of \$7,014 and SI Body Building Membership Fee of \$2,338 which should have been paid by the respective sporting federations was paid from the imprest;
- The Minister's delegation spent less than 14 days at the Games but this was not reflected in the imprest retirement;
- An additional 15% was added to the accommodation imprest without proper justification. The Chief Accountant explained that this was to cover the Minister's transport costs and other miscellaneous expenses. This is considered unnecessary as per diem of US\$250/day, US\$200/day and US\$120/day had been paid to the Minister, Permanent Secretary and Director of Sports respectively to cater for such expenses; and
- Unexpended cash of \$2,187 yet to be returned to the Ministry of Finance and Treasury.

Lack of accountability and responsibility can lead to wastage of public funds and increases the risk of abuse and fraud. In this case accommodation cost of \$13,782 for the former Minister who did not attend the Games was not returned and a total of \$36,218 has yet to be fully accounted. There is a significant risk that fraud, error or corruption may occur and not be detected if proper records are not kept to account for public funds spent.

- **Air Fares for NOCSI President's Family to Attend the Games Paid From Public Funds**

Included in the South Pacific Games Officials List were the NOCSI President's wife and son who also attended the Games. NOCSI submitted to the Ministry a claim for payment of their airfares totaling \$16,183. OAG could not however establish whether their accommodation and other expenses were also paid from public funds as NOCSI had yet to submit a report accounting for \$1,059,707 sent via Telegraphic Transfer to the Samoa Association of Sports and National Olympic Committee account with the ANZ bank in Apia, Samoa. OAG noted that the Ministry did not query nor prevent the payment of the airfares as NOCSI was controlling the management of the SPG funds. The Ministry was merely processing payments based on instructions from NOCSI officials.

Lack of control by the Ministry increased the risk of abuse of office and unnecessary wastage of public funds. In this case since the Ministry was not in control, public funds were spent on expenses that were not in the interest of the public. The Ministry needs to take appropriate action against NOCSI for allowing public funds to be expended on airfares for the President's family to attend the Games.

- **Funds to Assist Preparation for the South Pacific Games Given Only to Boxing**

The Ministry paid \$200,000 to the Solomon Islands Amateur Boxing Association on 19/4/07 as airfares, accommodation and other expenses to send 15 people (9 boxers, 3 officials and 3 technical officials) to the Oceania championship in Samoa ahead of the South Pacific Games. OAG could not determine why Boxing was the only sport that was assisted under the South Pacific Games Grant to prepare for the Games. Furthermore, the request was forwarded direct to the former Minister of Home Affairs rather than it being channeled through the National Sports Council for proper assessment and submission to the Ministry. The Ministry can be criticized for being biased towards one sport. Also such an arrangement does not encourage the fair development of sports in the country and increases the risk of abuse and misappropriation of public funds.

- **No Tenders and Evaluation by the Ministerial Tender Board for Purchase of the Games Uniforms Costing \$168,426**

The Ministry procured uniforms costing \$168,426.37 without calling for tenders. Lack of competitive bidding process can result in goods and services procured without due regard to value for money. Goods or services obtained from related companies and public funds can possibly be diverted or misused for personal gain. Also, non-compliance with Financial Instructions increases the risk of corruption, misuse or theft of public funds.

- **No Tenders and Evaluation by the Central Tender Board for Charter of Flights Costing \$3,280,248 to Transport the Games Contingent**

Tenders were not called for the charter of 2 flights which carried the South Pacific Games contingent to Samoa. NOCSI obtained two open quotations from Solomon Airlines and ALTRANS International and secured 2 chartered flights through ALTRANS International as its quote was cheaper than Solomon Airlines as indicated by the President of NOCSI in his letter dated 14/8/07 addressed directly to the then Minister of Finance. The arrangements were not done through the Central Tender Board and neither did the Ministry have a say in the procurement process although the Ministry's purchasing officer and the Permanent Secretary who is the accounting officer authorized the payment voucher and requisition. OAG further noted that although the quotation by ALTRANS International was cheaper by \$374,151, evaluation by the Central Tender Board would have considered other factors that may have been of benefit to the government and the country, for instance, retention of significant funds within the country if the service was provided by the national airline.

OAG could not also determine how the quote by ALTRANS International was cheaper than Solomon Airline as it was not a firm directly engaged in airline services but in strategic cargo transportation services which meant that it would have to acquire airplanes from airlines to be able to provide the service.

Lack of competitive bidding process can result in goods and services procured without due regard to value for money. Quotations could be obtained from related companies and public funds can possibly be diverted or misused for personal gains. Also, non-compliance with Financial Instructions increases the risk of corruption, misuse or theft of public funds.

- **Ministry Not Informed of Earnings from NOCSI Fundraising Drives for the Games**

Details and earnings of NOCSI's fundraising drives were not communicated and revealed to the Ministry. Furthermore, earnings from the fundraising drives were not disclosed in NOCSI's submission for the Supplementary Appropriation of \$5million to the Ministry. The Ministry may have spent more than what was actually required for the Games.

**Recommendation 21**

OAG recommended that:-

- The NSC be re-activated and fully funded to carry out its functions as the legislated Sporting Administration Authority in the country.
- The Ministry develops appropriate financial guidelines for the NSC. The guidelines should be based on better practice guidelines which are available from a number of other jurisdictions. The guidelines should provide for accountable and transparent assessment of grants, planning and advertising sporting grants in order to inform and educate the intended recipients as well as follow up after the grant has been paid to assess whether the funds and goods were used for the intended purpose, and assess the effectiveness of the particular program. It should also include direction regarding independent assessment and approval where public officers have a connection with a grant application to ensure accountability and transparency in these situations. (A summary of the controls and processes which need to be articulated in such guidelines was provided to the Ministry.);
- Future grants to Sporting Federations are transparently administered.
- The relevant details of this report be forwarded to the Leadership Code Commission for assessment of whether action should be taken; and
- The Ministry also take appropriate action against the Director of Sports for mismanagement of the \$50,000 imprest.

***Management Response***

The Permanent Secretary, Home Affairs provided a detailed Action Plan and the following points as further clarification:

The initial budget support for the Solomon Islands' team to the South Pacific Games in Samoa, in 2007 was \$76,490.00. Prior to the actual games the Solomon Islands Boxing Federation requested financial assistance to travel to Samoa for a boxing competition. The assistance was given through a contingency warrant. Several other sports federations also applied and did not get the same treatment. This was because, although the boxing application was directed to the Minister responsible, the decision to actually assist them was made by the Ministry of Finance. Home Affairs was advised that money was to be debited against certain accounts.

The \$5m additional budget was not approved until August. As a matter of fact it was only made available to the Ministry of Home Affairs the same week the team left for Samoa. Thus, the breach of the Financial Instructions was inevitable, as the circumstances that prevailed then very much dictated the activities of the time.

*SINC office as presented on in July/ August 2007*

The NSC at the time of the 2007 South Pacific Games was ineffective and non functional. On the other hand NOCSI was quite active, because it was funded from outside through annual grants from the International Olympic Committee (IOC). Under the leadership of the President, NOCSI then took control of the entire preparation for the Games.

A fundraising committee was established, and his Excellency the Governor General of Solomon Islands was appointed the patron. For the organizers it was a properly or well calculated strategy, because of the inability of the committee to raise enough funds in the limited time available to them, and the high possibility they would eventually had to depend on entire government assistance.

*NOCSI as presented at the time of the South Pacific Games in 2007*

The President of NOCSI was also an influential member of the ruling government. This was the one difficulty the Ministry had when dealing with the relevant requirements of the Financial Instructions.

It is worth noting that all payments that were over and above the \$5m were initiated by the president of NOCSI with the approval of both the Honourable Prime Minister and the Minister of Finance. The payments were necessary to cover additional people that were travelling as invitees of the President.

## 4.2 Ministry of Communication, Aviation and Meteorology

Until the end of 2006 this Ministry was a Department within the Ministry for Infrastructure Development, Communication and Aviation.

	Revenue	Expenditure
Revised 2006 Actual	\$20,588,525	\$13,395,415
2007 Estimate	\$15,306,125	\$16,285,675
2008 Budget	\$14,416,699	\$16,925,455

The Key Outputs for the Ministry in 2007 were:

- Liberalisation of the telecommunications sector;
- To improve the security and safety of the travelling public in the country, through upgrading and development of existing aviation infrastructure and facilities in compliance with the domestic aviation law, regulations and rules;
- Ensure the public is well informed about the weather patterns in the country.

### 4.2.1 Civil Aviation Special Fund 2006

#### Background

The Civil Aviation Special Fund commenced operation on 31 October 2005. The CASF was established under the Civil Aviation (Amendment) Act which outlines the operational parameter for the usage of the Fund. Prior to this date of commence of operation, it was a Trust Fund maintained by the Civil Aviation Authority (CAA).

An audit of the Aviation Special Fund was required for the period 1 January 2006 to 31 December 2006. The Financial Statement and accompanying notes was prepared by the Accountant-General, in particular the Financial Reporting Unit, for signature by the Permanent Secretaries of Communication and Aviation and Finance and Treasury.

#### Audit Objectives and Scope

Review of all material transactions processed during the period 1 January 2006 – 31 December 2006 to form an opinion on the Financial Statements.

#### Overall Conclusion

In reviewing all the material transactions processed for the period ending 31 December 2006, OAG has concluded that these transactions were not materially correct and fully disclosed as almost half of the supporting documentation was unable to be located.

OAG also noted a number of instances where there is lack of proper controls in place, therefore has made recommendations for a better control and management.

## Key Findings

The process of preparing and reporting the Civil Aviation Financial Statement is in some instances inadequately controlled with little or no regard of better documentation or source of information. A summary of the audit issues identified are summarised below:

- **Foreign Exchange Rate Inadequately Documented**

OAG has noted in its review of the Summary of Foreign Exchange Rate that there is an inability to verify the Foreign Exchange Rate for the calculation of Foreign Exchange Gains/(Losses). There is no proper justification to ensure that records obtained from the bank through the phone is valid and accurate. The Forex gains/loss was \$1,123,400.12 CR as per the general ledger. However, OAG re-performed the Forex calculation using independently identified exchange rates at the relevant dates as \$806,208.37cr and its unrealised forex as \$649,925.85cr. Compared to the unrealised forex disclosed in the statements as \$967,117.60cr.

- **Missing Payment Vouchers**

OAG noted during the audit that one of the two folders which contained the payment vouchers for the Fund was missing. Neither OAG nor Finance staff could locate the folder. It is vital that payment vouchers are properly filed in the binder and kept secure from theft and damage. Breach of Financial Instruction and poor filing to secure the valuable information increases the risk of misappropriation. As half of the supporting documentation could not be located, OAG was unable to form an opinion on the accuracy of expenditure recorded in the financial statements.

### Recommendation 22

OAG's key recommendation was to ensure supporting documentation for payments and foreign exchange transactions are retained and kept on file.

## Management Response

The Permanent Secretary Finance and Treasury advised that the Ministry will ensure payments and procurement records are kept properly.

### 4.3 Ministry of Education and Human Resource Development

The figures below include Budget Support funding from donor partners.

	Revenue	Expenditure
Revised 2006 Actual	\$75,263,519	\$332,443,714
2007 Estimate	\$29,643,748	\$313,494,904
2008 Budget	\$47,035,232	\$358,811,883

The Key Outputs for the Ministry in 2007 were:

- Effective planning, monitoring and management support to the National Education System;
- Development and provision and use of curriculum materials to improve the quality of teaching and learning in schools;
- Delivery of ECE, Primary, Secondary, tertiary and Non Formal/ Technical and Vocational Education in communities by Education Authorities, Schools and SICHE;
- Developing and managing the Education Sector Investment Reform Program (ESIRP) in coordination with donor partners.

#### 4.3.1 King George VI School

##### Background

The Executive Treasurer of the King George VI School Farm Committee raised concerns about the Head of Agriculture Department regarding the lack of accountability over the department's operations and finances of the KG VI Poultry Project. The main concerns raised were that no financial reports were prepared and therefore there was a lack of transparency and accountability in relation to the management of this project. The project worth SBD\$174,453.47 was completed in June 2005.

	Estimated revenue from Chicken and Egg Production	Actual expenditure on Poultry Farm (includes set up costs)	Estimated Profit/(Loss)
2005	\$88,650	\$132,460	(\$43,810)
2006	\$89,125	\$91,751	(\$2,626)

After further investigation into the above OAG noted other issues of concern that relate to the School Canteen and the establishment and operations of a private brick making company within the school boundaries which was being facilitated by the former Head of Agriculture.

The overall objective of the investigation was to establish the adequacy of departmental systems, procedures and processes in relation to expenditure controlled and processed by the KG VI School Administration for the Poultry Project, School Canteen and the operations of Amoa Island Enterprises within the school grounds.

## Conclusion

The audit revealed many serious problems in the procedures, practices and the internal controls of the KG VI School over the Poultry and other Agricultural Operations managed by the Head of the Agriculture Department. The lack of key controls for the management of school projects and the lack of compliance with the Financial Instructions raises a very serious issue about the overall ability of the current school Administration to properly and adequately manage and administer the operations of one of the Nation's leading public schools. In particular the Head of the Agriculture Department was solely responsible for these projects and he has not provided proper documentation to support the use of these public funds earned from the poultry and other agricultural operations.

## Key Findings

The following are the key OAG findings from the investigation into the allegations raised:

- Bank reconciliations were not being performed for any of the bank accounts operated by the School and this has also resulted in some cheques that have been unrepresented for 8 months. Furthermore, cashbooks were not kept or maintained for any of the bank accounts.
- A number of bank accounts were being operated by the School without the knowledge of the Ministry, and without authorisation by the Permanent Secretary Finance as required under the Financial Instructions. Furthermore, some of these bank accounts were overdrawn which is also non-compliance with Financial Instructions. These weaknesses surrounding bank accounts increases the risk of misuse of funds and fraud.
- The officers responsible for the operation of the bank accounts are also responsible for authorising payments drawn from these bank accounts. The lack of adequate segregation of duties increases the risk of undetected errors and fraud of School funds.
- Revenue earned from the Poultry Project was being used to alleviate school expenses and in 2006 \$64,703 was used to pay for expenses unrelated to the poultry project. These funds have not been reimbursed in the Farm Account. The lack of monitoring of funds results in a loss to the School and increases the risk of misappropriation and unauthorised use of funds.
- There were no invoices or receipts on file to support 24 payments for a total of \$111,000 out of a sample of 26 payments processed from the KG VI School farm account. This raises concerns about the validity of these payments. There is a risk that funds may have been misappropriated.
- There is a perceived conflict of interest between the Head of Agriculture Department (HAD) and the contractors engaged to perform electrical work. Furthermore the HAD has known the owner of the bricklaying company for 10 years. The lack of transparency and accountability of the selection process increases the risk of corruption or misuse and theft of public funds as a result of the perceived 'wantok' or close relationship that exists.

- The brick production company has been issued a three-year Temporary Occupational License (TOL) to occupy crown land situated within KG VI School boundary. This was issued by the Commissioner of Lands without the consultation of school authorities. Further, the brick production company is occupying a site on school grounds which provided access to the supply of power and water. The brick production company was taking advantage of this access which results in the school paying for these expenses and unnecessary loss of school funds and utilities.
- There are no clear reporting lines established to ensure the Head of Departments report on the operational and financial affairs of the departmental projects they administer. OAG estimated that in 2005 there was a loss of \$43,810 and in 2006 \$2,626. The lack of financial reporting increases the risk of fraud, misappropriation and misuse of funds.
- There is a lack of monitoring and management of inventory or stock for the Poultry Farm and School Canteen. There is an increased risk that stock may be lost through theft and misuse, thereby resulting in a loss to the School and Solomon Island Government.

### **Recommendation 23**

The key recommendations are summarised as follows:

- further investigation by KGVI School into the operations of the poultry, farm and school canteen accounts;
- the actions of the Head of Agriculture Department (HAD) and any other Accountable officers, including the Principal and other teaching/academic staff, be subject to further investigation to determine whether there are grounds for disciplinary action or prosecution under the Penal Code (Cap 26) and Financial Instructions 630;
- ensure the Ministry monitors procurement by the school on a regular basis to detect any potential conflict of interest and to ensure compliance with the relevant regulations;
- the Ministry and the School request cancellation of the Temporary Occupational License (TOL) for the safety of the students, staff and school property;
- ensure performance of bank reconciliations as a key control to prevent fraud, corruption and misappropriation of funds;
- measures be put into place for the safe custody of cash collected from the school canteen;
- measures be put into place to establish a stock register and monitoring of stock being used;
- compliance with Financial Instructions in relation to establishing bank accounts, maintaining a registry of cheque signatories and ensuring the bank account is not overdrawn;
- appropriate financial reports be provided regularly to school management in relation to the poultry, farm and school canteen accounts; and
- ensure all appropriate and critical accounting documents are maintained.

### **Management Response**

The Permanent Secretary Education provided a detailed Action Plan to implement the recommendations.

### **4.3.2 Adaua Provincial Secondary School**

#### **Background**

The Adaua Secondary School (Adaua School or the School) located in the Lau/Baelelea Constituency of the northern region of Malaita Province, is a province-owned school. The school was managed and administered by the Malaita Province Education Authority prior to 2003. However, during the height of the tensions the school was closed down. In 2002 the land trustees of the school decided to revive the school and made appropriate arrangements with the Ministry of Education. In 2003 the school was reopened under the management of the newly established TALEA Education Authority (TEA) which was owned by the tribal land trustees. The TEA was headed by a prominent local person who was eventually to become the Chairman of the School Board and who was single-handedly responsible for the financial management of the Adaua School.

