



SOLOMON ISLANDS GOVERNMENT

Status of Audits of Solomon Islands Government Entities as at 30 June 2009

Prepared by:

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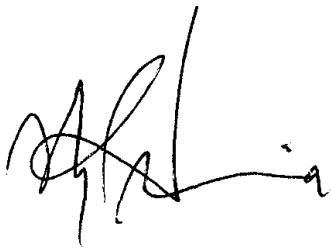
7 December 2009

National Parliament Paper No. 46 of 2009

Mr Speaker

Pursuant to section 39 (1) of the Public Finance and Audit Act [Cap 120] I submit this Report on the outcome of the audit of Government Ministries completed in the period ended 30 June 2009 for laying before the Parliament, including the outcome of the audit of the accounts of the Solomon Islands Government for the year ended 31 December 2008.

This report summarises the findings of 33 audits completed in the period.

A handwritten signature in black ink, appearing to read 'Edward Ronia', with a stylized flourish at the end.

Edward Ronia
Auditor-General (A/g)

7 December 2009

Foreword

In the year to 30 June 2009 the Office of the Auditor-General conducted 33 audits of the accounts and activities of Government Ministries. Reports on these audits were provided to the management of the agencies and Ministries concerned and some of the Reports were separately tabled in Parliament. Management agreed with almost all of the findings that the OAG reported and accepted most of the hundreds of recommendations.

Many of these findings and recommendations were similar or identical to those reported, agreed and accepted in the year to 30 June 2008. In the intervening period there has been improvement in some areas but the nature and scale of the control deficiencies remains basically unchanged, despite the consensus in the Parliament and the management of the Public Service that these internal control problems must be fixed if the Solomon Islands Government is to be seen as reliable, efficient and effective financial managers by the public of the Solomon Islands.

In my opinion it is imperative that the internal control structures in Ministries and other Government entities be made to operate effectively. For this reason, rather than providing detailed information on each of the individual audits I have reported this year, in this Report I focus on the three major internal control weaknesses that audits have identified as being prevalent across the public sector. These are:

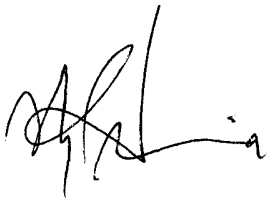
- a failure to comply with required internal control and accountability procedures;
- inappropriate use of funds; and
- financial reporting which may be inadequate, inaccurate, untimely and misleading.

These internal control deficiencies allow waste, inefficiency, corruption, fraud and theft and result in a failure to provide essential government services.

Many of these deficiencies would be corrected if public officers and officials complied with the documented procedures and rules that exist and did not process transactions that did not comply with these rules and procedures. Disciplinary procedures exist in the General Orders and these procedures should be used to motivate public officials to protect public funds from waste and corruption by complying with the rules, particularly the Financial Instructions.

Failure to solve the internal control problems highlighted in my audit reports, thereby providing a much lower standard of service than the people expect and deserve, will result in continuing and escalating public disillusionment with the government. The consequences of wide-spread public disillusionment in the Solomon Islands have been seen before.

To support improved processes and increased accountability, in 2010 my auditors will be directed to make recommendations suggesting disciplinary action against individual officers who consistently fail to comply with Financial Instructions. This will mean that officers who do not regularly reconcile bank accounts they are responsible for, who fail to acquit imprest accounts they hold or who regularly process or authorise transactions without adequate documentation can expect to be named in reports that go to the relevant Permanent Secretary with a recommendation that disciplinary action be commenced against them.



EDWARD RONIA
Auditor-General
7 December 2009

Table of Contents

Foreword	iii
1. Audit Opinion and Recommendations	1
Introduction.....	1
Indicators and Consequences of Control Weaknesses	1
Significant compliance failures	3
Inappropriate use of funds.....	5
Inadequate reporting	6
2. Solomon Islands Government National Accounts	8
Introduction.....	8
Background to SIG Accounts and Audit Approach.....	8
Financial Statements 2007.....	9
Statement of Assets and Liabilities	9
Summary of Consolidated Fund (Revenue) Account.....	11
Audit Objective	11
Conclusion	12
Key Findings	12
Recommendations	17
Ministry Response	17
Attachment 1 - Audit Certificate on SIG Accounts	18
3. Findings from Audits of Ministries	21
Imprest Accounts	21
Audit Objective	21
Conclusion	21
Key Findings	21
Recommendations	23
Management Response	23
Bank Accounts.....	23
Audit Objective	23
Conclusion	23
Key Findings	24
Recommendations	25
Management Response	25
Procurement and Expenditure.....	25
Background	25
Conclusion	26
Key Findings	26
Expenditure	27
Management Response	28
Recommendations	28
Assets	29
Audit Objective	29
Key Findings	29
Recommendations	29

Management Response	29
Revenue	30
MoFT - Customs & Excise Duties and Income Taxes.....	30
Audit Objective	30
Key Findings	30
Recommendations	31
Management Response	32
Ministry of Communication and Aviation	32
Audit Objective	33
Key Findings	33
Recommendations	34
Management Response	34
Office of the Prime Minister and Cabinet	34
Recommendation.....	35
Management Response	35
Ministry of Agriculture and Livestock Development	35
Quarantine Fumigation Fees and Pesticide Registration Fees	35
Recommendation.....	35
Management Response	35
4. Results of Other Audits in Ministries 2008 - 2009	36
Ministry of Agriculture - 2007 Donor Funded Cattle Project	36
Audit Objective	36
Key Findings	36
Conclusion	39
Recommendations	39
Ministry Response	41
Ministry of Comm. and Civil Aviation - Civil Aviation Special Fund 2007	42
Audit Objective	42
Key Findings	42
Recommendations	43
Management Response	43
Spectrum Licence Fees.....	44
Audit Objective	45
Conclusion	45
Key Findings	45
Recommendations	45
Management Response	46
Ministry of Education and Human Resource Development.....	47
Form 6 & 7 Computer Laboratory Project.....	47
Audit Objective	47
Key Findings	47
Conclusion	48
Recommendations	49
Management Response	49
Education Authorities.....	50
Audit Objective	50

Conclusion	50
Key Findings	51
Guadalcanal Province Education Authority.....	51
Honiara City Council Education Authority	51
Temotu Primary Schools.....	52
Recommendations	52
Management Response	52
Ministry of Provincial Government and Institutional Strengthening.....	53
Rennell and Bellona Provincial Office	53
Audit Objective	53
Key Findings	53
Conclusion	55
Recommendations	55
Management Response	56
Ministry of Justice and Legal Affairs - Public Solicitor’s Trust Account.....	57
Audit Objective	57
Key Findings	57
Conclusion	57
Recommendations	58
Management Response	58
Office of the Prime Minister - Constitutional Reform Unit	59
Audit Objective	59
Conclusion	59
Key Findings	59
Recommendations	62
Management Response	63
Ministry of Home Affairs - 2008 Solomon Games.....	64
Audit Objective	64
Conclusion	64
Key Findings	64
Recommendation.....	67
Management Response	68
Index of Findings	69

1. Audit Opinion and Recommendations

Introduction

1.0 In the year to 30 June 2009 the Office of the Auditor-General (OAG) conducted 33 audits. Reports on these audits were provided to the management of the agencies and Ministries concerned. Audit reports on financial statement audits are published with the relevant financial statements and the reports of Special Investigations conducted by the OAG are attached as appendices to this Report.

1.1 Management agreed with almost all of the findings that the OAG reported and accepted most of the recommendations made. Many of these findings and recommendations were similar or identical to those reported, agreed and accepted in the year to 30 June 2008. In the intervening period nothing much has changed, despite the consensus in the Parliament and the management of the Public Service that these internal control problems must be fixed if the Solomon Islands Government is to be seen as reliable, efficient and effective by the public of the Solomon Islands and aid donors.

1.2 In my opinion it is imperative that the internal control structures in Ministries and other Government entities be made to operate effectively. For this reason, rather than addressing each of the individual audit reports the OAG has made in the period, in this Report I focus on the three major internal control weaknesses that audits have identified as being prevalent across the public sector. These are:

- a failure to comply with existing internal control and accountability procedures;
- inappropriate use of funds; and
- inadequate, inaccurate, untimely and misleading reporting.