The Adaua School continued to be rundown despite the continued STABEX financial support during the administration under TEA. For this reason, in 2007 the Malaita Education Authority (MEA) decided to rescind the school ownership from TEA. Furthermore, the Senior Education Officer for the Malaita Province Northern Region Education Division expressed concerns about the financial records and associated activities of the Adaua School during the TEA administration.

A written request for an investigation to be conducted into the affairs of the Adaua School was received by OAG and an audit site visit was carried out in October/November 2007. The audit coverage was the period whilst TALEA Education Authority was administering the school (2003 to 2006).

The private schools that are administered by Education Authorities still come under the jurisdiction of the Ministry of Education and Human Resources Development which operate under the following legislative pronouncements:

- *Financial Instructions 2004;*
- *Public Finance and Audit Act 1978;*
- *Education Act 1978 (Cap 69); and*
- *SIG General Orders.*

#### **Conclusion**

The audit has revealed many serious problems in the procedures, practices and the internal controls of the Adaua School over the School Fees Revenue Collection System and the STABEX Grant Revenues for the financial periods 2003 to 2006. The lack of key controls for the management of school revenues and the lack of compliance with the SIG Financial Instructions and the Financial Management Guide for Schools in Solomon Islands (FMGSSI) raises a very serious issue about the overall ability of the preceding school administrations to properly and adequately manage and account for the revenues of the Adaua School. In particular the School Administration responsible for the management of the school revenues has not provided proper documentation to support the use of these public funds received through school fees and grants.

## Key Findings

The following are the key OAG findings in the investigation into the school's finances:

- No bank reconciliations have been prepared by the school in relation to the Adaua School – Fee Fund bank account for the periods 2003 – 2006. OAG further noted that cash books were not kept for the two bank accounts operated by the School.
- The management of cash collections for School fees is inadequate and increases the risk for cash to be lost through theft, fire, fraud or misuse. There was a significant variance between expected revenue (\$543,993), actual revenue collected and receipted from school fees (\$466,436) and actual school fee revenue deposited (\$168,273).
- OAG noted that the Adaua School bank accounts were overdrawn which is non-compliance with Financial Instructions. These weaknesses surrounding bank accounts increase the risk of misuse of funds and fraud.
- OAG noted that the officers responsible for the operations of the bank accounts are also responsible for the authorisation of payments; therefore there is no segregation of duties between these key functions. OAG further noted the general lack of controls in that no further authorisation is sought from the School administration to incur expenditure other than getting the other signatories to sign the cheques for payment.

OAG noted the widespread misuse of school grant funds by the Adaua School for the periods audited. OAG noted the general negligence by the consecutive administrations to properly account for grant funds and complete the necessary documentation as required by the Financial Instructions. The true nature of expenditures incurred and retired through the STABEX Office were questionable as there was a general lack of required documents attached to retirements.

- For a sample of 23 payments identified from cheque butts from the Adaua School Fee bank account and 30 payments identified from the Adaua School EU-Funds bank account, all 53 (100%) of these payments did not have adequate supporting documents such as Requisition Forms and General Payment Vouchers to comply with the Financial Instructions.
- OAG noted that the Adaua School has been receiving more Grant revenue than the school is entitled to, based on the student enrolment for the periods reviewed. Based on documents obtained, the Adaua School received a total of \$1,217,251.72 in grant revenues which is equivalent to 1,993 enrolled students. OAG further noted that the actual student enrolment for the period audited totalled to 850 students thus, entitling the school to a total grant revenue of only \$637,500.00. This means that the school received \$579,751.72 more than it was entitled to.

- OAG confirmed that the Adaua School did not maintain any Asset Register. This is in non-compliance with the Financial Instruction and Financial Management Guide for Schools in Solomon Islands stated above as well as with the newly introduced SIG Records Management Policy.
- OAG noted a significant lack of control and monitoring by the Adaua School Administration of the school ration stocks. There was no inventory system in place to monitor the inward and outward movement of School Ration stocks. Moreover, OAG was informed that no stock takes were carried out for school ration stocks for the periods under audit.

#### **Recommendation 24**

The key recommendations are summarised as follows:

- the Malaita Education Authority (MEA) monitor the Adaua School administration and ensure performance of bank reconciliations for the two school bank accounts as a key control to prevent fraud, corruption and misappropriation of school revenues;
- The MEA and Adaua School investigate the discrepancies noted in the School Fees Collections and provide explanations to OAG;
- Adaua School put into place immediate measures for the safe custody of cash collected from school fees;
- The Ministry of Education immediately conduct further investigation into the allegations of misappropriation by referring the matter to the Police;
- The School immediately implement the use of cash books to record all school fee and grant revenues and cheques drawn upon the bank accounts operated by the School;
- all cash collected through school fees are banked intact to ensure accountability for school revenues and MEA monitors the Adaua School to ensure school fees revenue is not misused through payment of cash advances to staff members;
- the school ensures all payments are processed on a General Payment Voucher form with appropriate supporting documentation;
- the Ministry ensures monitoring of all Education Authorities is carried out to ensure these authorities are accountable for the schools under their jurisdiction;
- MEHRD introduces measures to monitor school enrolment figures for STABEX grant disbursement to avoid over or underpayments;
- The Adaua School Administration create an Asset Register; and
- MEA monitors to ensure proper stores and inventory systems are implemented by the Adaua School to ensure accountability and transparency in the management of Kitchen Stores.

#### **Management Response**

The Permanent Secretary Education provided a detailed Action Plan to implement the recommendations.

#### 4.4 Ministry of Finance and Treasury

	Revenue	Expenditure
Revised 2006 Actual	\$710,902,706	\$45,996,307
2007 Estimate	\$946,441,562	\$47,638,805
2008 Budget	\$1,138,984,000	\$78,223,271

The Key Outputs for the Ministry in 2007 were:

- Customs Revenue Collection;
- Inland Revenue Collection;
- Financial Management;
- Budget and Debt Policy Management;
- Statistics Services.

##### 4.4.1 Internal Revenue Division Cashiers

###### Background

Following a report of the Ministry of Finance & Treasury Internal Audit Division dated 1<sup>st</sup> May 2007, the Permanent Secretary requested OAG to investigate the alleged missing tax revenue and licence fees totalling \$423,295 and \$2,299,626 collected by the Inland Revenue Division on 4/1/07 and 12/2/07 respectively to determine whether or not fraud has been committed by the officers responsible for the collections.

Reconciliation of collections to ensure that total receipts agree with cash and cheques on hand were not done on the day they were collected. This was done in February 2007, approximately a month later.

Revenue collected on 4/1/07 and 12/1/07 was receipted by the cashiers on duty on those days. A third officer was responsible for balancing or reconciliation of receipts and cash/cheques collected and preparing the deposit slips for banking.

OAG conducted this audit to substantiate the findings by Ministry of Finance & Treasury Internal Audit Division that tax revenue and licence fees totalling \$423,295 and \$2,299,626 collected on 4/1/07 and 12/2/07 have not been accounted for and to determine whether there is a possibility of fraud which should be referred to the Police for investigation.

The audit focused on examining tax revenue and licence fees collected on 4/1/07 and 12/2/07.

## Conclusion

OAG confirmed and concluded that a total of \$2,722,921 collected as tax revenue and licence fees on 4/1/07 and 12/2/07 had not been banked as the relevant cash totalling \$24,420 and cheques totalling \$2,698,501 are missing. However, a total of \$1,184,231 had since been recovered from some payees who had issued replacement cheques. The fact that several payees have reissued cheques for those missing adds evidence to this not being a simple clerical error. Also, a total of 33 vehicle licenses issued on 4/1/07 and 12/2/07 cannot be located indicating the possibility of fraud which needs to be investigated by the Police. The Ministry needs to immediately report these cases to the Police for criminal investigation.

Cashiers and their Team Leader were the officers responsible for the missing tax revenue and vehicle licence fees collected on 4/1/07 and 12/2/07. OAG noted that these officers failed to satisfactorily perform and discharge their duties and responsibilities as follows:

- One cashier did not responsibly account for the missing vehicle licence receipts;
- Another cashier did not assist her Team Leader locate the missing receipts, instead she directed her where to search for the missing receipts and deposit slips for 4/1/07;
- Another cashier prepared outstanding bank deposits including 4/1/07 collections and came across dates which have errors in them, these included 4<sup>th</sup>, 5<sup>th</sup>, 7<sup>th</sup> and 11<sup>th</sup> January 2007. She notified her Team Leader but put the collections aside and continued checking other outstanding deposits. When the Team Leader asked her for the outstanding deposits a few days later she corrected the errors and prepared the deposit slips together with the other two dates collections of February 2007. She placed the cash box and deposit slips in the cashiers room where one of the cashiers was sitting without informing nor handed over the deposit slips and cash box to her Team Leader and left to attend to her sick nephew.

The irresponsible attitude highlighted above and taking days to look for the missing receipts and deposit slips for 4/1/07 and 12/2/07 collections and eventually not being able to locate them is an indication of irresponsible behaviour.

OAG noted that at least 4 people, had access to the cash, cheques and receipts which are now missing. Further evidence to establish who is responsible for the missing collections and receipts and deposit slips for 4/1/07 and 12/2/07 will need to be investigated by the Police.

Since this audit was confined to collections on 4/1/07 and 12/2/07, OAG will further examine a sample of tax revenue and licence fees collected on other days between 2004 and 2007 and report on its findings separately.

## Key Findings

Significant findings are as follows:

- OAG confirmed the report by Internal Audit dated 1/5/07 that revenue receipted on 4/1/07 and 12/2/07 totalling \$2,722,921 had not been banked as total receipts did not agree with the total cheques and cash that were on hand. Inland Revenue was able to recover a total of \$1,184,231 by requesting cheque paying customers to issue replacement cheques. It is recommended this matter be referred to the Police for criminal investigation.
- OAG also noted that IRD cannot locate licences issued on 4/1/07 and 12/2/07. It is recommended that this matter be referred to the Police for criminal investigation.
- Officers responsible for receipting and reconciling receipts and cash/cheques collected before banking breached provision 31(1) of Financial Instruction by failing to satisfactorily carry out their duties and discharge their responsibilities entrusted to them as public officers. It is recommended that the Ministry take appropriate disciplinary action.
- There is no accountability when cash and cheques are handed over to another officer. The officers handing over and the receiving officer do not sign as evidence that both parties agree to the total cash and cheques that are handed over. This practice does not provide a trail of accountability and does not ensure that monies collected are intact right up to the point of banking. OAG also noted that banking of collections was not done daily as required by Finance Instructions. This is still being the practice to date as OAG noted that collections on 2/7/07 and 3/7/07 were deposited on 5/7/07.

### Recommendation 25

OAG recommended that:

- The missing collections and receipts for 4/1/07 and 12/2/07 be referred to Police for criminal investigation.
- The Ministry either suspend or dismiss the officers directly responsible for the missing collections and receipts after going through a proper disciplinary process.
- When cash and cheques are handed over to another officer, the officer handing over and the receiving officer to both sign and date a document stating the total cheques and cash that is being handed over.
- Daily receipts and cash/cheques collected must be reconciled before banking daily and IRD to train at least one other person to carry out the task of reconciling receipts and cash/cheques when the Team Leader is away.

**Management Response**

The Permanent Secretary Finance and Treasury provided a detailed response to the audit report in which he stated that most of the recommendations raised had been actioned and that a strategy was in place to recruit more staff which would resolve the matters raised in the other recommendations.

## 4.5 Ministry of Fisheries and Marine Resources

Until the end of 2006 this Ministry was a Department within the Ministry for Natural Resources.

	Revenue	Expenditure
Revised 2006 Actual	\$58,359,742	\$3,572,194
2007 Estimate	\$93,775,952	\$4,153,405
2008 Budget	\$99,439,970	\$8,610,055

The Key Outputs for the Ministry in 2007 were:

- Strengthen all fisheries activities operating within the 200 miles economic zone of Solomon Islands to achieve better maximum benefits for the people of Solomon Islands;
- Improve fisheries contributions to the National Economy through constructive Bilateral Agreements and improved standard of living through sustainable development;
- Protection of marine biodiversity as well as coastal and aquatic environment.

### 4.5.1 2007 Fisheries Projects

On 19<sup>th</sup> November 2007 the former Acting Permanent Secretary of the Ministry of Fisheries and Marine Resources (the Ministry) formally requested OAG to investigate his concern about an amount of \$6million which had been paid out as small grants to a number of fishing projects. In particular in the SIG accounting ledger there is an account that was created called the “Rural Fisheries Enterprises Account” which has a total of \$9 million that has been paid out. However, the 2007 Development Budget funding for fishing related projects includes only two line items for this Head of Expenditure as follows totalling only \$4.1million:

- 490-1172-1911 Project Development Fund funded by FFA for \$1,187,310
- 490-1169-5799 Support to Rural Tuna Fisheries funded by SIG for \$3,000,000

During 2007 the Ministry distributed to all Provincial Fisheries Officers a notice to be given to the public informing them about assistance offered by the Ministry for rural fisheries projects.

The Chief Fisheries Officer advised OAG that the original “fishing project” was intended for the Ministry to buy canoes, OBM’s and equipment to distribute to successful applicants, not to distribute cash. Fisheries extension officers would then periodically check the equipment was being used and cared for properly. If it wasn’t, the equipment would be retrieved and re-allocated.

Many interested parties applied to the Ministry for this assistance. However it became quite clear that there was a lack of transparency and accountability in relation to the application and approval process for payment of these grants.

## **Conclusion**

The management, monitoring and administration of project submissions for funding was poor and consisted of many weaknesses which created the opportunity for fraud and misappropriation of SIG funds.

The extent of breaches of normal procedures and the Financial Instructions suggests there was a deliberate act to circumvent the process for legal use of government moneys. The manner of distribution suggests political favouritism during a critical period of political uncertainty in the government, rather than consideration of the areas of greatest need in the Solomon Islands.

A significant sum of money has been illegally expended and it is questionable whether the government will be able to exercise any control over the use of the moneys that were supposed to be for fisheries projects.

## **Audit Objectives and Scope**

The primary objective of the audit was to investigate why the Rural Fisheries Enterprises Account was established in the general ledger and to review the documentation to support the two sets of payments in 2007 totalling \$9 million and assess whether the process for paying these grants was transparent and accountable.

For the purposes of this audit report the payments made from the Rural Fisheries Enterprises account are referred to as “fishing grants”.

## **Key Findings**

The process to manage and monitor the Rural Fisheries Project was inadequately controlled with little or no regard for the requirements of the Financial Instructions. A summary of the audit issues identified is below.

- A total of \$3.08 million was paid as direct transfers to Members of Parliament for a 2007 Fisheries Micro Project. There were many discrepancies in relation to this payment which breached normal payment procedures and the Financial Instructions which suggest there was a deliberate act to circumvent the process for the legal use of government moneys. A further \$350,000 was also paid as a direct transfer for this same Fisheries Micro Project which was not supported by adequate documentation. The former Permanent Secretary of Finance and Treasury illegally assumed the responsibility for these projects and was involved in the distribution of the grants to Members of Parliament which were contrary to the purpose allocated.
- Funding was available to the public at large for fisheries projects. However a review of the process to approve applications and payments highlighted serious shortcomings which suggest political favouritism rather than an open and transparent process to consider the needs and applications submitted by the people of the Solomon Islands.

- Actual expenditure totalling \$9.3 million from the Rural Enterprises account was not in accordance with Appropriation Act and was not supported by a Work Plan. Furthermore the method of distribution of the cheques was not in accordance with the normal payment procedures. All these significant shortcomings suggest political favouritism during a critical period in the Solomon Islands Government when a change of government was imminent. Also the extent of breaches of normal payment procedures and the Financial Instructions suggest a deliberate act to bypass the process for legal use of government moneys.
- Funding of \$600,000 provided by FFA under the Project Development Fund was deposited directly into the Ministry's Standing Imprest bank account rather than the Consolidated Fund. There was a risk that these funds could be used for the Ministry's operational expenses rather than development projects as it was intended. The funds were eventually paid into Consolidated Fund after Ministry of Finance and Treasury intervention.

### **Recommendation 26**

OAG recommended that:

- The Ministry of Fisheries and Marine Resources investigate further and ensure the payments of \$3.08 million to Members of Parliament are supported by a project submission and followed up to ensure the monies have been used for the intended purpose to purchase canoes, OBM's, eskies and other equipment for rural community fishing enterprises.
- The Ministry of Finance and Treasury cease the practice of direct bank transfers except where there are properly completed, authorised and supported General Payment Vouchers;
- The Ministry of Finance refuse to pay funds for any "projects" which do not have Work Plans which have been approved by the Permanent Secretary Development Planning and Aid Coordination, and evidence that the payments are in accordance with the approved Work Plan.
- The Ministry of Finance and Treasury should monitor and ensure any expenditure, especially, large amounts such as the \$6.08 million and \$3 million as mentioned in this audit report, are within the Development Budget and if they are not, then refuse to process the payment.
- The Ministry of Fisheries and Marine Resources further investigate the actions taken by the former senior officer of the Ministry of Finance and Treasury during these transactions, and consider reporting any concerns to the Leadership Code Commission and the police.
- The Ministry of Fisheries and Marine Resources request evidence of proper use of the funds from each of the recipients and seek refunds from any recipients who cannot properly account for the proper use of the funds or refer these cases to the police.
- The Ministry of Fisheries and Marine Resources ensures there is progressive reporting on the implementation and progress of the project for a minimum period of, say, the first two years.

### **Management Response**

The Permanent Secretary, Fisheries provided a detailed action plan to implement the audit recommendations.

## 4.6 Ministry of Forestry, Environment and Conservation

Until the end of 2006 this Ministry was a Department within the Ministry for Natural Resources.

	Revenue	Expenditure
Revised 2006 Actual	\$838,800	\$8,048,083
2007 Estimate	\$1,298,371	\$8,758,019
2008 Budget	\$3,010,714	\$8,535,408

The Key Outputs for the Ministry in 2007 were:

- Appropriate Policy and Legislation is reviewed and where appropriate amended and implemented;
- The extent and the quality of the nation's forest is updated;
- Level of log shipments monitoring is increased for collection of due revenue;
- Family and community based reforestation activities are promoted and increased;
- A wide range of the nation's timber species are tested and made known to end users in both domestic and international markets;
- Increased assessments of Development impacts on the environment;
- Improved Management and Development of conservation sites for tourism purposes;
- Improved management of wildlife trade;
- Continue with the implementation of international treaties and conventions on environment.

### 4.6.1 *SPRIG and Seeds Special Investigation*

#### Background

#### *SPRIG Funds*

During the audit of bank reconciliations in April-May 2007 for the Ministry of Forests, Environment and Conservation (MFEC), OAG noted an alleged misuse of the South Pacific Regional Initiative Genetic Project (SPRIG) funds by an employee of MFEC. The purpose of SPRIG is to better promote the wise use of priority genetic resources in order to promote sustainable rural development. The SPRIG Account was set up in 2002 with funding from AUSAID and phase 2 of a 3 year pilot finished in June 2006. In May 2007 the Permanent Secretary requested an investigation to be conducted by OAG and the suspected employee was suspended until such time the investigation was completed.

***Seed Trust Account***

In addition to this the MFEC requested OAG to investigate the funds in the Seed Trust Account. These funds are used to collect the earnings from the sale of seeds. Seeds are cultivated in Munda and then they distributed to outstations and Honiara for sale. The proceeds are supposed to be deposited into this trust account.

OAG conducted this audit to determine whether or not the authorised officer responsible for the SPRIG Account and the Seed Trust Account, has fully complied with the relevant SIG Financial Instructions and the generally accepted Best Practice that governs the accounting and controlling of any bank accounts.

The audit covered the period 2005 and 2006 financial years.

**Conclusion**

OAG concluded that the lack of management oversight and independent bank reconciliations had allowed the suspected misappropriation of funds from the SPRIG account to occur, and recommended the matter be referred to the Police.

With regard to the Seed Trust Account, OAG also noted a lack of internal controls to allow monitoring and proper accounting for funds received. The lack of control was so poor that OAG was unable to determine whether funds had been misused or had nor been accounted for.

**Key Findings**

The following are the key OAG findings in the investigation into the issues and allegations raised:

**SPRIG FUNDS**

- The lack of controls surrounding the cheque book and management of the SPRIG account led to the opportunity for two employees to embezzle funds of more than approximately \$200,000. It has been confirmed that \$23,000 and \$15,000 has been transferred to each of the employees personal accounts for no reason associated with the project; however, further investigation from appropriate authorities is required to confirm the estimated funds embezzled which could total more than \$200,000.
- No bank reconciliations have been performed over the SPRIG Account for 2004, 2005 and 2006. Non-performance of bank reconciliations increases the risk of misappropriation of funds and has led to the suspected fraud carried out by the Ministry's employees.

- There are no critical accounting records such as cash books, cheque butts etc that were sighted or made available to OAG. This is in breach of Section 108(3) of the Constitution, Section 36(1) of the Public Finance and Audit Act and the Government Records Management Policy. There is a significant risk that fraud, error or corruption may occur over the SPRIG funds and assets, and not be detected because proper records are not kept as required.

### **SEED TRUST ACCOUNT**

- All sale of seeds are on a cash basis only and the custody of cash is weak. Furthermore there is a lack of monitoring and management of the proceeds earned and this has increased the risk of theft and misuse of the funds.
- No bank reconciliations or any management reports are produced for this account. This increases the lack of knowledge of expected earnings, actual earnings and expenditure and therefore increases the risk of theft, corruption and misuse of these funds and inventory.

The alleged misuse of funds by the two officers in charge of the SPRIG Account occurred due to the lack of controls, procedures and processes to operate these funds. Furthermore, there were no proper records maintained which is in breach of section 108(3) of the Constitution, Section 36(1) of the Public Finance and Audit Act and the Government Records Management Policy.

#### **Recommendation 27**

OAG recommended that:

- Immediate processes be put in place to ensure the SPRIG account is being monitored, reconciled and managed on a daily basis, to prevent further corruption and misuse of these funds.
- The allegations in this report be referred to the Police for further investigation and possible criminal prosecution.
- Proper records be introduced to ensure all transactions in the Seed Trust Account are properly recorded and reconciled.

#### **Management Response**

The Permanent Secretary, Forestry advised that the SPRIG Account matter was being investigated by the Police and the officer concerned has been suspended on half pay pending the outcome of the Police investigation.

The Permanent Secretary, Forestry further advised that the Seed Trust bank account had been handed over and a General Treasury Receipt had been issued.

#### **4.6.2 2007 Reforestation Project**

The 2008 Draft Estimates state the Mission Statement of the Ministry of Forests is “to promote, conserve, investigate and manage the nation’s forest resources for the optimal of all stakeholders and the environment.”

The Expected Key Activities of the Ministry are stated in the 2008 Draft Estimates as:

- To formulate and support forests policy and law development;
- To monitor the extent and quality of the nation’s forests;
- To keep forests and forests’ products statistics;
- To manage the timber rights allocation process, including the issue of permits and licences;
- To monitor logging operations to ensure compliance with the Code of Logging Practice;
- To monitor world market prices for logs and recommend adjustment to duty charge level;
- To monitor log shipments to ensure collection of due revenue from log exports;
- To support family based reforestation by providing quality seed and sound technical advice;
- To issue and ensure compliance with timber harvesting licences;
- To assist forests dependant communities, local governments, NGOs and the timber industry to implement forest policy;
- To maintain and develop the herbarium and Botanical Garden; and
- To contribute to collaborative forest research programs.

It is notable that these key activities encompass forestry activities from growing to harvesting, and does not include downstream processing.

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

OAG received an allegation that Forestry Project funds were used improperly. The principal objective of the audit was to investigate these allegations in connection with these transactions and to review the adequacy of processes for the funding and management of forestry projects and assess compliance with the Financial Instructions and the Public Finance & Audit Act.

The audit coverage was for the financial year 2007.

#### **Conclusion**

The extent of breaches of normal procedure and the Financial Instructions suggests there was a deliberate act to circumvent the process for legal use of government moneys. The manner of distribution suggests political favouritism rather than consideration of the areas of greatest need in the Solomon Islands.

A significant sum of money has been illegally expended and it is questionable whether the government will be able to exercise any control over the use, location and condition of the equipment purchased.

A large sum of money was expended on a purpose which is the exact opposite of the purpose for which the funds were appropriated. “Downstream processing” is the milling and use of harvested trees. The appropriated purpose was reforestation which is planting, nurturing and maintaining plantations of trees for eventual harvesting, in at least 20 years time.

The Solomon Islands economy relies heavily on export income from harvested logs as well as tax and licence revenue for the government. Solomon Islands will face a major economic issue within a couple of years, in addition to the growing environmental problems, as the number of harvestable trees is expected to diminish rapidly from 2009. Rather than planting thousands of trees which would have benefited the country, and particularly rural populace in a sustainable manner in one generation, this misuse of funds has delayed the eventual achievement of this goal by yet another year. The implications of this misuse of funds will have serious consequences for the entire Solomon Islands economy.

### Key Findings

Instead of expending the funds on the approved project, the funds were used to purchase 26 saw mills and other equipment for members of the government for use in their constituencies at a cost of \$3,524,173.70.

No.	Constituency	MP Name	Province
1	North West Guadalcanal	Hon. Siriako Usa	Guadalcanal
2	South Guadalcanal	Hon. David Day Pacha	Guadalcanal
3	West Are'Are	Hon. Severino Nuaiasi	Malaita
4	Lau/Mbaelelea	Hon. Bentley Samuel Ragosomani	Malaita
5	North Guadalcanal	Hon. Martin Sopaghe	Guadalcanal
6	Central Guadalcanal	Hon. Peter Shanel Agovaka	Guadalcanal
7	East Honiara	Hon. Charles Dausabea	Guadalcanal
8	Central Honiara	Hon. Nelson Ne'e	Guadalcanal
9	West Honiara	Hon. Isaac Inoke Tosika	Guadalcanal
10	Temotu Pele	Hon. Martin Magga	Temotu
11	Temotu Nende	Hon. John Patteson Oti	Temotu
12	Temotu Vattu	Hon. Clay Forau Soalaoi	Temotu
13	Hongrana/Kia/Havulei	Hon. Selwyn Riumana	Isabel
14	East Makira	Hon. David Wote Sitai	Makira
15	Shortlands	Hon. Augustine Taneko	Western
16	South Vella Lavella	Hon. Trevor Olavae	Western
17	Malaita Outer Islands	Hon. Patrick (Jnr) Vahoe	Malaita
18	West New Georgia/ Vona Vona	Hon. Peter Boyers	Western
19	North New Georgia	Hon. Job Dudley Tausinga	Western
20	South New Georgia/ Rendova/ Tetepare	Hon. Francis John Zama	Western
21	Marovo	Hon. Snyder Rini	Western
22	West Makira	Hon. Japhet Waipora	Makira
23	Central Makira	Hon. Bernard Ghiri	Makira
24	South Choiseul	Hon. Rev. Leslie Boseto	Choiseul
25	East Choiseul	Hon. Manasseh D. Sogavare	Choiseul
26	Repeat of Temotu Nende?	Repeat of Hon. John Patteson Oti?	Temotu

A summary of the high risk audit issues follows:

- Actual expenditure was not in accordance with the Appropriation Act and the approved Work Plan;
- Project funds were disbursed before the Donor contribution was received;
- The project did not benefit the intended Provinces;
- There was no competitive bidding process;
- The purchases were not authorised by the relevant Accounting Officer, the Permanent Secretary of Forestry, Environment and Conservation;
- Payments were made in advance of receiving goods and services;
- Payments were made by direct bank transfers and not through the Ministry of Finance central payments system;
- The former Permanent Secretary of Finance and Treasury authorised the process for these payments which did not comply with normal procedures and permitted inappropriate practices to occur;
- The then Minister of Forestry, Environment and Conservation did not have the authority to approve purchases or expenditure;
- The former Minister did not have the authority to direct that purchases or payments be made in contravention of the Financial Instructions;
- OAG received an allegation that “kick backs” were requested in relation to these purchases; and
- Payments were made in excess of the amount appropriated and OAG could not identify any evidence of virements or contingency warrants.

### **Recommendation 28**

OAG recommended that:

- The Permanent Secretaries of both the Ministry of Forests and the Ministry of Finance and Treasury report these transactions to both the Leadership Code Commission and the Police;
- The Ministry of Forests consider identifying a means of monitoring the use and location of the sawmills and other equipment that has been distributed;
- The Ministry of Finance and Treasury cease the practice of direct bank transfers except where there are properly completed, authorised and supported Payment Vouchers; and
- The Ministry of Finance and Treasury implement the penalties available under the Financial Instructions for any breach of the Financial Instructions they identify or is brought to their attention as an active deterrent against officers and other officials deliberately breaching or disregarding the Financial Instructions.

### **Management Response**

The Permanent Secretary, Forestry advised that he agreed with all of the recommendations and further stated that the list of those who received the portable saw mills should be published to ensure rural people know the location of the equipment for the community to access and use.

## 4.7 Ministry of Health and Medical Services

	Revenue	Expenditure
Revised 2006 Actual	\$85,898	\$100,217,452
2007 Estimate	\$158,208	\$124,374,556
2008 Budget	\$80,128,800	\$212,952,175

The Key Outputs for the Ministry in 2007 were:

- Manages and implements Health Sector Support Program through a Sector Wide Approach;
- Sustain provincial health systems and services;
- Continue to implement priority health care and public health programs to control and further prevent outbreaks or epidemics of the common diseases and their related social health determinants;
- Sustain secondary and tertiary health care services at the National Referral Hospital as the major national referral hospital;
- Systems development and support to the health sector.

### 4.7.1 SIMTRI

#### Background

The former Permanent Secretary for the Ministry of Health and Medical Services requested the OAG to carry out an audit of the Solomon Islands Malaria Training and Research Institute (SIMTRI) accounts based on the following key areas of concerns:

- Un-procedural, unofficial and unauthorised activities occurring at SIMTRI as highlighted by a private accounting firm's report; and
- Unauthorised and unofficial school operating at SIMTRI and fees are charged to students. The Ministry has no idea of the School's finances.

The principal objective of this audit was to assess the allegation that un-procedural, unofficial and unauthorised activities are occurring and an unauthorised and unofficial school operates at SIMTRI.

The audit was confined to the activities of the School of Public Health and Tropical Medicine, specifically the Diploma and Certificate in Public Health Program. It did not include a detailed review of the research funds from donors which was also administered by SIMTRI.

The audit covered financial years 1 January 2003 to the date of the audit, 8 October 2007.

## Conclusion

OAG noted a serious breakdown in controls over the management and administration of the School of Public Health and Tropical Medicine since its establishment in 2003. This resulted in the inability of the Director and the Accountant to account for \$1.4million which needs to be referred to the Police for investigation. There was no regard for government regulations and procedures and neither were good practice and generally accepted practice of managing public funds followed.

The establishment of the school for trial purposes is illegal as there was no parliamentary approval or appropriation to collect fees and spend the same for the schools operational expenses. Furthermore, the curricula for both the Certificate and Diploma programs were not submitted to the Minister for Education and Training for approval as required under Section 23 of the Education Act. OAG noted from a recent report of the Director that 78 students graduated with Certificates and 20 with Diplomas.

## Key Findings

The process of receipting and accounting for fees and expenditure relating to the Diploma in Public Health Program run by SIMTRI is poorly controlled. A summary of the audit issues identified is noted below:

- The Director and the Accountant were not able to account and provide supporting documents for funds totalling \$1.4 million. This needs to be referred to the Police for investigation.
- The Permanent Secretary for Finance and Treasury did not authorise the bank accounts operated by SIMTRI since 2003. OAG noted that the Accountant and the Director did not maintain a cash book to account for fees collected and expenditure incurred since 2003. OAG also noted that although bank statements were collected, bank reconciliations were never performed. Poor control of bank accounts increases the risk of fraud.
- There was no evidence to indicate that the Ministry had designated a Revenue Collector for SIMTRI. OAG noted that the Accountant and the Director were collecting and banking fees and in their absence the receptionist performed these tasks. The absence of a designated Revenue Collector can result in anyone assuming the responsibilities and increases the risk of fraud or error.
- SIMTRI did not use the prescribed receipts required under Financial Instruction 42 (1) (3) to collect public monies. Generic receipts were used to collect fees. While some of these receipts were pre-numbered, others were not. For those that were not pre-numbered, the officer collecting revenue manually assigned a number. This increased the risk of fraud and there is no means of ensuring that all fees paid by students were accounted for and banked.

- SIMTRI collected revenue including fees and incurred expenditure from 2003 to 2007. The expenditure was not appropriated by Parliament and had not gone through the SIG general ledger system. The fees collected were not authorised under any legislation. Therefore both the receipts and expenditure during this period may be illegal.
- People who were already employed by the Ministry as Doctors were also hired by SIMTRI as lecturers and tutors. In addition to their fixed remuneration as Doctors, they were also paid lecturing and tutoring allowances at a rate of \$50, \$100 and \$200 per day in 2007. OAG could not establish the rates paid in 2003, 2004, 2005 and 2006 as the Expenditure Listing for these years did not indicate the rates. There was no evidence that the Ministry or Parliament had approved this rate as the expenditure was not appropriated in the Ministry Budget for 2007. Also, there was no evidence of how these rates were determined. The Expenditure Listings provided to OAG indicated that the total allowances paid in 2003, 2004, 2005 and 2006 varied significantly. Furthermore, OAG could not establish the validity and accuracy of the Expenditure Listing as the allowances were not paid through payment vouchers and there was no proper recording of all payments in a cash book.

The Doctors who are also employed as lecturers and tutors may not effectively perform their duties required under their appointment or contract signed with the Public Service as their time is divided between being a Doctor and Lecturer/Tutor for SIMTRI. It could also mean that the Doctors are being paid twice for the same time.

- Fees were spent on expenses that had been appropriated for in the Ministry Budget. For instance in 2003 and 2005, expenses on vehicle maintenance and fuel totalling \$66,423.94 and \$10,650 were funded through fees while the 2003 Budget had provided for the same under the National Health Training and Research and the National Vector Borne Disease Control Division. Also, funds for fuel were accessible through the Ministry's Standing Imprest Account. Such an arrangement where the Institute funds expenses through fees when the same has been appropriated for in the budget increases the risk of double dipping and fraud.
- OAG noted that the Accountant lacks the necessary knowledge and skills required to effectively perform the duties and responsibilities of an Accountant and to properly advise the Director. He was previously holding the position of Storeman before he was required to take up the position of the SIMTRI Accountant. This led to improper accounting for fees and operational expenses for the school and breaches of the Financial Instructions.
- The Public Health Training Program under SIMTRI is illegal as the curricula for both the Certificate and Diploma programs were not submitted to the Minister for Education and Training for approval as required under Section 23 of the Education Act.

**Recommendation 29**

OAG recommended that the Ministry:

- Legalise the Public Health Training School as required under the Education Act;
- Ensure that the provisions of the Financial Instructions and the Public Finance and Audit Act relating to the receipting and accounting of fees and expenditure are complied with;
- Close the bank account and account for all moneys through the normal SIG financial processes; and
- Appoint an appropriately trained and experienced person as Accountant.