1.3 These internal control deficiencies allow waste, inefficiency, corruption, fraud and theft and result in a failure to provide essential government services. The Solomon Islands Government which takes effective action to address these weaknesses will be responsible for transforming the performance of the public sector and greatly improving the level of services provided to the people of the Solomon Islands. Alternatively, failure to solve these internal control problems, providing a much lower standard of service than the people expect and deserve, will result in continuing and escalating public disillusionment with the government. The consequences of wide-spread public disillusionment in the Solomon Islands have been seen before.

Indicators and Consequences of Control Weaknesses

Non-compliance with procedures or legislation

1.4 This is the primary internal control weakness that must be remedied. Any rules, procedures or legislation that are put in place to address other more specific weaknesses are of little use if there is no effective motivation to comply with them and no will to take disciplinary action when a responsible public official fails to comply. It should be noted that the examples provided are merely those which have been selected to illustrate the point and are but a sample of all of the examples found and reported.

1.5 The audits conducted in 2008 included the following examples of a failure to comply with specific procedures:

In an audit in the Ministry of Fisheries, Audit found significant non-compliance with financial instructions:

- receipts are not issued in a timely manner;
- some telegraphic transfer documents could not be found;
- there was no register of receipt books;
- completion and balancing of cashbook with monies received was not timely; and
- cash not securely locked away at all times.

In the Ministry of Education the tendering for the Year 6 & 7 Computer laboratory process did not comply with required tendering procedures:

- There was a complete lack of open competitive bidding and transparency of process
- A tender bid was accepted months after the tender closed; and
- Following the process there was no notification of tender result to bidders to ensure transparency and openness in the process.

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

- the absence of supporting documentation for a large proportion of all types of transactions;
- failure to acquit imprests;
- failure to complete reconciliations and prepare cash books for a large proportion of bank accounts;
- lack of compliance with the competitive bidding requirements in the Financial Instructions for purchasing;
- the absence of documentation of Tender Board processes as evidence of compliance with proper procedures;
- lack of authorisation of expenditure by the proper delegate;
- inadequate of non-existent asset registers and stocktakes for SIG plant and equipment, property and inventory; and
- reconciliation and check of receipts to the banking and ledger records.

OAG noted that frequent lack of compliance with Financial Instructions was consistent across all Ministries, but that there was some improvement in compliance since the period 2004 to 2006.

1.6 Fundamentally, a failure on the part of public servants to comply with mandatory procedures is a failure to do the job for which they are being paid. When the OAG or some other review body reports that basic and mandatory internal controls have been ignored, then the Ministry concerned should investigate and if it is the case, commence disciplinary action against the officer concerned. We have found no evidence that the senior management of Ministries or other agency have taken specific action that has motivated officers to comply with the major procedural instruments of the Solomon Islands Government, particularly the Financial Instructions and the General Orders. The continued widespread failure of staff to comply with these instruments indicates that such action is necessary.

Significant compliance failures

1.7 Examples of specific and frequent examples of a failure to comply with existing internal control procedures include:

Bank Reconciliations not performed

(Financial Instruction 397)

1.8 Bank reconciliations are one of the fundamental building blocks of financial accountability. If a bank account is not reconciled it is not possible to be sure that all revenue reported to be deposited has been deposited and the reported payments are the payments that have been made from the account. The cash book says one thing, the bank statement says another and there is no way of knowing why they are different. Significant manipulation of a cash book is possible if the account to which that cash book relates is not reconciled on a monthly basis. OAG audits found many bank accounts which were unreconciled for a considerable time, particularly of accounts set up for projects or other specific purposes.

1.9 OAG notes that the Ministry of Finance and Treasury has undertaken a major program of work to progress reconciliations of bank accounts which the Ministry controls, and that there has been a significant improvement in the balancing of these bank accounts. However, 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 2007.