**Management Response**

The Permanent Secretary of Health and Medical Services provided a detailed Action Plan which provided for implementation of all of the audit recommendations. These actions include disciplinary action against officers and referral to the appropriate authorities for consideration of legal action.

## 4.8 Ministry of Infrastructure Development

	Revenue	Expenditure
Revised 2006 Actual	\$1,139,134	\$32,201,993
2007 Estimate	\$1,573,855	\$52,019,039
2008 Budget	\$1,353,800	\$50,615,276

The Key Outputs for the Ministry in 2007 were:

- Construction, maintenance and rehabilitation of roads, bridges, wharves and airfields;
- Maintenance and replacement of government machinery and equipment;
- Building and maintenance of government buildings;
- Building and maintenance of marine infrastructure and ship registration.

### 4.8.1 Motor Vehicle for Member of Parliament

#### Background

On 17<sup>th</sup> January 2008 was requested to investigate a motor vehicle accident on 5 April 2007 which involved a G-Plated Motor Vehicle which was allocated to a former Member of Parliament.

During the audit OAG sighted a deed of release and settlement executed on 5<sup>th</sup> January 2008 between the other party to the accident and the Permanent Secretary for the Ministry of Infrastructure and Development.

It is one of the roles of the Ministry of Infrastructure and Development to maintain and replace government machinery and equipment which includes the fleet of G-Vehicles.

OAG confirmed that the G-plated vehicle that was damaged in the accident is in the possession of the other party as per the deed of release. However there had not been a replacement vehicle for SIG.

#### Audit Objectives and Scope

OAG conducted this audit to determine whether actions taken were in accordance with the Ministry of Infrastructure and Development (the Ministry) procedures.

## Key Findings

The following are the key OAG findings in the investigation into the issues and allegations raised:

- **Loss of a Government Vehicle Which has not been Replaced**

A Government Vehicle allocated to a Member of Parliament collided with another motor vehicle on 5 April 2007 and a settlement for the debt by the driver of the other vehicle was agreed as \$324,000. This money has been paid and a new vehicle has been purchased from a supplier, however this vehicle has not been returned to SIG to replace the damaged G vehicle. Furthermore as a result of the audit review it appears that the Honourable Member was using this replacement motor vehicle for his own use or benefit, but it actually belongs to SIG.

- **Replacement Vehicle of \$324,000 Exceeds the Value Of The Damaged Government Vehicle**

OAG noted that the damaged government Toyota Hilux Dual Cabin involved in the accident was purchased for \$198,000; however the settlement for the replacement vehicle totalled \$324,000 which is \$126,000 more than the book value of the original car. OAG cannot identify what this extra \$126,000 was used for. This lack of transparency and accountability to determine the reason for this excess payment increases the risk of fraud or corruption.

- **Lack Of Compliance With Public Service (Government Properties) (Vehicles and Plants) Rules [Cap92]**

All G-plated vehicles allocated to authorised officials should follow a process whenever these vehicles are involved in accidents. However in this particular case the person involved in the accident did not report the accident to the Ministry but instead dealt directly with the other party and the supplier. The lack of compliance with existing legislation, rules and processes increases the opportunity of risk for theft, corruption or fraud.

- **Motor Vehicle Registration For Replacement Vehicle Has Expired**

OAG identified that the alleged vehicle being used by the Honourable Member was not licensed or registered since registration expired on 17 December 2007. This is in breach of regulations and sections of the Traffic Act (Cap 131) and requires further investigation by the Ministry.

**Conclusion**

This matter should be reported to the Police to investigate the allegation of conversion of government property and to further investigate the circumstances which led to SIG being denied the surplus implied in this transaction.

Regulation of the use of government vehicles is prescribed in the Public Finance and Audit Act [Cap 120], the Public Service (Government Properties) (Vehicles and Plants) Rules, the Parliamentary Entitlements Regulations and the Financial Instructions. OAG recommended that written processes and guidelines to be developed by the Ministry in relation to the allocation, use and maintenance of G-plated vehicles which combines the requirements into one document, prescribes more detail for guidance with the current practice of Ministry controlled vehicles.

**Recommendation 30**

OAG recommended:

- That MID investigate further this transaction and refer the matter to the appropriate authorities to ensure appropriate action is taken in relation to any potential overpayment or disciplinary action; and
- MID review its procedures relating to the issue and recovery process for motor vehicles and clarify with drivers of government vehicles what action is necessary in the event of an accident.

**Management Response**

The Permanent Secretary of Infrastructure and Development provided a detailed action plan to address the recommendations made and OAG notes that the Police have commenced an investigation into this matter.

## **4.8.2 Solomon Islands Road Improvement Project 2007**

### **Background**

The Ministry of Infrastructure and Development (the Ministry) is responsible to regulate, maintain and provide roads, wharves, airstrips and government workshops.

In 2007 the Solomon Islands Government through the Ministry of Infrastructure Development implemented the Solomon Islands Road Improvement (Sector) Project (SIRIP) for four (4) years with a budget of US\$16.85m which is being administered by Asian Development Bank (ADB).

The funding is provided by ADB (2.08%), the Government of Australia (36.2%), the Government of New Zealand (57.86%) and the Government of Solomon Islands (3.86%). The project is for the improvement of provincial and secondary roads through:

- rehabilitation of about 100 kilometres of rural roads;
- road maintenance projects, including development and implementation of a national transport fund, and participation of private sector contractors and communities in routine maintenance and labour –based equipment supported methods; and
- project management and capacity building.

The project is managed on a day to day basis by the Project Management and Capacity Building Unit (PCMBU) which supports the Ministry of Infrastructure and Development.

### **Audit Objectives and Scope**

The main objective of this audit was to ensure the use of the funds is for the purpose intended for the project. Furthermore, this audit was to perform sufficient audit work to determine accuracy, existence and completeness of recording of Grants Received, Civil Works, Equipment, Consulting Services and Foreign Exchange Gains/Losses.

The financial period audited was from the commencement of the Project being 15 February 2007 to 31 December 2007.

### **Recommendation 31**

OAG's key recommendation is to ensure that a process is in place to ensure that foreign exchange transactions are checked by a second officer.

### **Overall Result**

OAG confirmed that the funding received for this project is being used towards the SIRIP project for which the main objective is the improvement of provincial and secondary roads. The financial statements for the project for the period ended 31 December 2007 were certified by the Acting Auditor General on 26 June 2008.

## 4.9 Ministry of Lands, Housing and Survey

Until the end of 2006 this Ministry was a Department within the Ministry for Agriculture and Lands.

	Revenue	Expenditure
Revised 2006 Actual	\$3,222,256	\$6,892,351
2007 Estimate	\$13,393,901	\$9,822,421
2008 Budget	\$14,340,326	\$19,300,385

The Key Outputs for the Ministry in 2007 were:

- Revise Standard Operating Procedures to deliver more effective and efficient Land Administration services;
- Submission of the Land and Titles Amendment Bill to Parliament;
- Extension of regional services through the Northern Regional Lands Centre;
- Report on the issues, needs and benefits associated with registration of customary land through a pilot project;
- Small scale pilot review of land tenure security for Temporary Occupational Licences;
- Develop policy on valuations, premium and land rent establishment and reassessment;
- Initial estimate of SIG land assets;
- Maintain and manage Department of Lands and Survey budget and resources.

### 4.9.1 *Sale of Government Houses*

#### **Background**

The sale of government houses which has continued since the 1970s has contributed to the severe shortage of government houses for public servants. The sale of these government houses which occurred with little planning has not only significantly reduced the stock of housing available to meet the government's housing obligations to its employees, but it has also resulted in an uncertainty in the total number of houses owned by the government.

On 27 October 2005 Cabinet approved a moratorium to be placed on the sale of all government houses and the Central Property Unit (CPU) was established in late October 2005 to improve the management of government housing in the Solomon Islands.

The *Provincial Government Act 1997* provided for provincial governments to own government properties within their boundaries under the Devolution Order 1981. The Order specified the government properties to be transferred and in the case of government houses, the ownership needed to be registered through the Commissioner of Lands, Surveyor General and the Registrar of Title to comply with land transaction processes. Not all the provinces obtained the same type of legal title under the Devolution Order, possibly because of the uncertainty over the type of ownership that best suited the provincial governments at the time, and their state of autonomous governance.

On 23 July 1991 Cabinet approved the transfer of perpetual titles at Auki to the Malaita Provincial Government and the Gizo township boundary to Western Provincial Government. However the Cabinet decision was not enacted due to the interpretation of the *Lands & Titles Act 1996* by the incumbent Commissioner of Lands. Instead, on consideration of the interpretation of the *Lands & Titles Act 1996* regarding ownership of properties by the government the Commissioner of Lands approved certain transfers to provincial governments.

Due to past history and the likelihood of not being able to locate documentation for the sale of government houses that may have occurred more than 10 years ago, the period that was chosen for audit to investigate sales was restricted to sales between 2000 to 2006 as it was more likely that documentation could still be located and also any sales after the moratorium were scrutinised in more detail.

Furthermore OAG included in this audit the results of a review of government office buildings that were sold in Honiara and in some cases government land sold in Auki.

## Conclusion

OAG identified that the main issue in relation to the sale of government houses is the lack of documentation and evidence to support the allocation or disposal of government property. This is further exacerbated by the lack of guidelines or disposal policies in relation to the sale of government property. This increases the opportunity for the abuse of official powers by public servants with the authority to register and allocate land. In addition, there is a lack of coordination or communication between provincial and national governments in relation to the registration of titles which has sometimes led to the registration of titles which was contrary to the documentation in lot files and contrary to the direction of provincial government.

This audit identified many weaknesses and consequently OAG made a number of recommendations. It is imperative that these are implemented so that:

- controls are tightened;
- SIG collects all revenue from disposal of government property;
- SIG is in control (provincial and national governments) of government property and restrictions imposed to ensure these properties are not disposed.

## Key Findings

- There is an accepted practice for the sale of government property however there are no written instructions, guidelines or policies, other than one sentence in the Financial Instructions. The accepted practices have not been followed and this has resulted in the improper management and maladministration of the sale of government properties
- There is no central database of government houses that have been sold in Honiara and the Provinces and this has resulted in the lack of monitoring and knowledge of government houses sold.

## HONIARA FINDINGS

- OAG noted that 35/68 parcels that could be identified did not have a lot file opened or the lot file could not be located. This is in breach of s108(3) of the Constitution, s36(1) of the Public Finance and Audit Act and the Government Records Management Policy which requires all Government ministries to maintain good records management.
- OAG reviewed two properties to establish whether proper procedures were employed. In the case of the Twin Tower buildings, which were previously occupied by public servants, these were sold as a result of an approval by Cabinet. OAG identified that there were certain breaches of Cabinet instructions in the signed grant instrument which require further legal advice.

In the Herons Club case, the government entered into an agreement with the current owner to buy back this land to build more government offices. The government has paid the agreed amount of \$1.97 million; however the property vendor is refusing to vacate the premises as he is claiming that the government owes more money. This issue requires further legal advice to enable SIG to resolve this matter.

- The following cases were identified which highlight inadequate processes and require further investigation by CPU:
  - a) Government owned houses were sold for the development of a hostel. The government employees refused to vacate the government houses as there was no alternative housing provided and therefore no development has commenced on this site;
  - b) A company was offered a substitute parcel as the original parcel they applied for was allocated to someone else. This substitute parcel however is government quarters and currently government employees are residing in these quarters;
  - c) There was a long delay of nearly 10 years in the registration of interest in land; and
  - d) 3 out of the 6 parcels that related to sales during 2001-2005 did not have Cabinet approval, valuation documents or any justification for the sale of the property.

## GIZO FINDINGS

- A previous provincial government made decisions during a caretaker period from July 2003 until the election which was held in May 2005. OAG sought further advice to determine whether the caretaker Government has a legal basis for the transfer or sale of up to 133 government properties because these sales did not follow any written policy.
- Four public servants working in the Provincial Government abused their official duties by applying for government houses for the purpose of going into the tourism industry. Furthermore some public officers purchased more than 1 house which is in breach of General Order C118. Many of these government properties sold are on prime land sites and 41% of the recipients are Provincial employees and seconded staff.
- OAG noted from the documentation available that sales revenues for 35% of the government houses sold in 2004 had not been collected. This amounted to \$640,194 in outstanding revenues.
- The Western Province Government entered into an agreement with hotel owners to dispose of government property in exchange for debts owing to the hotel owners. OAG identified some inconsistencies in the documentation to support this agreement and this has raised questions about the legitimacy of such transactions which requires further investigation. In terms of the shortage of government housing this agreement was not in the best interest of the provincial government.
- The valuation of government houses sold during 2003 and 2004 were carried out by separate valuers and the results were markedly different. Furthermore there was a lack of documentation to support the final valuations. These irregularities may result in the loss of revenue for the government and exacerbates the increase in the shortage of government houses.
- OAG noted that the expiry dates on the letters of offer are not indicated or strictly adhered to. This increases the burden in the shortage of houses because these houses are on hold while they are on offer for sale. Furthermore the Provincial Government has been paying rent to private owners for accommodating provincial staff since 2005 due to the shortage of houses. A total of \$26,500 has been identified as an expense by the Provincial Government per month.

## AUKI FINDINGS

- Several government owned houses and property were sold but did not follow a due process and contained many irregularities or inconsistent information that raises issues about the legitimacy of these transactions. Irregularities include the following:
  - sale based on the tenant being able to repair the government quarter;
  - offers of land not actioned until 9 years later;

- a public medical centre is to be relocated for commercial and motel redevelopment; and
- the Malaita Town and Country Planning Board ceased to exist since 2000.

These highlight that the critical systems in the land registration and allocation processes have seriously broken down resulting in a general lack of confidence in the administration of this area. Further investigation is required and consideration to forfeit the land based on error or fraud is required.

- OAG noted that 73% of government houses allocated through the housing committee are on unsurveyed land. As a result of these properties being unsurveyed OAG noted there have been instances whereby these buildings or property have been used for purposes other than government activities. To ensure that these government properties are not allocated or sold unlawfully, the government should survey all the land and place restrictions on it to prevent any sale.
- Government owned land in Tafulingau area was allocated before they were surveyed. This particular area is in a prime site however the allocations of this land did not follow a consistent process and further investigation is required to determine the legitimate owners. Furthermore, the proposed site for the new Auki Market had not been finalised due to the lack of documentation to support the process and decision making carried out. Much of this land has been sold to private individuals. In these transactions the Malaita Provincial Government was not able to demonstrate accountability and transparency of decision making which is a basic tenet of public administration.

### **Recommendation 32**

OAG's key recommendations were:

- The need to develop written policies, procedures and guidelines in relation to the disposal or sale of government property. This will include the enhancement of the current Financial Instruction 543A;
- Develop a central database that details all government houses or properties that exist in Honiara and the Provinces and when they have been sold;
- Survey all unsurveyed government property and register it with the Registrar of Titles then immediately place restrictions on these titles to ensure a rigorous process is followed before these properties are sold;
- Staff working in the Provinces and Honiara and dealing with any land allocation processes and registration to be made aware of the importance of declaring and assessing conflicts of interest;
- A major strengthening program should be undertaken to improve land administration procedures. This will include ensuring all staff are made aware of the current standard operating procedures that exist; and
- There are a number of irregularities that require further investigation and these matters should be followed up as soon as possible.

**Management Response**

The Permanent Secretary Land, Housing and Survey advised that “*the Central Property Unit was established within the Ministry to improve tenancy and property management practices relating to the government housing portfolio. The Government Housing Taskforce has approved the establishment of a working group, representing a broad cross-section of Ministries, to develop a formal policy relating to the sale of government houses.*” A draft policy was later developed and a copy provided to OAG. The Permanent Secretary also provided a detailed Action Plan to OAG which addressed all of the recommendations.

The Provincial Secretaries of both Malaita Province and Western Province also provided comments on the audit report. While they both agreed with the audit report generally, they pointed out that the different tenure types makes land administration more complex, there needs to be written policies which are clear and easy to understand, and there is a need for closer cooperation between the Land Centres based in the provinces and the Provincial Governments.

#### ***4.9.2 Compensation Claim by a Member of Parliament***

##### **Background**

Compensation payments totalling \$370,000 have been paid to a Member of Parliament in relation to a claim that he owned a parcel of land and property in Shortland Islands but it was transferred to another party. The original claim was for \$500,000 which is based on a valuation carried out by a valuer of the Ministry.

On 22 November 2005 the second party referred this matter to the Commissioner of Police so that the Criminal Investigation Department could investigate these claims.

On 11 August 2006 the Auditor-General received a letter advising his concerns about these compensation payments that have been paid over the period from 2000 and 2005.

Following a review of records and interviews OAG concluded that the parcel of land to which the compensation claims relate did not appear to interfere with the temporary housing structure that belongs to the Honourable Member. Furthermore, the land that the temporary housing structure is built on, according to records, does not legally belong to the Honourable Member. There is no Temporary Ownership License for this temporary housing structure; therefore, the residents are illegally on this land.

##### **Conclusion**

Based on the evidence obtained and the investigation carried out by OAG the parcel was not transferred to the Honourable Member and consequently there is no evidence to support the compensation paid.

##### **Recommendation 33**

OAG made a number of recommendations to the Ministry, including that it should investigate the matter and consider action to recover monies paid to the Honourable Member totalling \$370,000 under Section 22 of the Public Finance & Audit Act, refer this matter to the appropriate authorities and further investigate and if appropriate evict the illegal residents in the temporary housing structure on land adjacent to this parcel of land.

##### **Management Comment**

The Permanent Secretary Agriculture and Livestock advised that the Police had commenced investigations. He is awaiting a report from the Police before taking any further action.