Lack of records

(Fin. Instr. 70, 101, 104, 238, 256, 266, 318, 386, 396, 423, 521, 530, 541, 552, 553, 554, 601)

1.10 Records are the basis of accountability. All transactions must be recorded accurately and at the time they occur to provide a basis for reporting activities and to allow either internal management or an external reviewer to test transactions to ensure that all requirements have been complied with. If transactions are not fully recorded then it is not possible to hold the persons who initiated the transaction responsible for their decisions. This allows people who act corruptly to go unidentified and unpunished. Our audits have found that failure to properly record all transactions is a very frequent occurrence and is endemic across most agencies.

Unsatisfactory documentation

(Fin. Instr. 33, 72, 75, 235, 236, 264, 266, 276, 298, 319, 354, 521)

1.11 In order to prove that a transaction that has been recorded is the transaction that took place, it is necessary to file original documentation with the transaction record. Without such documentation it is possible that someone could pay \$100 to make a personal transaction and record it as a legitimate government transaction. Our audits have demonstrated that frequently original documentation is not filed with the transaction record so that it is not possible to verify that a transaction was legitimate. Often where documentation was available it was incomplete and on occasion did not match the transaction it was supporting.

Procurement procedures ignored

(Fin. Instr. 519 – 529)

1.12 Solomon Island Government procurement and tendering procedures are in place to ensure that the Government gets best value for its procurement dollar. The OAG often found that these procedures were ignored or that decisions were made which were not in accordance with the evaluation process. On some occasions major purchases, for items such as motor vehicles, were made which were not tendered at all, allowing officials to offer government purchasing contracts to friends or associates at a greater cost than would be the case if correct procedures had been followed.

Failure to manage imprest accounts

(Fin. Instr. 320 – 323)

1.13 The use of imprest accounts to ensure funds are available at short notice for minor and ad hoc purchases or specific activities, and to provide advances for officers who are travelling, is very convenient but brings with it its own set of risks. It provides for virtually unsupervised use of funds by the imprest holder. In these instances the key control to prevent unauthorised or inappropriate expenditure is the acquittal of the imprest account once its usefulness has finished. Acquittal means the imprest holder has to record all payments from the imprest account and provide documentation to support the accuracy of those records. The final balance of the account should also be reconciled to the receipt and expenditure records. The OAG has found many imprest accounts which are no longer in use but have not been acquitted. Without acquittal of the account it would be possible for an advance holder to take all of the funds for personal use and never be discovered.

Poor control over assets

(Fin. Instr. 601 - 607)

1.14 Assets are by definition valuable items. They often cost large amounts of money and if they are taken or given away, that money has basically been lost to the people of the Solomon Islands to the benefit of individuals. It is therefore important that the purchase of assets be recorded in an asset register and that this register be made available for audit to ensure that all purchased assets are still under Government control. OAG audits have found that very few agencies actually maintain an asset register and

items from computers to cars may have been converted to private use without any record of their existence.

Recommendation 1

1.15 That in reported cases of failure by Government employees to comply with mandatory legislation or procedures, the relevant Ministry consider the scale and nature of disciplinary action which should be taken against the employee and implement that action, reporting on action taken to the Public Service Commission. Where the compliance provisions of the Financial Instructions apply, those provision should be applied.

Inappropriate use of funds

1.16 It is a fundamental principle of governance that when the Government appropriates funding to undertake a particular activity, or when a donor provides funding for a particular purpose then that funding should be used only for the purpose for which it is provided. Our audits have continually found instances where funding has been diverted from its designated purposes. For example:

In the audit of the 2007 Donor Funded Cattle project the OAG found that although the work plan budget provided for procuring one Toyota Land Cruiser at \$235,000 the Ministry procured three vehicles in total including two Toyota Land Cruisers at \$430,000 which was excessive expenditure for the project and breaches Financial Instructions. The audit also found that political influence in the disbursement of the funds to farmers not listed in the work plan has contributed to the overspending of project funds for Phase One and delay of Phase Two as well as diverting funds from the intended objectives and areas of benefit.