## 4.10 Office of Prime Minister and Cabinet

	Revenue	Expenditure
Revised 2006 Actual	\$23,095	\$20,742,233
2007 Estimate	\$32,320	\$44,052,911
2008 Budget	\$83,000	\$40,883,760

The Key Outputs for the Office in 2007 were:

- Affordable and effective Cabinet decisions;
- Coordinated and accountable policy advice;
- Effective Cabinet and Cabinet committee processes;
- Clear and communicated Government messages;
- Transparent and ethical leadership;
- Clear and coherent national planning;
- Constitutional Reform.

### 4.10.1 2007 Diaries

#### Background

OAG noted that funds from the “SIG 2007 Calendar and Diary Project” were transferred from one of SIG’s accounts with the Central Bank of Solomon Islands directly to a private supplier’s bank account held with the ANZ Bank. The funds for this project were provided by the Republic of China. OAG further investigated and noted that the supplier was paid in advance but at the diaries were not delivered until the middle of 2007. OAG further noted that the funded project was handled by political officers within the Office, thereby bypassing normal administrative and payments processes.

OAG undertook a special audit to review the particular project to establish whether there was compliance with processes and procedures as stipulated by Financial Instructions, the Public Finance and Audit Act and other relevant regulations. Furthermore it was to ascertain whether or not the authorisation and processing of the “SIG 2007 Calendar & Diary Project” funding by the Office and MOFT were transparent.

#### Conclusion

The non-compliance by the Office with required procurement and payment processes seriously undermined public accountability and transparency. Certain public officers within the Office were perceived to be serving their own interests rather than following relevant regulations.

The audit revealed many serious problems in the procedures and practices as well as deficiencies in internal controls. The lack of controls surrounding special projects funding, the expending of those funds and the general lack of adherence to required controls and regulations have subjected the Office to a lack of accountability and transparency in the handling of public funds. This increases the opportunity for misappropriation of public funds, fraud and corruption.

## Key Findings

The process to issue, manage and monitor this special project account was inadequately controlled with little or no regard for the requirements of the Financial Instructions. A summary of the audit issues identified are summarised below:

- The Ministerial Tender processes and requirements were not followed by the officers of PMO. Furthermore there was non-compliance with the Financial Instructions in relation to the requisitioning, payment vouchers and LPOs.
- There were only two quotes obtained and assessed however there was no documentation to support the final decision. OAG also noted a perceived conflict of interest between a secretary within the Office and the supplier to which the project was awarded.
- Payments in advance should be authorised in writing from the Permanent Secretary Finance and Treasury. However OAG noted that this payment of SBD\$298,000 did not comply with FI 280 and the goods were delivered nearly 3 months after the payment.
- The Funds for this project were not accounted for in the Accounting System because it did not follow the proper process of ensuring a General Payment Voucher was completed. There is an increased risk that these project funds will be mismanaged as they are not recognised as revenue or payments by the Office in the National Accounts.

### Recommendation 34

OAG's key recommendations were that the Prime Minister & Cabinet Office:

- establish a Ministerial Tender Board;
- make the necessary directives to ensure that administrative matters are dealt with through the proper administrative process to ensure Financial Instructions and other relevant laws are complied with;
- ensure all special project funds are accounted for in the same manner that applies for all other Ministerial procurements;
- initiate appropriate action against staff involved in the project; and
- ensure the Financial Instructions are complied with in relation to advance payments and the use of general payment vouchers to ensure accountability and transparency within the Office.

## Management Response

The Secretary to Cabinet provided a detailed Action Plan to address the audit recommendations. She advised that the matters will be investigated and action taken, including legal charges being laid through the Police. The Secretary to Cabinet further advised that action has been taken to prevent future issues such as these.

#### 4.10.2 *Commission of Inquiry into April 2006 Civil Unrest*

##### **Background**

The Office of the Commission of Inquiry (“the Commission”) was established to investigate the 2006 Honiara Civil Unrest. In November 2007 OAG received a request to review the administration and management of the finances allocated for the Commission of Inquiry totalling approximately \$3.8million, at that time.

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

The purpose of this special audit was to review the management and use of finances incurred by the Commission to ensure:

- Expenditure was appropriate, reasonable and properly authorised;
- Processing and incurring of expenditure adhered to Financial Instructions;
- Officers employed within the Commission had proper contracts that were authorised; and
- Related employment allowances were valid.

The period reviewed was for the financial year January 2007 to December 2007.

##### **Conclusion**

OAG reviewed documentation for payments charged to the Commission of Enquiry account code in the general ledger and summarised the expenditure into the following categories:

<b>Category</b>	<b>Expenditure \$</b>	<b>Sub-total \$</b>
<b>Expenditure not relating to the Inquiry:</b>		
Legal Fees	209,857.97	
Sitting Fees for Other Committees	13,230.00	223,087.97
<b>Expenditure relating to the Inquiry:</b>		
Imprest establishment	510,000.00	
Motor vehicles	289,000.00	
Furniture and office equipment	261,580.90	
Building modifications	9,438.50	
Computer equipment	191,520.00	1,261,539.40
Wages and special duty allowances	125,332.00	
Salaries of Commissioners, Special Counsel, Secretary and Secretariat	2,218,168.80	
Salary Advances	56,990.00	2,400,490.80
Airfares	92,046.80	
Fuel	15,425.00	
Telephone calls	3,586.00	
Newspapers	25.00	
Taxi and bus fares	95.00	
Commissioner of Oaths	150.00	

Stationery and office supplies	31,753.48	
Per diem	450.00	
Witness expenses	1,320.00	
Meals	12,577.60	
Alcohol	2,228.50	
Groceries	1,704.40	
Commissioner accommodation, meals etc	113,966.00	
Advertising	19,275.00	
Bank Fees	80.00	294,682.78
<b>TOTAL</b>		<b>\$4,179,800.95</b>

The above list highlights the extent to which the costs of operating the Inquiry were either under budgeted or costs were not controlled to keep within the budget, or a combination of the two. Over \$1.2 million was expended on set up costs. Over \$2.4 million was expended on salaries for key positions.

In addition, at least \$223,000 of expenditure did not relate to the Inquiry. This includes payment of personal legal fees for two prominent government officials with no link to the Inquiry. Several other items of expenditure were either in excess of contractual agreements or not properly managed, and these are discussed in the detailed section of this report.

The non-compliance with required legislation and relevant provisions by the personnel of the Commission and the secretarial services firm seriously undermined public accountability and transparency. The Commission has a high public profile due to the significance of the subject it is investigating. Therefore there is high public expectation of the outcomes. Funds were budgeted for the Commission. The use of a Standing Imprest and Petty Cash increased the opportunity for personnel to release funds for expediency which resulted in bypassing the controls integrated in the SIG central payment process. This lack of controls and monitoring was further accentuated because a third party (not a public officer) was involved in financial management through the Secretarial Services firm who may not have been familiar with Financial Instructions and other SIG requirements.

### Key Findings

The process to issue, manage and monitor this special project account is inadequately controlled with little or no regard for the requirements of the Financial Instructions. A summary of the audit issues identified are summarised below:

- Two accounts for legal fees were paid and charged to the Inquiry account code being \$178,182.97 was for payment to an Australian firm of solicitors of legal fees and \$31,675.00 was for legal costs of a personal nature. These expenses were not directly related to government business and had no link to the Inquiry and should not have been paid from SIG funds.

- Some amounts paid from the Imprest account appeared to be in excess of the contractual agreements. These included:
  - The Secretarial Service contract requires all costs of operating the Secretariat to be paid by the Secretarial Service. However, OAG noted that a total of \$31,753.48 was paid from the Imprest account for stationery and office supplies, which the contract indicates should have been paid by the Secretarial Service. The Secretarial Service was paid \$50,000 per month by the Commission.
  - Return airfares to PNG were paid for Commissioners which was in addition to the return airfare required as per their contracts.
  - A return airfare to Gizo for the Counsel Assisting the Inquiry was paid for the same time period.
  - JSP Security Services was paid \$27,000. Correspondence on file states that the cheque was to be collected by the son of Counsel Assisting. There was no purchase requisition or contract agreement attached to the payment documentation.
  - Meals for the Commissioners were paid in addition to their accommodation. Their contracts state that accommodation will be provided and is silent on meals.
- OAG noted that the Commission expended \$1,261,000 on motor vehicles, office equipment, furniture, sound equipment etc. The Office of Prime Minister and Cabinet needs to ensure that, when the Inquiry is completed, these assets are either reallocated to other government activities or sold for proper value in accordance with the Financial Instructions. The Commission also paid for airconditioning repairs, works to the plumbing, curtains and other modifications to the building being used for the Inquiry. These costs should have been met by the owner of the building. The Office of Prime Minister and Cabinet should pursue negotiations with the owner of the building to recover these costs.
- The expenditure amount to incur totalling \$1,089,222.91 was more than the amounts recorded as funds available of \$546,063 on the respective accounts. Furthermore Expense Requisitions were not completed with the 'funds available on account' details. The above instance is in breach of Financial Instruction 203 and increases the risk of excessive spending.
- Two Standing Imprests totalling \$505,000 were issued during 2007 and should have been retired by 31 December 2007, however these Imprests have not been retired. Furthermore there was a lack of supporting documentation to support the use of imprests and petty cash. The lack of timely retirement of Imprests and lack of documentary evidence increases the risk of misuse and loss of government funds.

**Recommendation 35**

OAG's key recommendation is that the Office of the Prime Minister and Cabinet play a more active role in monitoring the financial and budgetary processes of the Commission. More importantly monitoring of the secretarial services and assessment of contract performance should be made on a regular basis to ensure the government is obtaining value for money and accountability and transparency is obtained at all times. The recovery of the inappropriate legal fees should be pursued.

**Management Response**

The Secretary to Cabinet provided a detailed Action Plan to address all of the audit recommendations. She advised that the matters would be investigated and disciplinary and legal action taken as required. The Secretary to Cabinet further advised that a new Accountant is to be appointed to assist in the investigations and perform the accounting tasks for the Land Enquiry Commission. In future all accounting will be undertaken within the Office of Prime Minister and Cabinet.

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

	Revenue	Expenditure
Revised 2006 Actual	\$0	\$38,778,722
2007 Estimate	\$0	\$48,979,420
2008 Budget	\$0	\$48,375,188

The Key Outputs for the Ministry in 2007 were:

- To work out and apply sharing of certain percentages of revenue for provinces and resource owners;
- To actively participate in rehabilitation and the peace process;
- To develop an appropriate integrated Rural Development Programme for Solomon Islands;
- To plan and initiate an appropriate programme for strengthening the capacity building of the Ministry of Provincial Government.

##### 4.11.1 *DOMA Provincial Headquarters Funding 2007*

###### Background

The then Undersecretary of the Ministry of Provincial Government and Institutional Strengthening (MPG&IS) requested OAG to review the Doma Project funds which had been drawn without the approval of the Permanent Secretary. This report presents the findings and recommendations of the audit.

###### Key Findings

Below is a summary of the audit findings:

- OAG noted that the approved procedures for disbursing project funds as outlined in the Project Work Plan had been breached. Contrary to the requirements of the approved Work Plan, the former Permanent Secretary and the Assistant Accountant General of the Ministry of Finance and Treasury on 16/11/07 issued an advice to Central Bank of Solomon Islands to transfer SBD\$993,518.27 to the Guadalcanal Province Feeder Road Maintenance Account instead of the MPG&IS bank account which was opened specifically for the project. The Permanent Secretary of MPG&IS, who is the Accounting Officer of the Head of Expenditure had no knowledge of and had not authorised the transfer of funds to the Guadalcanal Province bank account.

The transfer of the project funds was initiated by the Members of the Guadalcanal Provincial Assembly who requested the Permanent Secretary of Finance and Treasury to transfer the funds to the Provincial Government account. The Ministry of Finance and Treasury did not consult the PS of the MPG&IS before transferring the funds to the Provincial Government. This is in breach of section 17(1) (2) of the Public Finance and Audit Act. It further demonstrated the intrusion of the Ministry of Finance and Treasury into Ministry budget controls.

- The Guadalcanal Provincial Government spent \$119,690 on activities that were not in any way related to the project. OAG however noted that the Province refunded these funds back to the Project account on 10/12/07. OAG further noted that additional funds of \$100,000 were spent on activities not related to the project but were not refunded. The practice of borrowing project funds to be used for other purposes increases the risk of misappropriating funds which can result in the non-achievement of the project objectives. At the time of the audit in December 2007, only \$11,000 had been expended on the logistics of the project and not on the actual project.
- OAG noted that project funds of \$993,518.27 were deposited into the Guadalcanal Province Feeder Road Maintenance Account number 46794 with ANZ instead of a bank account opened specifically for the purpose of the project. Pooling Doma project funds with that of the Feeder Road Maintenance increases the risk of misuse which can lead to non-achievement of the Project objectives, particularly if separate records are not kept to differentiate the two accounts. This was in breach of the Ministry of Finance and Treasury directive to MPG&IS to open a separate bank account for processing payments under the projects.

### **Recommendation 36**

OAG recommended that:

- The MPG&IS request the Guadalcanal Provincial Government to transfer the project funds back to the Ministry as required under the approved Work Plan;
- The Permanent Secretary for MPG&IS refer to his Minister the matter of the then Permanent Secretary for Finance & Treasury approving expenditure which was appropriated to Head 484 and request that his Minister address the matter with the Minister for Finance & Treasury;
- Guadalcanal Province reimburses the remaining \$100,000 expended from the Project Funds for items not directly related to the project; and
- MPG&IS consider taking necessary action against the Project Development Officer for breach of the project approved work plan and section 7(1) of the Public Finance & Audit Act.

### **Management Response**

The Permanent Secretary for Provincial Government and Institutional Strengthening agreed with the recommendations and provided a detailed Audit Action Plan to implement the recommendations.

#### 4.11.2 *2007 Premiers Conference*

##### **Background**

The Permanent Secretary for Provincial Government and Institutional Strengthening (PG&IS) requested OAG to conduct a review of the appropriateness of expenditure incurred for the 2007 Premiers Conference held in Lake Tegano, Rennell & Bellona Province from 11/9/07 to 16/9/07.

Costs for the conference were in two categories as follows:

- **Pre-Conference Costs Incurred By the Ministry of Culture and Tourism 2007 Development Budget** - A total of \$291,000 was incurred from the Ministry of Culture and Tourism development budget to help improve lodges and rest-houses in Lake Tegano, which were to be used as the conference facility and to accommodate participants and officials of the Conference.
- **Running Costs of the Conference Controlled by the Ministry of Provincial Government and Institutional Strengthening Recurrent Budget** - A total of \$1,055,677 was incurred from the Ministry of Provincial Government and Institutional Strengthening recurrent budget for the running of the Conference.

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

OAG conducted this audit to determine whether the expenditure incurred for the 2007 Premiers Conference was appropriate and in accordance with proper financial management as required under the Financial Instructions and the Public Finance and Audit Act.

##### **Conclusion**

OAG noted that there were weak controls over the assessment, approval, disbursement and accountability of funds disbursed to lodges and home stays approved to accommodate conference participants and officials. Owners of two lodges alleged to OAG that they did not receive all the funds they should have received. These allegations need to be reported to the Police.

Similarly OAG noted weak controls over the management of funds to run the conference. The imprest of \$189,000 issued to the Chief Accountant in August 2007 has yet to be retired. Furthermore, there were irregularities noted over the expenses claimed by the Chief Accountant to be met from the imprest. The same expenses were noted to have been paid through general payment vouchers. OAG was unable to obtain explanation from the Chief Accountant as he had not been reporting to work without authorisation and he had refused to report to work despite repeated directives by the Permanent Secretary that he should provide an account of the imprest.

OAG also noted that the decision to hand the majority of the conference assets over to an individual rather than to the Provincial Government for the benefit of the wider provincial population was inappropriate.

## Key Findings

Below is a summary of the audit findings:

- A sum of \$40,000 was approved by the Ministry of Culture and Tourism Project Selection and Screening Committee based on the recommendations of the conference Task Force Committee to improve Head Road House located at Lake Tegano to accommodate conference participants and officials. The owner of Head Road House alleged to OAG that he had not received any cash from the Provincial Government. Furthermore the Ministry of Culture and Tourism's assessment report dated 3/10/07 alleged that the Provincial Secretary, Robert Pongi was responsible for disbursing the allocated amount of \$40,000 cash and the arrangement was for some of the materials to be purchased at a later date, but this did not eventuate.
- Based on the recommendations of the conference Task Force Committee the Ministry of Culture and Tourism Project Selection and Screening Committee had approved a sum of \$30,000 for the improvement of Home and Away Lodge to accommodate conference participants and officials. OAG noted from our visit to Rennell that there are two separate lodges named "Home and Away" located at Lake Tegano. OAG could not determine which lodge the Committee was referring to as it was not clearly indicated in their approval. However, OAG was advised that the second named Lodge became known as Home and Away Lodge after the Premiers Conference commenced.
- The owner of Home and Away at Lake Tegano alleged to OAG that he is the rightful recipient of the funds but received only \$3,500 cash from the former Premier of the Province. He also alleged that the former Premier used the balance of funds totalling \$26,500 to improve his lodge which was not approved as one of the lodges to be used during the conference.
- The Conference Task Force Committee, on the recommendation of an assessment team from the Provincial Government, selected lodges and rest houses to accommodate guests and resource personnel for the conference. OAG noted that there was no evidence available at the Rennell & Bellona Provincial Government office or at MPGIS to indicate that each of the lodges and rest houses had submitted estimates of what they needed to accommodate the participants and officials. OAG further noted that the Ministry of Culture and Tourism approved the amount requested without querying or requesting the Provincial Government to submit evidence of how the amounts were determined. Furthermore, the Ministry of Culture and Tourism did not send its own assessment team which should include tourism officers who have the skills and knowledge to assess viable tourism projects.
- An imprest of \$189,000 was issued on 28/8/07 to the Ministry Chief Accountant to meet specific budgeted conference costs. The imprest should have been retired on 31/9/07. As at the end of June 2008, the imprest had yet to be retired despite Ministry of Finance and Treasury reminder to the Chief Accountant on 1/11/07.

- The Ministry of Culture and Tourism post-conference assessment report showed that more than half of the lodges and rest houses assisted were not able to account for how they had expended funds. There was a general lack of receipts and documents to support how funds were spent. This made it difficult for the Ministry of Culture and Tourism representative to substantiate that funds were all utilised for the approved project. The report further stated that the method of disbursing the funds was incorrect. Lack of accountability and evidence to support and justify how development funds were utilised increases the risk of mismanagement and fraud occurring and not being detected.
- The Ministry of Provincial Government and Institutional Strengthening purchased assets at a total cost of \$349,813. These assets were to be used for the conference and transferred to the Rennell & Bellona Provincial Government office. However, the Minister of Provincial Government and Institutional Strengthening in his closing speech at the conference decided to donate all of the assets except the 3 ton truck costing \$176,000 to the owner of Kia Koe Lodge, where the conference was held. There were no written instructions from the Minister to the Ministry of Provincial Government and Institutional Strengthening to donate most of the assets to an individual.
- In addition to receiving \$95,000 tourism development funds to assist in the upgrading and expansion of the lodge and the opportunity to host the conference, the owner of Kia Koe lodge, who was then a member of the Provincial Government Executive and is currently a member of the Provincial Government Assembly also enjoyed the benefit of a gift of assets totalling \$173,813 which could have been given to the Provincial Government for the benefit of the wider Provincial population instead of just one person in the Province.

### **Recommendation 37**

OAG recommended that the following be implemented for future management of Premiers Conference expenditure to prevent wastage and loss of public funds:

- The Ministry of Culture and Tourism report the two instances of suspected fraud to the Police;
- The Ministry of Culture and Tourism be involved in the assessment of tourism development assistance required for the Premiers Conference;
- The Ministry of Culture and Tourism to disburse tourism development assistance funds directly to the recipients instead of a third party and disbursements be made progressively after satisfactory assessments;
- The Ministry of Provincial Government and Institutional Strengthening immediately report the Chief Accountant to the Police;
- The Ministry of Provincial Government and Institutional Strengthening ensure that imprests for future conferences be retired immediately after the conference; and
- The Ministry of Provincial Government and Institutional Strengthening in future donate conference assets to the Provincial Government instead of individuals if it is not practical to return the assets to the central government.

**Management Response**

The Permanent Secretary for Provincial Government and Institutional Strengthening provided an Action Plan and agreed to implement all of the recommendations which related to his Ministry.

The Permanent Secretary Culture and Tourism also provided a detailed Action Plan. In this document he advised that:

- an investigation into the facts has commenced;
- that third party payments will not be made in future;
- development assistance via cash is to be disbursed progressively based on assessment;
- future projects will be based on proper evaluation and estimates;
- the Ministry will require proper accountability and acquittal for funds received in the future; and
- future assets will be given to Provincial Governments.

## 5 RESULTS OF AUDITS OF PROVINCIAL GOVERNMENTS

### 5.1 Catch-up of backlog of 143 financial years

#### *Failure to prepare financial statements*

Over the years since their establishment, the Provincial Governments either never commenced, or ceased to produce, annual financial statements for presentation to the OAG for audit or to report to their various Provincial Assemblies. This meant a large amount of public funds had been expended for which there was no accountability. For instance, over the past fifteen years of SIG grants to Provincial Governments amounting to \$222.9M, only \$40.6M (18%) had been audited – leaving some \$182.3M unaudited as follows:

**Table 5.1: Portion of the SIG grants audited since 1993**

Province	Last Audited Year	Total grants 1993 -2006 \$	SIG Grants audited \$	Unaudited grants \$	% SIG Grants
Western	1997	47,078,702	17,830,762	29,247,940	62%
Malaita	1995	36,309,641	8,482,790	27,826,851	77%
Guadalcanal	2001 <sup>1a</sup>	33,178,644	1,520,926	31,657,718	95%
Makira	Nil	21,316,608	0	21,316,608	100%
Choiseul	Nil <sup>2</sup>	19,878,785	0	19,878,785	100%
Isabel	2003 <sup>1b</sup>	18,835,472	1,116,000	17,719,472	94%
Central	2003 <sup>1a</sup>	17,721,982	4,641,700	13,080,282	74%
Temotu	Nil	16,285,865	0	16,285,865	100%
Renbel	2005 <sup>1a</sup>	12,295,937	6,976,710	5,319,227	43%
<b>Totals</b>		<b>222,901,636</b>	<b>40,568,888</b>	<b>182,332,748</b>	<b>41%</b>
<b>%</b>			<b>18%</b>	<b>82%</b>	

Notes: 1 the following prior year financial statements had also not been prepared

a 1993 – 2000

b 1993 – 2002

2 Choiseul subsequently demonstrated that it had been producing regular annual reports since at least 1994 until 2003 but there are no records of them having been received by the OAG

#### ***Provincial Financial Management Improvement Project***

Shortly after the commencement of civilian operations of the Regional Assistance Mission to Solomon Islands (RAMSI), a project (Provincial Governance Strengthening Program [PGSP]) was designed in collaboration with the United Nations Development Program to strengthen public accountability and governance within the provinces, in order to strengthen government services to the rural population that makes up over 80% of the Solomon Islands' people.

Before the PGSP could start effectively, it was necessary to build up provincial capacity to properly manage and account for provincial finances. Previous reviews found that all provincial financial management systems disclosed a general lack of capacity to record or manage national government grants received, much less produce accurate and timely financial statements, while debt and locally generated income appeared to be uncontrolled and unaccounted for by provincial authorities.

Accordingly, RAMSI funded an interim-measure project (Provincial Financial Management Improvement Project [PFMIP]) in order to, among other measures, undertake an accounting catch-up of all outstanding financial statements from each of the Provincial Governments as at 31 March 2007.

The OAG was directly involved in the management of the PFMIP and also scheduled audits of each of the Provincial Governments to coincide with the preparation and finalisation of the Provincial Governments' respective financial statements.

### ***Preparation of financial statements***

The PFMIP was confronted with varying states of affairs with the accounts and records held by each of the Provincial Governments – with some such as Temotu Provincial Government with poor reporting processes but impeccable accounting records, whilst others had more sophisticated reporting processes but incomplete accounting records. Accordingly, decisions were taken by the Ministry of Provincial Government and Institutional Strengthening (MPGIS), in consultation with the OAG, to produce special report formats for the catch-up phase of Provincial Government reporting, with different formats depending on financial year and completeness of records.

These formats comprised Special Purpose Reports for 2006/07 and earlier years with complete records, Short Form Reports for earlier years for which there were incomplete records, and Traditional Form Reports for years where financial statements had already been prepared but never signed-off or submitted to the OAG for audit.

### **Report Formats**

#### ***Special Purpose Report***

The Special Purpose Report format summarized the traditional multiple pages of revenues and expenditures into types of income and expenditure so as to provide a single easily readable summary statement more in line with current international practice. The format also provided for incorporation of balance sheet assets and liabilities into the summary page for FY 2007 only.

The special purpose report format also provided for multiple years to be incorporated into the single face report due to the large number of years to be compiled during the Project. This approach eliminated the need to provide comparable year figures in the face of the statement which, in some cases, resulted in some single year statements not displaying comparatives as is usually required.

#### *Short Form Report*

The Short Form format was prepared where accounts and records were so incomplete that it was not in the public's interest in terms of cost to attempt to reconstruct reliable financial statements.

In such circumstances, the Short Form Report merely recorded the SIG Grants received by the Province in the subject years and required the Provincial Executive to sign off an acknowledgement that such statements were incomplete.

#### *Traditional Form Report*

The PFMIP teams also encountered a number of Traditional Format financial statements that had been previously prepared by contractors but which had not been presented to the OAG for audit, or had been presented but were still awaiting audit.

The traditional format comprises a literal printout of cash-based account balances under the heads of revenue and expenditure as estimated (revenue) or appropriated (expenditure) for the year by the Provincial Assembly. Procurement of physical assets were expensed and assets and liabilities were respectively limited to moneys owed to the provincial government by advance and imprest holders, and monies owed by the government in the form of unremitted NPF and income tax deductions.

The traditional statements are made up of the following statements:

- comparative statement of estimated and actual revenue and expenditures
- statement of assets and liabilities [traditionally excluding all physical assets except cash and unremitted wage deductions to Inland Revenue Commission (IRC) and National Provident Fund (NPF)]
- statement of advances
- statement of deposits (moneys held on behalf of third persons); and
- summary of revenue and expenditure account

Financial statements produced and presented for audit

The total number of financial statements prepared [or Traditional Reports discovered] under the PFMIP was as follows:

**Table 5.2: Number and Types of Financial Statements Produced under PFMIP**

Province	Special Purpose		Short-form		Traditional		Total
Central	2007	1	1989-2000 2004-2006	15	-	-	16
Choiseul	2006-2007	2	1992-2005	14	-	-	16
Guadalcanal	2006-2007	2	1989-2000 2002-2005	16	-	-	18
Isabel	2004-2007	4	1989-2002 <sup>a</sup>	14	-	-	18
Makira	2006-2007	2	1989-2005	17	-	-	19
Malaita	2006-2007	2	1998-2005	8	1996-1997	2	12
Renbel	2007	1	1993-2000	8	2006	1	10
Temotu	1996-2007	12	-	0	1989-1995	7	19
Western	1998-2007	10	1996-1997	2	1993-1995	3	15
<b>Total Reports</b>		<b>36</b>		<b>94</b>		<b>13</b>	<b>143</b>

*Audits of Financial Statements*

Due to the very large number of financial statements presented to the OAG for audit as a result of the PFMIP Project, the OAG focused on auditing in full the financial statements from each Provincial Government for the financial year ended 31 March 2007, and earlier years going backward where the accounting records were complete and readily accessible to the audit teams.

No attempt was made to audit any of the Short Form Reports as the Provincial Governments had signed off on those reports as being materially incomplete, and there was no justification in attempting to devote public resources to improve those reports given their datedness and irrelevance to management of provincial finances at the current time. Similarly, all the Traditional Form Reports related to very early years for which little gain was to be made in their audit, except for Temotu Provincial Government which had produced a Traditional Form Report for the financial year ended 31 March 2006.

Where more than one year was disclosed on the financial report, only one audit opinion was issued in relation to that report.

The audit opinions issued on the financial reports were as follows:

**Table 5.3: Number and Types of Audit Opinions Issued**

Province	Unqualified	Date	'Except For'	Date	'Disclaimer'	Date
Central	-	-	-	-	1989-2000 2001* 2002* 2003* 2004-2006 2007	18/02/2008 28/09/2007 28/09/2007 28/09/2007 18/02/2008 20/12/2007
Choiseul	-	-	-	-	1992-2005 2006 2007	20/12/2007 20/12/2007 20/12/2007
Guadalcanal	-	-	-	-	1989-2000 2002-2003 2004-2007	18/02/2008 18/02/2008 20/12/2007
Isabel	-	-	2004-2007	20/12/2007	1989-2002	18/02/2008
Makira	-	-	-	-	1989-2005 2006 2007	20/12/2005 20/12/2005 20/12/2005
Malaita	-	-	-	-	1996 1997 1998-2005 2006 2007	13/08/2007 13/08/2007 20/12/2007 20/12/2007 20/12/2007
Renbel	-	-	-	-	1993-2000 2006 2007	20/12/2007 20/12/2007 20/12/2007
Temotu	-	-	1989 1990 1991 1992 1993 1994 1995 1996-1999 2000-2003 2004-2007	20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007	-	-
Western	-	-	-	-	1993 1994 1995 1996-1997 1998-2002 2003-2007	20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007 20/12/2007
<b>Total</b>	<b>0</b>	<b>0</b>	<b>23</b>	<b>11</b>	<b>123</b>	<b>30</b>

\*Note: Audit Opinions issued prior to commencement of PFMIP driven audit program

All audit opinions issued were qualified, meaning that the Auditor General was not able to state that the financial reports were an accurate representation of the operations or financial position of the Provincial Governments presenting those reports. However, it was pleasing to note that all of the financial reports issued by the Temotu Provincial Government as well as the financial reports for 2004 to 2007 of the Isabel Provincial Government were sufficiently supported by their accounts and records as to attract an ‘except for’ audit opinion whereby the Auditor General accepted the accuracy of the revenue and expenditure components of the statements but not the assets component.

The remainder of the audit reports issued by the Auditor General were all ‘disclaimer’ audit opinions whereby the Auditor General could not accept the accuracy of any of the components of the financial statements and therefore did not form any opinion on them. The reasons for the qualifications are described in the next section of this Report which deals with the results of the audits of the accounts and records from which the financial reports were derived.

## 5.2 Audits of accounts and records

The audits of the Provincial Governments' accounts and records for the financial year ended 31 March 2007 (and earlier years for Isabel and Temotu Provincial Governments) disclosed common themes in terms of weaknesses in governance and financial management and reporting. These deficiencies occur because of a lack of skills in financial reporting from reconciled financial ledgers as well as general failures in applying the procedures prescribed in the Provincial Governments' respective Financial Management Ordinances which reflect basic government accounting procedures.

The types of inadequacies encountered during the audits of the accounts and records are described below. The risks posed by these weaknesses have been rated according to their severity according to the following ratings:

Risk Rating	Description
High	Audit issues which have led to a modified audit opinion; and /or matters which have led to significant losses of revenue or inappropriate expenditure
Moderate	Internal control weaknesses which expose the government to the risk of significant financial losses
Low	Minor or procedural matters which require action in order to improve management control

### 5.2.1 Executive management of public finances was ineffective

#### *Provinces exhibiting the deficiency*

Provincial Government	Risk Rating
Central	High
Choiseul	High
Guadalcanal	High
Isabel	High*
Makira/Ulawa	High
Malaita	High
Rennell & Bellona	High
Temotu	High
Western	High

*\*Note: Ledgers were being adequately maintained but bank account reconciliations were not up to date and no annual financial reports were being produced*

**Description of the deficiency***No financial reporting*

All Provincial Governments had not produced any form of financial reporting for many years although some had engaged private contractors to assist in trying to prepare financial reports for specific financial years.

Without such information it was not possible for the Provincial Executives to make any meaningful financial decisions because they had no idea what their financial positions were in terms of resources and obligations to creditors, nor did they know the source and amounts of their provincial-sourced revenues or how they spent their moneys under the various appropriations.

This failure also resulted in the Provincial Governments breaching the requirements of the *Provincial Government Act 1997* which requires the Governments to submit annual financial statements to the Auditor General for audit within 9 months after the close of the financial year.

*Lack of a General Ledger or bank account reconciliations*

The fundamental reason for the failure to produce reports in many cases was the lack of an up-to-date General Ledger or in not having the expertise required to incorporate the General Ledger information into financial reports. Furthermore, the accounting staff could not undertake bank account reconciliations to ensure that the financial reports were accurate and reflected the respective position of each government.

*Budgets compiled in the absence of historical data*

The lack of financial data also impacted on Budgets which need to be formulated using the advice of senior administration staff who also, in many cases, did not have access to such information – and great reliance was based on the SIG grant budgets as the basis for formulating annual budgets.

**Implications**

The lack of a proper basis for annual budgets results in the Executive having to employ rough estimates of funds needed to be appropriated for the various heads of expenditure rather than using historical data. This leads to the need for budgetary virements as actual expenditures exhausts funds prior to year end. It also leads to the budget not reflecting the resources required for the annual program promoted by the government and passed by the Assembly. Invariably, a lot less is achieved each year than planned as a result.

**Recommendation 38**

OAG recommended that the respective Provincial Assemblies adopt as a matter of urgency a standardised Provincial Financial Management Ordinance which would provide statutory backing for proper financial management controls and procedures, and that procedures be immediately put into place to ensure:

- that treasury staff be assisted or trained in compiling financial reports from the General Ledger data;
- information on revenue and expenditure is reported to senior officials and the Provincial Executive on a regular basis (ideally monthly) including comparisons with the budget for the year;
- that monthly bank account reconciliations are undertaken to ensure that the financial reports produced are accurate and reflect the position of the government;
- Annual Budgets are compiled after taking into account actual revenue and expenditures for the previous and current year; and
- Annual financial statements are produced in accordance with Ministry of Provincial Government and Institutional Strengthening format requirements and within the timeframe established under the Provincial Government Act 1997.

**Provincial Government responses**

All Provincial Governments agreed with the findings and undertook to implement all recommendations. All Provinces have adopted new Financial Management Ordinances.

**5.2.2. Provincial-sourced revenue was uncontrolled and unaccounted for***Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Reported Provincial-sourced Revenue 2007</b>	<b>Risk Rating</b>
Central	104,863	High
Choiseul	536,430	High
Guadalcanal	1,381,408	High
Isabel	1,387,580	Moderate
Makira/Ulawa	540,776	High
Malaita	741,534	High
Rennell & Bellona	3,625	High
Temotu	334,774	Moderate
Western	3,787,127	High
Total	8,818,117	

**Description of the deficiency***No basis for estimating Provincial-sourced Revenue*

The Provincial Governments were unable to determine the amount of provincial-sourced revenue they should be receiving each year. Although the Provincial Governments did in some cases have a Register of customers who were required to make regular payments of fees and other Provincial Government charges, and which were used to determine the expected Provincial-sourced revenue in their respective annual Budget, none of those with Registers were keeping them up to date.