An instruction attached to the Primary School Grant Disbursement Guidelines and Manual states "*Education Authorities will disburse Grants into Primary School Bank Accounts.....*". Our audit of grants provided by New Zealand for primary schools found that large proportions of grants distributed to provincial Education Authorities were not distributed to schools but were used to fund the Authorities' own running costs. Also three out of six schools checked did not use the grants they did receive for their intended purposes.

The audit of the construction project for the Renbell Bellona Government Offices found that payments were made to employees and wantoks for goods and services without proper process and with no evidence that these goods or services were received. Over half of the allocation had been spent and no progress had been made in the construction of the offices.

1.17 Our audits found little evidence that disciplinary action had been taken against any public officials deciding to use funds in a manner contrary to Government policy. Unless such action is taken officials will continue to use funds in the manner which they decide rather than complying with the will of the Government and/or the intentions of donor organisations.

Recommendation 2

That Ministries and other agencies take disciplinary action against any official authorising expenditure that is not in accordance with the purpose of the funding as specified by the appropriation legislation or in a donor funding agreement.

Inadequate reporting

1.18 Almost all of our audits found that there is little focus on reporting results of activities in an accurate and timely manner. This includes internal management reporting and external reporting to key stakeholders, particularly performance reporting. Indeed, the poor standard of record-keeping in most agencies is such that any reports which were produced would need to be considered with a great deal of suspicion.

1.19 The heads of Ministries and other Government entities should be requiring their staff to report regularly not just on their overall financial data but on the detailed costs of particular projects and activities for internal management purposes. If a project is expected to cost a million dollars and most of the money has been spent and the project is only 10% completed then management should be aware of that long before the OAG comes along to review the project, the an OAG audit is often the first indication that senior management receive that a project is overspent and will not achieve its objectives without a further cash injection. The only way to ensure that Government entities take this responsibility seriously would be to require them to provide regular performance reports to the responsible Minister with copies to all relevant stakeholders, including, in every the case, the Auditor-General.

Recommendation 3

1.20 That the Government establish a performance reporting regime which requires all Government funded agencies to provide brief regular performance reports of major activities (eg over \$1 million in total budget) to the responsible Minister and any relevant stakeholders (eg donors) with a copy provided to the Auditor-General.

1.21 These reports should detail the money spent on the project or activity to date suitably classified into expenditure categories, the objectives achieved to date, the objectives still to be achieved and an estimate of the funds required to complete the project. Where the activity concerned involves revenue collection the report should explain any shortfall from the budgeted revenue. The exact design of the reports should be left up to the relevant Ministry or SOE but should ensure that users can draw valid conclusions about the state of the activity or project.

Table 1 Findings in relation to compliance with Financial Instructions

Ministry or Agency	Lack of Compliance with Financial Instructions					
	Bank Reconciliations not completed, or inaccurate.	Failure to document or acquit imprest accounts or existence of unnecessary imprest accounts	Inadequate control over assets, missing assets or poor asset records.	Procurement activity which is not competitive or where rules have been avoided.	Missing or Inadequate Documentation	Failure to record transactions or inaccurate or incomplete records
Audits completed within period						
Agriculture and Livestock	Yes	Yes	Yes	Yes	Yes	Yes
Commerce Industry and Development	Yes	Yes	Yes	Yes	Yes	Yes
Communication, Aviation & Meteorology	Yes		Yes	Yes	Yes	Yes
Culture and Tourism	Yes	Yes	Yes		Yes	Yes
Development Planning and Aid Coordination	Yes	Yes	Yes		Yes	Yes
Finance and Treasury	Yes	Yes	Yes		Yes	Yes
Fisheries and Marine Resources	Yes	Yes			Yes	Yes
Foreign Affairs, External Trade and Immigration		Yes	Yes		Yes	
Forestry, Environment and Conservation	Yes	Yes	Yes		Yes	Yes
Education and Human Resources	Yes	Yes	Yes	Yes	Yes	
Health and Medical Services	Yes	Yes	Yes	Yes	Yes	Yes
Infrastructure Development	Yes	Yes	Yes	Yes	Yes	Yes
Police and National Security		Yes	Yes		Yes	Yes
Provincial Government and Institutional Strengthening	Yes	Yes	Yes	Yes		
Lands Housing and Survey	Yes	Yes	Yes			
Public Service	Yes	Yes	Yes	Yes	Yes	Yes
Home Affairs			Yes	Yes	Yes	Yes
National Unity Reconciliation and Peace		Yes	Yes			Yes
Mines Energy and Rural Electrification	Yes	Yes	Yes		Yes	Yes
Office of the Prime Minister and Cabinet		Yes	Yes	Yes	Yes	Yes
CBSI			Yes			Yes
HCC	Yes	Yes	Yes		Yes	Yes
SIBC	Yes		Yes		Yes	Yes