*Part payments of fees and charges*

The audit disclosed frequent instances of part-payment of fees and charges which were not brought to account in any proper way which would allow the Provincial Governments to take action to collect amounts still outstanding. Although the account codes provide for receipts of part payments subsequent to the relevant financial year, there were no accounting facilities to track payments made by customers to ensure that they paid in full.

*No banking of cash takings*

The audit disclosed that Provincial Government fees and charges which were collected in the form of cash were not banked but used to make, in many cases, unrecorded payments to suppliers. As a consequence, material amounts of cash revenue collected during 2007 could not be accounted for.

OAG was advised that the unbanked cash takings were retained by the Cashier and used to pay for operating expenses after raising an expenditure voucher because of limited banking facilities in the Provinces whereby bank agencies were unable to regularly meet the Provincial Governments' daily cash requirements. Whilst this state of affairs may have been true during earlier years and even more so during the tension period, this is no longer the case except in Rennell & Bellona Province.

In addition, OAG was unable to locate paid vouchers which documented cash payments to meet operating expenses in some of the Provinces, which put at risk cash takings being used for unappropriated or personal purposes.

### **Implications**

The inability to reconcile revenue receipts to expected takings, the failure to bank all revenue collected, and the use of unbanked funds for unrecorded or unreconciled payments exposes the Provincial Governments to theft and misappropriation of those moneys without recourse to criminal or disciplinary actions.

### **Recommendation 39**

OAG recommended that:

- a stocktake of all customers required to pay Provincial Government fees and charges be undertaken in order to establish reliable revenue estimates for its annual Budget, and to establish or update, as the case may be, a Customer Register which would facilitate the monitoring of part-payments,
- accounting procedures be put in place to monitor Customer payments to ensure that their dues are paid in full; and
- all revenue collections are banked in full before any funds are withdrawn to make payments, and that all Revenue Officer collections are to be reconciled to issued receipts by the Cashier and lodged with the Cashier for banking.

### **Provincial Governments' responses**

All Provincial Governments agreed with the findings and undertook to implement the recommendations.

**5.2.3. Expenditure was uncontrolled and unaccounted for***Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Reported Total Expenditure 2007</b>	<b>Risk Rating</b>
Central	1,998,790	High
Choiseul	2,878,975	Low
Guadalcanal	4,696,331	High
Isabel	3,556,481	Low
Makira/Ulawa	2,564,541	High
Malaita	3,599,467	High
Rennell & Bellona	1,959,601	High
Temotu	2,604,746	Moderate
Western	7,666,229	High
Total	31,525,161	

**Description of the deficiency***Missing or unsupported payment vouchers and lack of proper authorisations of expenditure*

The audit disclosed major gaps in the accounts and records covering the period. Material numbers of payment vouchers could not be located at all, while a further material number of payment vouchers had no supporting documentation attaching to evidence the nature or amount of expenditure described on the payment voucher, and accountable officers responsible for approving expenditure failed to do so in accordance with proper approval procedures.

*Cash payments*

The problems of incomplete accounts and records were compounded by the practice of using unbanked cash takings of Provincial – sourced Provincial Government fees and charges for making payments to suppliers and individuals for which there are no records or the records could not be reconciled to ensure that all funds had been accounted for.

*Lack of employee timesheets*

The audit disclosed that the Makira/Ulawa Provincial Government did not maintain employee time sheets upon which wages payments should be based. Accordingly, the Provincial Government was not in a position to know whether wages payments are being made for actual work attendance, or whether staff are off work due to illness or other reasons which is not recorded against leave entitlements.

## Implications

The fundamental failure of the financial management controls exposed the Provincial Governments to the risks of theft, fraud and misappropriation, with limited means for taking criminal or disciplinary action against the officers involved.

Staff are being paid regardless of attendance which facilitates a culture of unaccountability and loss of control over absenteeism and utilisation of leave entitlements.

### Recommendation 40

In addition to the recommendations made in earlier Sections, OAG recommended that:

- Treasury staff be trained in proper financial management procedures under Phase 2 of the PFMIP project;
- steps be immediately taken to ensure all paid vouchers are properly approved, documented and filed in an orderly and secure manner; and
- staff of the Makira/Ulawa Provincial Government be required to record attendance times and these be incorporated into time sheets to be used to calculate the fortnightly payroll.

### Provincial Governments' responses

All Provincial Governments agreed with the findings and undertook to implement the recommendations.

## 5.2.4 Assets are unrecorded

### *Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Risk Rating</b>
Central	High
Choiseul	High
Guadalcanal	High
Isabel	Medium
Makira/Ulawa	High
Malaita	High
Rennell & Bellona	High
Temotu	Medium
Western	High

### **Description of the deficiency**

None of the Provincial Governments maintained an up to date Assets Register which captured values of any purchases of office or residential equipment, fittings or furniture, and most did not maintain an Assets Register of any description. None of the Provincial Governments maintained an Asset Register of office or residential properties and have no established means for doing so.

Asset reporting in financial statements has been limited to unacquitted advances and cash and bank account balances.

### **Implications**

The lack of an Assets Register precludes the Provincial Governments from properly protecting and managing their assets, and the lack of cost information results in a significant under-reporting of their actual assets in their financial statements, as well as precluding planning for proper maintenance of buildings.

### **Recommendation 41**

OAG recommended that the Provincial Governments:

- establish proper, or update existing Assets Registers as the case may be, and undertake a stocktake of all their assets including office buildings and houses;
- establish procedures for capturing all assets including the acquisition or construction of buildings and other structures in their accounts and Assets Registers; and
- undertake valuations of buildings possibly with assistance from the PGSP project.

**Provincial Government responses**

All Provincial Governments agreed with the findings and undertook to implement the recommendations, though reservations were expressed to varying degrees as to their capacity to pay for valuations of buildings. It is not clear whether or not the PGSP Project has funds for such assistance.

### 5.2.5 Imprests and personal advances were uncontrolled

#### *Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Risk Rating</b>
Central	High
Choiseul	High
Guadalcanal	Low
Isabel	Medium
Makira/Ulawa	High
Malaita	High
Rennell & Bellona	High
Temotu	High
Western	High

#### **Description of the deficiency**

Except for Guadalcanal Provincial Government, all Provincial Governments were failing to follow up officers with outstanding advances – either as personal advances which could not be recovered from their salaries or official imprests that remained unacquitted. Many of the provincial Governments were also not properly recording such advances in a proper Advances or Imprests Register.

#### **Implications**

The lack of Imprest and Advances Registers precludes the Provincial Governments from properly managing advances extended to staff for official and private purposes. This results in imprest moneys being continuously recorded ‘below the line’ in the accounts and never being brought to account under the relevant heads of expenditure.

It also results in the governments being unable to ensure that unexpended imprest moneys and personal advances are repaid in accordance with statutory requirements if at all, thus exposing the governments to the risk of misappropriation or theft.

**Recommendation 42**

OAG recommended that the Provincial Governments:

- establish or up date as the case may be, proper Registers for Imprests and Advances and incorporate all Imprests and Advances that can still be identified as outstanding from what records are being maintained by the administration;
- contact all officers and recipients with outstanding Imprests and Advances and take action to obtain receipts in retirement or acquittal or recover the funds where the holders are unable to provide same; and
- commence proper procedures for management of Imprests and Advances.

**Provincial Government Responses**

All Provincial Governments agreed with the findings and undertook to implement the recommendations.

## 5.2.6 Investments and business dealings are unrecorded

### *Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Risk Rating</b>
Central	Not ascertained
Choiseul	High
Guadalcanal	High
Isabel	High
Makira/Ulawa	High
Malaita	High
Rennell & Bellona	High
Temotu	High
Western	High

### **Description of the deficiency**

The accounts of the Provincial Governments' commercial arms and related business entities were not taken up by the Provincial Governments in any Registers or in the accounts, and the business enterprises had not been providing regular financial reports to the Governments on the results of their operations. Accordingly, the Provincial Governments were not in a position to determine the profitability or otherwise of the entities' operations or the causes for their failure – which has been the case in the majority of cases.

The audit also disclosed that the Makira/Ulawa Provincial Government had been spending large amounts of public moneys to repair the government-owned ship MV Bulawa. The project had taken over ten years to date and absorbed \$1.6M with no end in sight. The vessel was draining valuable public moneys without proper controls over the project which had already seen contractor failure. Currently, the Provincial Government is spending money for repair labour, slipway fees and wages for the ship's crew responsible for looking after the vessel whilst in dry dock.

### **Implications**

The lack of records prevents the operations of the subsidiary businesses being brought to account, thereby preventing the Provincial Governments from making decisions about whether or not to continue operations or dispose of them.

The cost blow-out for the repair of the MV Bulawa is threatening the viability of the vessel and draining valuable resources which may be better employed elsewhere in the Makira/Ulawa Provincial Government's programs.

**Recommendation 43**

OAG recommended that those Provincial Governments which still controlled functioning enterprises:

- review the operations of those enterprises and bring all their accounts up to date;
- consider the future of each of the business enterprises and if the review discloses that any of them is operating at an unacceptable level of loss, decisions be taken to either terminate them or improve their efficiency so as to start breaking-even or making a profit – including assessing current practices for collecting revenues, such as sea passenger fares of government owned passenger ships for instance; and
- incorporate the accounts of the enterprises into the Provincial Government's reporting processes.

OAG also recommended that the Makira/Ulawa Provincial Government review the project to repair the MV Bulawa and determine whether the project be scrapped or its management improved so as to bring it to completion.

**Provincial Government responses**

All Provincial Governments agreed with the findings and undertook to implement the recommendations.

**5.2.7. Usurious loans accepted from unapproved lenders***Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Risk Rating</b>
Central	Not ascertained
Choiseul	High
Guadalcanal	High
Isabel	Not ascertained
Makira/Ulawa	Not ascertained
Malaita	Not ascertained
Rennell & Bellona	Not ascertained
Temotu	Not ascertained
Western	High

**Description of the deficiency**

Instances were observed exemplifying a common practice of provincial governments borrowing funds from private individuals [usually a related party to an officer of the provincial government] for short periods of time to cover urgent funding needs whilst awaiting a refresh of funds from the SIG. The interest rate charged is usually a flat 10% regardless of the length of time of the borrowing.

**Implications**

The practice of usurious borrowings is unacceptable. The practice lends itself to deliberate manipulation of provincial accounts to necessitate the borrowing, while the cost of the funds is estimated to be some 1500% more than the market rates from approved institutional lenders.

**Recommendation 44**

OAG recommended that the Provincial Governments using such borrowings immediately cease the practice of borrowing funds from unapproved individuals at usurious interest rates.

**Provincial Government responses**

All relevant Provincial Governments identified as using such loans agreed with the findings and undertook to implement the recommendations, with the Guadalcanal provincial Government advising that the instance disclosed during the audit was an unusual single instance that had not been repeated.

**5.2.8. Trade creditors are unrecorded***Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Risk Rating</b>
Central	Not ascertained
Choiseul	Medium
Guadalcanal	High
Isabel	OK
Makira/Ulawa	OK
Malaita	High
Rennell & Bellona	High
Temotu	Medium
Western	High

**Description of the deficiency**

Almost all the Provincial Governments had no means of recording unpaid supplier invoices in a Creditors Ledger. This resulted in an inability to track or prioritise payments in accordance with the terms of trade for each supplier, and the accrued amounts of unpaid invoices could be substantial due to the lack of a Commitment Ledger normally used to control and limit expenditure to appropriated amounts.

**Implications**

The lack of a Creditors Ledger means that Provincial Governments are unable to determine their financial positions in terms of available resources and the extent of their outstanding obligations, including the age of some of the accounts. Such practices lead to a reluctance by suppliers to trade with the Provincial Governments unless it is at inflated prices or on a strict cash-only basis. This raises the costs of the resources required by the governments in order to function and necessarily curtails the extent of what they would otherwise be able to do.

**Recommendations 45**

OAG recommended that the Provincial Governments which do not track trade creditors:

- undertake a stocktake of, and record all outstanding supplier invoices;
- review the outstanding invoices and prioritise their payment; and
- incorporate the trade creditors' accounts into the governments' financial accounts.

**Provincial Government responses**

All Provincial Governments agreed with the findings and undertook to implement the recommendations.

**5.2.9. Government borrowings are unrecorded***Provinces exhibiting the deficiency*

<b>Provincial Government</b>	<b>Risk Rating</b>	<b>Borrowings as at 26 May 2006</b>
Central	No	
Choiseul	No	
Guadalcanal	No	
Isabel	No	
Makira/Ulawa	No	
Malaita	High	\$19,124,254
Rennell & Bellona	No	
Temotu	No	
Western	High	\$13,487,533

**Description of the deficiency**

The two Provincial Governments with large loans obtained from the Solomon Islands National Provident Fund (NPF) defaulted on those loans. The loans were guaranteed by SIG which has now taken them over and restructured the loans under a new Deed for their repayment.

The OAG was unable to locate any documentation in relation to these borrowings in the accounts and records maintained by those Provincial Governments.

**Implications**

The lack of records for extensive public borrowings by the governments indicates incapacity to manage such sources of finance. Without resident expertise on treasury management of debt funding, the loan defaults are no surprise.

**Recommendation 46**

OAG recommended that the Provincial Governments establish a policy which provides a proper treasury management framework to be followed should they decide in future to again utilise debt funds to finance their operations.

**Provincial Government response**

Both Provincial Governments agreed with the findings and undertook to implement the recommendations.

## 6.0 RESULTS OF AUDITS OF STATUTORY BODIES

### 6.1 Steps to catch up backlog of 108 financial years

#### 6.1.1 *State Owned Enterprises Accounts Strengthening Project*

Aside from the Central Bank of Solomon Islands and the Solomon Islands National Provident Fund, the statutory bodies whose accounts are audited by the Auditor General have not been subjected to audit for many years in some cases. Further, due to the datedness of the *Public Finance and Audit Act*, a number of government-owned enterprises were not subject to audit scrutiny by the Auditor General because they had been created under the *Companies Act* rather than by an Act of Parliament.

Late in 1997 the Solomon Islands Government passed the *State Owned Enterprises Act 2007* which now brings most of the government owned trading enterprises created under the *Companies Act* within the mandate of the Auditor General, and steps are now being taken by the OAG to manage the audits of those enterprises for the first time.

As part of that process, the OAG has been very involved in the design and implementation of a Regional Assistance Mission to Solomon Islands (RAMSI) funded State Owned Enterprises Accounts Strengthening Project (SOEASP) aimed at bringing up to date the backlog of audited financial statements for a number of state owned enterprises, comprising:

**Table 6.1: State Owned Enterprises assisted under the RAMSI SOEASP Project**

<b>Statutory Body</b>	<b>Year last audited</b>
Commodities Export Marketing Authority	1998
Investment Corporation of Solomon Islands*	2002
Solomon Airlines Limited	2005
Solomon Islands Broadcasting Corporation	1997
Solomon Islands Electricity Authority	1996
Solomon Islands Ports Authority	2004
Solomon Islands Postal Corporation*	1997
Solomon Islands Printer Limited	2000
Solomon Islands Water Authority	1998
<b>Financial years outstanding</b>	<b>80</b>

*\*Note: These enterprises are currently being audited by OAG; SOEASP assistance will be limited to preparing financial statements and assisting OAG to conduct the audits*

The project is expected to commence in October 2008 and will take a year to bring up to date and audit all outstanding financial statements for the above entities.

### 6.1.2 *Other statutory bodies*

The other statutory bodies subject to scrutiny by the Auditor General comprise the following entities:

**Table 6.2: Other statutory bodies subject to audit**

<b>Statutory Body</b>	<b>Year last audited</b>
Central Bank of Solomon Islands	2007
Development Bank of Solomon Islands	2005
Sasape Marina Limited	2004
Solomon Islands College of Higher Education	1992
Solomon Islands National Provident Fund	2007
Solomon Islands Visitors Bureau	2006
Solomon Fishing and Processing Limited	2005
<b>Financial years outstanding</b>	<b>28</b>

Audited financial statements are up to date for the Central Bank of Solomon Islands and the Solomon Islands National Provident Fund, and those reports are located in the following sections of this Report.

Catch-up audits are in progress for each of the other bodies except for Sasape Marina Limited and Solomon Fishing and Processing Limited which have only become subject to the Auditor General's scrutiny following passage of the *State Owned Enterprises Act 2007* late last year. These government owned companies are being followed up and steps will be taken to bring their accounts up to date.

## 6.2 Investment Corporation of Solomon Islands

The Investment Corporation of Solomon Islands was established by the *Investment Corporation of Solomon Islands Act* [Cap 143] in 1988 to:

- implement Government policy with regard to public sector participation in commercial investment;
- manage and administer the Government's commercial investment portfolio; and
- promote, partake in, identify and initiate commercial investment in Solomon Islands in accordance with Government's commercial investment policies.

The Corporation has down-sized in recent years due to cost pressures and dwindling returns from high cost investments to which it has also issued large loans in many cases. The Corporation owns considerable share holdings in a number of subsidiary companies, the main ones comprising:

- Solomon Airlines Limited [100%]
- Solomon Islands Printers Limited [100%]
- Sasape Marina Limited [100%]
- Soltai Fishing and Processing Limited [51%]; and
- Kolombangara Forest Products Limited [49%]

The Corporation is managed by a Board of Directors headed by the Chairman, but its operations are conducted by the General Manager with limited administrative support staff.

### 6.2.1 Financial Statements 2002

#### Key Financial Results

Year	Revenue \$'000	Expenses \$'000	Net Assets \$'000
2002	3,008	1,168	81,051

#### Audit Findings

The 2002 financial statements were qualified by the Auditor General due to:

- limitation on scope due to the lack of audited financial information on the Corporation's subsidiaries whose values of \$62.9M make up 78% of the Corporation's net assets;
- non-disclosure of contingent liabilities in relation to one of its subsidiaries (Soltai Fishing and Processing Limited) of \$71.9M which, if called upon by the Corporation's creditor (Maruha Corporation), would reduce the Corporation's net assets from \$81.1M to \$9.2M; and

- breach of the requirements of the *Public Finance and Audit Act* [Cap 120] which requires that the Corporation submit its accounts annually.

A number of internal control matters were raised with the Investment Corporation of Solomon Islands (ICSI) management with recommendations for improvement in systems of internal control. The matters raised related to some weaknesses in the Corporation's management of key documentation relating to loans, employee contracts, and stale and cancelled cheques; as well as poor management of the Corporation's property, plant and equipment assets.

### **Conclusion**

An 'except for' qualified audit opinion was issued for the Investment Corporation of Solomon Islands on 23 April 2008.

### 6.3 Central Bank of Solomon Islands

The Central Bank of Solomon Islands (CBSI) was established by the *Central Bank of Solomon Islands Act* [Cap 49] in 1976 to manage the nation's financial system through:

- regulation of the issue, supply, availability and international exchange of money;
- advising the Solomon Islands Government (SIG) on banking and monetary matters;
- promoting monetary stability;
- supervising and regulating the banking business;
- promoting a sound financial structure; and
- fostering financial conditions conducive to the orderly and balanced economic development of the nation.

The Bank is managed by a Board of Directors under the chairmanship of the Governor of the Bank, and has senior management responsible for the operations of its departments of Financial Institutions, Currency Operations, Economics, Foreign Exchange, and corporate services.

#### 6.3.1 Financial Statements 2007

##### Key Financial Results

Year	Revenue \$'000	Expenses \$'000	Net Assets \$'000
2005	108,800	30,418	345,141

##### Audit Findings

A number of matters were reported to the Central Bank of Solomon Islands (CBSI) Board with recommendations for improvement in systems of internal control. The matters raised related to:

- continued weaknesses in the Bank's account reconciliation procedures for suspense accounts; property, plant and equipment accounts; foreign currency money at call; notes and coins; IMF accounts; and SIG demand deposit accounts;
- poor authorisation procedures for transactions from Investment Corporation of Solomon Islands and Development Bank of Solomon Islands call accounts; and
- errors in PAYE tax deductions for some employees receiving school fee benefits.

##### Conclusion

An unqualified audit opinion was issued for the Central Bank of Solomon Islands on 30 April 2008.

## 6.4 Development Bank of Solomon Islands

The Development Bank of Solomon Islands (DBSI) was established by the *Development Bank of Solomon Islands Act 1977* to take over the role of its predecessor Agriculture and Loans Board. The Bank's role was to assist with the nation's economic and social development; with special emphasis on:

- promoting the participation of Solomon Islanders in economic development;
- promoting rural development; and
- stimulating processing and industrial activities to strengthen the nation's economic independence.

The DBSI was to carry out its role through making loans and – either on its own or through assistance to others or through promotion – establish, maintain, develop or reorganise any industry.

Unfortunately, the DBSI found it difficult to carry out the role envisaged for it by the Solomon Islands Government (SIG), particularly given an unacceptably high level of non-performing loans under various developmental schemes. The Bank became even more financially distressed during the tension period and was eventually brought under official management by the Central Bank of Solomon Islands (through a Court appointed Manager) on 10 June 2004. The DBSI had accumulated losses of \$42 million by that time.

Since coming under management of the Court Appointed Manager (CAM), the Bank has been significantly down-sized and the CAM has been pursuing non-performing loans and selling down the Bank's considerable assets in order to pay out its depositor liabilities as a first priority. The SIG has not agreed to the winding-up of the Bank as at the date of this Report.

### 6.4.1 Financial Statements 2005

#### Key Financial Results

Year	Revenue \$'000	Expenses \$'000	Net Assets \$'000
2005	4,114	2,704	(13,424)

#### Audit Findings

The Development Bank of Solomon Islands (DBSI) is under official management through a Court Appointed Manager pending liquidation. Accordingly, the audit scope was limited to testing the veracity of the financial statements presented to the Auditor General. The financial statements include Note 16 to the accounts, which describes a Going Concern risk attached to the viability of the Bank and the appropriateness of the amounts disclosed in the statements.

However, because the Bank has succeeded in meeting its obligations in subsequent years, and has disclosed the going concern matter in its accounts, the Auditor General decided not to qualify the statements.

Since the time of the FY 2005 audit, it has become apparent that there is a reluctance on the part of the Solomon Islands Government to liquidate the Bank and, accordingly, the FY 2006 audit will be conducted with a standard full scope.

### **Conclusion**

An unqualified audit opinion was issued for the Development Bank of Solomon Islands on 28 September 2007.

## 6.5 Solomon Islands National Provident Fund

The Solomon Islands National Provident Fund (SINPF) was established by the *Solomon Islands National Provident Fund Act 1973* and is the key investment fund responsible for the retirement plans of Solomon Islands workers. The Fund is financed from employer contributions of 12.5% of gross wages for each employee, with 5% of the contributions recovered from each employee; as well as dividends from investments in equity and cash markets within the Solomon Islands and overseas. The Fund owns considerable shareholdings in the following subsidiary companies:

- Bank of South Pacific [0.65% K\$110M]
- South Pacific Oil Ltd [95%]
- Solomon Telekom Company Ltd [48%]; and
- Solomon Mutual Insurance Ltd (In Liquidation) [100%].

The SINPF is managed by a Board of Directors headed by the Chairman, and has senior management responsible for the operations of its departments of Finance, Property, Investment, Operations and various corporate service functions.

### 6.5.1 Financial Statements 2007

#### Key Financial Results

Year	Revenue \$'000	Expenses \$'000	Net Assets \$'000
2007	141,631	24,286	56,562

#### Audit Findings

The 2007 financial statements were qualified by the Auditor General due to a breach of the requirements of the Financial Institutions Act 1998 which requires that the Solomon Islands National Provident Fund submit its annual accounts to the Central Bank of Solomon Islands within three months after the close of the Fund's financial year. The accounts were signed off by the Fund's Board on 3 October 2007.

A number of internal control matters were raised with the Fund's management with recommendations for improvement in systems of internal control. The matters raised related to some weaknesses in the Fund's reconciliation of members' contributions and transactions, and some errors in calculation of employee PAYE tax deductions in relation to retirement benefit payments.

#### Conclusion

An 'except for' qualified audit opinion was issued for the Solomon Islands National Provident Fund on 8 October 2007.

## 6.6 Solomon Islands Visitors Bureau

The Solomon Islands Visitors Bureau was established by *The Solomon Islands Visitors Bureau Act 1996* to encourage, promote and develop tourism in the Solomon Islands by way of:

- tourist travel;
- adequate, efficient and attractive tourist services;
- coordinating activities of tourist related service providers; and
- improved understanding amongst Solomon Islanders of tourism benefits.

The Bureau is funded through various levies charged against tourism operators and, until recently, budgetary support from the Solomon Islands Government (SIG). The Bureau is managed by a Board of Directors headed by the Chairman, and is supported by administrative staff responsible for promotional activities, data collection, licensing of tourist operators, and corporate services.

### 6.6.1 Financial Statements 2006

#### Key Financial Results

Year	Revenue \$'000	Expenses \$'000	Net Assets \$'000
2006	3,157	2,472	4,376

#### Audit Findings

A number of matters were reported to the Solomon Islands Visitors Bureau (SIVB) management with recommendations for improvement in systems of internal control. The matters raised related to:

- some weaknesses in the Bureau's review procedures for bed levy moneys received or receivable;
- authorisation and filing of payment vouchers for general expenditure;
- poor employee personnel records and errors in payroll payments to staff;
- unresolved outstanding unremitted PAYE income tax deductions from prior years;
- poor management of staff imprest advances; and
- weak bank account reconciliation procedures.

#### Conclusion

An unqualified audit opinion was issued for the Solomon Islands Visitors Bureau on 30 June 2008.

## 7.0 STATUS OF FINANCIAL STATEMENT AUDITS

### Status of Financial Statement Audits as at 30 June 2008

Auditee	Last Year(s)	Sign Off by Auditee	Sign Off by OAG
<b>SIG and Ministries</b>			
SIG Accounts (1)	2004, 2005	05/11/2007	24/07/2008
	2006	31/05/2008	24/07/2008
Post Conflict Emergency Rehabilitation Project	2006	26/07/2007	27/07/2007
SI Road Improvement Project	2007	26/06/2008	26/06/2008
SI Natural Disaster Corporation	nil	nil	nil
Civil Aviation Special Fund	2005	22/05/2006	08/09/2006
<b>Provinces</b>			
Malaita Province	1995-2007	28/09/2007	20/12/2007
Western Province	1993-2007	-/10/2007	20/12/2007
Guadalcanal Province	2004-2007	20/09/2007	20/12/2007
	2002-2003	25/01/2008	18/02/2008
	1989-2000	25/01/2008	18/02/2008
Makira Province	1989-2007	17/10/2007	20/12/2007
Isabel Province	2004-2007	28/09/2007	20/12/2007
	1989-2002	15/02/2008	18/02/2008
Temotu Province	1989-2007	05/11/2007	20/12/2007
Renbel Province	2006-2007	29/10/2007	20/12/2007
	1989-2000	29/10/2007	20/12/2007
Choiseul Province	1992-2007	09/11/2007	20/12/2007
Central Province	2007	16/11/2007	20/12/2007
	2004-2006	30/11/2007	18/02/2008
	1989-2000	30/11/2007	18/02/2008
Honiara City Council	1994	Unsigned	05/08/1997
<b>SOEs and Statutory Bodies</b>			
Central Bank of SI	2007	24/04/2008	30/04/2008
SI Broadcasting Corporation	1997	Undated	17 Mar 1999
SI Electricity Authority	1996	14/12/1999	25/06/2001
SI Water Authority	1998	Undated	14/09/2006
SI National Provident Fund – 30.06	2007	03/10/2007	08/10/2007
SI College of Higher Education <sup>(2)</sup>	1992	Undated	11/08/1994
SI Port Authority	2004	28/03/2007	06/06/2007
SI Visitors Bureau	2006	30/06/2008	30/06/2008
Commodities Export Marketing Authority	1998	02/11/1999	02/11/1999
Development Bank of SI	2005	05/09/2007	28/09/2007
<b>Investments Corporation of SI</b>	2002	10/04/2008	10/04/2008
- Sasape Marina Limited	2004		
- Solomon Airlines Limited <sup>(3)</sup>	2005		
- Solomon Islands Printers Ltd <sup>(4)</sup>	2000		

#### Notes

- 1: Although audits completed by 30 June 2008 accounts awaited appointment of Acting AG
- 2: SICHE arranged for audit of accounts without OAG involvement before intervention by OAG; audits currently being undertaken by OAG for FY 1993-2007
- 3: Audits of Solomon Airlines are under existing contract and dates are unknown pending OAG takeover
- 4: Draft accounts are on hand for 2001-2006 awaiting sign off by management



## ATTACHMENT A-1

**SCHEDULE OF PAYMENTS FOR DISASTER RECOVERY  
PAID FROM SIG ACCOUNTS**

<b>Expenditures</b>	<b>Account Code 293-0300- 4090</b>	<b>Account Code 293-0300- 6777</b>	<b>Total Amount (SBD)</b>	<b>Audit Issue Raised</b>
<b>Accommodation</b>				
	\$ -	\$ 355,642.00	\$ 355,642.00	yes
<b>Airfares</b>				
	\$ -	\$ 89,445.00	\$ 89,445.00	
<b>Bedding &amp; Clothing</b>				
Clothing – Second hand	\$ 28,764.00	\$ -	\$ 28,764.00	yes
<b>Broadcasting – SIBC</b>				
Radio Broadcast	\$ -	\$ 66,214.00	\$ 66,214.00	
<b>Building Supplies</b>				
Roofing Iron	\$ 38,102.00	\$ 270,029.00	\$ 308,131.00	
Nails	\$ -	\$ 8,800.00	\$ 8,800.00	
<b>Canoe/Boat</b>				
22'/21' Canoe	\$ 94,000.00	\$ -	\$ 94,000.00	Yes
21'/22' Canoe	\$ 41,000.00	\$ -	\$ 41,000.00	yes
Bray Boat & 21' Canoe	\$ 135,000.00	\$ -	\$ 135,000.00	yes
<b>Charter of Boat</b>				
Charter of Plane	\$ 225,235.00	\$ 68,000.00	\$ 293,235.00	
Charter of Helicopter	\$ -	\$ 73,605.00	\$ 73,605.00	
Charter of Boat	\$ 396,000.00	\$ 1,154,456.00	\$ 1,550,456.00	
Charter of Boat – Ian Roni	\$ -	\$ 131,169.00	\$ 131,169.00	
Charter of LC SWIFT & Hire of Vehicle	\$ -	\$ 77,173.00	\$ 77,173.00	
<b>Computer Equipments &amp; Accessories</b>				
Laptop	\$ -	\$ 24,249.00	\$ 24,249.00	Yes
Computer – Desktop	\$ 189,973.00	\$ -	\$ 189,973.00	Yes
Computer Accessories	\$ 23,178.00	\$ -	\$ 23,178.00	Yes
Photocopier Machine	\$ 140,000.00	\$ -	\$ 140,000.00	Yes
Printer	\$ 4,000.00	\$ -	\$ 4,000.00	Yes

<b>General Items</b>				
Chainsaw	\$ 43,050.00	\$ -	\$ 43,050.00	
Radio HF	\$ 39,044.00	\$ -	\$ 39,044.00	
Generator – Yamaha	\$ 29,040.00	\$ -	\$ 29,040.00	
EF Unit	\$ 16,057.00	\$ -	\$ 16,057.00	
Chiller Machine	\$ 9,000.00	\$ -	\$ 9,000.00	
Air condition	\$ 6,990.00	\$ -	\$ 6,990.00	
Oxygen & Gas	\$ 6,611.00	\$ -	\$ 6,611.00	
<b>Food/Ration</b>				
Tonnes of Rice	\$1,300,104.00	\$ 9,800	\$ 1,309,904.00	Yes
Carton of Taiyo	\$ 217,475.00	\$ -	\$ 217,475.00	Yes
Mix goods	\$ 160,170.00	\$ -	\$ 160,170.00	Yes
NDC Relief Staff Ration	\$ 34,895.00	\$ -	\$ 34,895.00	Yes
Others – ration	\$ 8,833.00	\$ -	\$ 8,833.00	Yes
<b>Freight Charges</b>				
Freight	\$ -	\$ 412,249.00	\$ 412,249.00	yes
<b>Fuel</b>				
Fuel	\$ 394,254.00	\$ 597,445.00	\$ 991,699.00	
<b>Household Items</b>				
Lamp	\$ 16,392.00	\$ -	\$ 16,392.00	yes
Materials and Goods	\$ 52,694.00	\$ -	\$ 52,694.00	yes
<b>Members of Parliament</b>				
MP - Augustine Taneko	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Billy Hilly	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Clement Kegava	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Francis Zama	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Gordon Darcy	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Job Dudley Tausinga	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Leslie Boseto	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Milner Tozaka	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Peter Boyers	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Snyder Rini	\$ 150,000.00	\$ -	\$ 150,000.00	Yes
MP - Trevor Olavae	\$ 150,000.00	\$ -	\$ 150,000.00	Yes

<b>NDC Operation</b>				
NDC – Special Imprest	\$ 100,000.00	\$ -	\$ 100,000.00	
Stationeries	\$ 30,668.00	\$ 6,500.00	\$ 37,168.00	
<b>OBM Engines</b>				
OBM Engine	\$ 221,470.00	\$ -	\$ 221,470.00	Yes
<b>Others</b>				
Hire of Room	\$ 5,300.00	\$ -	\$ 5,300.00	
<b>Overtime Claim</b>	\$ -	\$ 288,888.00	\$ 288,888.00	Yes
<b>Provincial Disaster Committee (PDC)</b>				
Choiseul Province	\$ 100,000.00	\$ 400,000.00	\$ 500,000.00	
Western Province	\$1,200,000.00	\$1,556,750.00	\$ 2,756,750.00	
<b>Shelter</b>				
Tarpaulin	\$ 48,534.00	\$ 203,304.00	\$ 251,838.00	Yes
Tent	\$ 41,878.00	\$ 15,950.00	\$ 57,828.00	Yes
Canvas	\$ 9,360.00	\$ -	\$ 9,360.00	Yes
<b>Tools</b>				
Tools	\$ 289,948.00	\$ -	\$ 289,948.00	Yes
Wheel barrows	\$ 30,200.00	\$ -	\$ 30,205.00	Yes
<b>Vehicle</b>				
Land Cruiser Reg: # 3242	\$ 260,325.00	\$ -	\$ 260,325.00	Yes
Toyota Dyna 300 Reg#3241	\$ 260,325.00	\$ -	\$ 260,325.00	Yes
<b>Water Tanks</b>				
Water Tank	\$ 342,000.00	\$ 785,520.00	\$ 1,127,520.00	Yes
Water Tank - Fittings	\$ 52,738.00	\$ 19,595.00	\$ 72,333.00	Yes
Mineral Water	\$ 33,700.00	\$ -	\$ 33,700.00	Yes
<b>GRAND TOTAL</b>	<b>\$8,326,307.00</b>	<b>\$6,614,786.00</b>	<b>\$14,941,095.00</b>	