Note: The state of internal control and transaction recording in each entity is such that it is not possible to produce accurate and useful performance financial reports.

2. Solomon Islands Government National Accounts

Introduction

2.0 The Auditor-General is required to exam the national accounts produced by the Ministry of Finance and Treasury on behalf of the SIG. As with previous years the Auditor-General provided a qualified audit opinion on the 2007 Financial Statements but there were fewer issues which led to the qualified audit opinion for 2007 than in previous years, 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:

- A significant portion of original documents were not able to be located and therefore OAG was not able to verify a significant portion of expenditure;
- 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;
- Some 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.

Background to SIG Accounts and Audit Approach

2.1 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.

2.2 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 advised an extension of time was required for the completion of the 2007 Annual Accounts to 30 September 2008. This meant that the 2007 Annual Accounts could be submitted for audit within the legislative timeframes.

2.3 **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.

2.4 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.

2.5 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.

2.6 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.

Financial Statements 2007

2.7 The Public Finance and Audit Act [Cap 120] section 38 requires the Permanent Secretary of Finance to submit signed statements of account to the Auditor-General each financial year which include:

- A statement of assets and liabilities;
- A statement of receipts and payments;
- A comparative statement of actual and estimated revenue;
- A comparative statement of actual and estimated expenditure;
- A statement of Special Funds;
- A statement of advances;
- A statement of deposits;
- A statement of guarantees entered into by Government;
- A statement of investments;
- A statement of public debt;
- A statement of outstanding loans made by the Government;
- Tabular summaries of unallocated stores and manufacturing accounts; and
- A statement of losses, abandoned claims and ex gratia payments.

2.8 The Annual Accounts of the Solomon Islands Government were many years in arrears after the period of civil unrest in 1999 – 2003. The Ministry of Finance has progressively actioned this backlog with the 1998 – 2003 Annual Accounts being certified by the Auditor-General in early 2007, the 2004 to 2006 Annual Accounts being prepared and submitted for audit in late 2007 and mid 2008. This report is of the audit of the 2007 Annual Accounts which were submitted for audit in December 2008.

Statement of Assets and Liabilities

2.9 The table below provides for a statement of assets and liabilities at the end of 2007 with a comparative figures for 2006.

Table 2 Statement of Assets and Liabilities

	2006	2007
Assets		
Bank - Headquarters	11,465,179	(6,287,840)
Bank - Sub Accounts	39,570,381	21,328,329
Bank - Overseas	412	426
CBSI	242,663,203	201,769,447
Special Funds		
Other Assets	18,277,815	43,407,998
Advances see 1E	228,413	9,905,166
Net Overdraft		
Total Current Assets	312,205,403	270,123,526
Investment see 1D		
On Lent Loans		
Total Assets	312,205,403	270,123,526
Consolidated Fund		
Opening Revenue Account Bal.	68,031,776	262,773,440
Surplus (Deficit) see 1A	194,741,664	60,856,861
Closing Surplus (Deficit)	262,773,440	323,630,301
Open. Development Acct Balance	45,728,635	21,232,720
Surplus (Deficit) see 1B	(24,495,914)	(66,775,385)
Clos. Development Acct Balance	21,232,721	(45,542,665)
Special Fund (Deficit)	(125,832)	4,113,873
Special Stabex fund	-	(34,532,428)
Total Accumulated Deficit	283,880,329	247,669,082
Liabilities		
Deposits see 1C	(1,458,056)	(1,799,727)
Other	92,517	206,707
CBSI Advance Account	29,690,614	24,047,465
Public Debt Liability		
Total Liabilities plus Deficit	312,205,404	270,123,527

Summary of Consolidated Fund (Revenue) Account

2.10 The following is a summary of revenue and expenditure recorded against the Consolidated Fund (Revenue) Account during 2007:

Table 3 Summary of Revenue and Expenditure 2007

Head of Expenditure	Revenue (\$m)	Expenditure (\$m)
Agriculture and Livestock Development	1.1	25.8
Office of the Auditor-General	0.0	3.2
Education and Human Resources	29.6	281.9
Finance and Treasury	965.3	45.7
Foreign Affairs and External Trade	0.0	19.6
Office of the Governor General	0.0	2.9
Health and Medical Services	0.2	123.2
Infrastructure Development	1.6	52.0
National Debt Servicing	2.0	159.9
National Parliament	0.0	22.5
Forestry and Research	1.3	8.7
Office of the Prime Minister and Cabinet	0.0	44.2
Pensions and Gratuities	0.0	5.2
Police and National Security	0.4	91.7
Provincial Government and Rural Development	0.0	48.2
Lands, Housing and Survey	13.4	9.5
Development Planning and Aid Coordination	0.0	1.5
Culture and Tourism	0.0	4.1
Commerce, Industry and Employment	9.7	14.9
Communication and Aviation	15.3	18.5
Fisheries and Marine Resources	93.9	3.9
Public Service	1.2	19.9
Law and Justice	1.2	10.0
Home Affairs	0.7	36.5
National Unity, Reconciliation and Peace	0.0	3.1
Mines, Energy and Rural Electrification	3.2	4.9
National Judiciary	0.6	6.5
Women, Youth and Children's Affairs	0.0	3.0
Rural Development	0.0	2.1
Environment, Conservation and Meteorology	0.0	2.7
Total	1140.8	1075.6

Audit Objective

2.11 The objective of the audit was to determine whether the annual accounts were materially correct and presented in accordance with prescribed requirements. The audit coverage was for the financial year 2007.

Conclusion

2.12 OAG noted that there has been substantial progress in improving the supporting general ledger accuracy and in identifying unexplained variances and discrepancies in the reconciliations of the major bank accounts. OAG also noted that there are now a number of Note disclosures in the annual accounts which adds valuable information for the users of the annual accounts.

2.13 The Auditor-General gave a modified audit opinion for the 2007 Annual Accounts. Although there has been significant improvement in the reliability, accuracy and disclosure of the financial information, there are some areas which the Ministry is working on to obtain financial information or improve the reliability and accuracy of the figures reported. This is particularly in the areas of ensuring the security of transaction documentation and reconciliations of some general ledger accounts and bank accounts controlled by Ministries.

2.14 OAG commends the Ministry for submitting signed financial statements within 12 months of the financial year end for the first time in many years, possibly since Independence and supports the plans of the Ministry to continue to improve internal control and presentation of the financial reports.

Key Findings

2.15 A summary of the high risk audit issues follows:

Timeliness of Preparation of Annual Accounts

2.16 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 Annual Accounts were in serious arrears after the end of the tensions period, with the annual accounts being nine years in arrears. It is noteworthy that the 2007 annual accounts were submitted to the Auditor-General in December 2008, the first time they have been completed within 12 months for many years.

Cash at Bank

2.17 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. OAG identified 113 bank accounts with a total balance as at 31 July 2007 of \$4.2 million which are not controlled by the Ministry of Finance and Treasury (MoFT) and are not Special Fund or trust accounts. It is noted that some of these may not be controlled or owned by SIG, but all of these need investigation by MoFT. These bank accounts include imprest accounts and project accounts. The extensive use of project accounts to administer large sums of project funds avoids the controls by MoFT over expenditure of public moneys.

2.18 During special investigations, OAG has identified funds received from donor agencies which have not been recorded in the general ledger system, and therefore not reported in the annual accounts. These bank accounts involved in these examples were the Ministry of Fisheries imprest account and the Office of Prime Minister Infrastructure Rehabilitation Account. These examples demonstrate the need for the Ministry of

Finance and Treasury to monitor bank accounts controlled by line Ministries. This monitoring needs to include ensuring that cash books are maintained and forwarded to the Ministry, and that every bank account is reconciled monthly.

2.19 OAG notes that the Ministry of Finance has undertaken a major program of work to progress reconciliations of bank accounts which the Ministry controls, and that there has been a significant improvement in the balancing of these bank accounts. However, 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 2007.

Other Assets

2.20 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

2.21 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 by the government. OAG noted that the values recorded for deposits were debit balances – negative liabilities or assets – for each of the past four years - \$(89,248) in 2004, \$(427,144) in 2005, \$(1,458,056) in 2006 and \$(1,799,727) in 2007. This indicates accounting errors and/ or overpayment of payroll deductions. Of greatest concern is the NPF Contribution account which had a negative balance of \$1,981,582 as at 31 December 2007.

2.22 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. The Ministry is in the process of implementing a new payroll system which will better interface with the general ledger and payments systems. It is expected that the present difficulties in reconciling the payroll clearing and suspense accounts will be resolved when the new payroll system is implemented in early 2009.

2.23 Due to the lack of reconciliation of some general ledger accounts to supporting ledgers, OAG was unable to determine whether the balances were materially correct.

Other Liabilities

2.24 OAG noted that some of the general ledger accounts which comprise this balances have not been reconciled to independent registers. As the accounts payable control account had a debit balance of \$816,752, 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.

Public Debt Liability

2.25 The annual accounts records 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 ninety 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 \$30 million in each of 2006 and 2007. 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 about \$300 million would lead a reader to a very different conclusion than the total liabilities of \$30 million compared to total assets of \$300 million. It is considered that this would have a material effect 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. 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.

2.26 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 noted that the level of documentation held by MoFT and the degree of oversight over CBSI has increased over previous years. However, OAG recommends that MoFT continue to develop capacity in this area to take back more responsibility for recording and monitoring these transactions and balances.

Advances

2.27 This balance includes outstanding standing and special imprest accounts as well as staff advances. OAG noted that these general ledger balances were reconciled to and supported by detailed schedules. Almost all of this balance is made up of about 475 outstanding imprests. The imprest balances are for imprests issued in 2007 only, as imprests issued up to 2006 were charged to expenditure. OAG has noted that there are a large number of imprests still outstanding from 2006 and earlier years.

Investments and Non-current Assets

2.28 Investments have not been included in the Statement of Assets and Liabilities for a number of years. From 2004, 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.

2.29 Similarly, other non-current assets are not recorded in the Statement of Assets and Liabilities. OAG identified \$36.7 million in purchases which appear to be assets which should be recorded in an asset register. 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.

Special Funds

2.30 The Statement of Special Funds includes the Civil Aviation Special Fund. The 2007 financial statements for this fund were submitted to the Auditor-General in December 2008, over nine months 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, the 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.

Contingent Liabilities

2.31 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 2007 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.

On-Lent Loans

2.32 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 assets in the Statement of Assets and Liabilities. As the total is \$158 million, it is material in comparison to the total assets disclosed of approximately \$270 million.

2.33 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 as an asset in the Statement of Assets and Liabilities.

2.34 The Post Balance Date Event of the debt forgiven to the Solomon Islands Electricity Authority in 2008 was disclosed in the 2007 annual accounts.

Receipts and Expenditure

2.35 Due to the lack of bank reconciliations and cash books in most of the Ministries, OAG cannot gain assurance that all revenues and expenses have been brought to account in the general ledger and thus the annual accounts. 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.

2.36 OAG could not locate a significant proportion of supporting documentation sought for audit testing of revenue and expenditure transactions for 2007. This includes 106 of the sample of 326 (32%) Payment Vouchers, 136 of the sample of 359 (36%) imprests issued and none of the documentation for Spectrum Revenue. It is noted that there has been a substantial improvement over the situation in earlier years. This indicates that processes and controls are improving. However, the extent of documentation not able to be located is still too high to allow OAG to determine whether transactions were properly authorised and whether what was processed was materially correct.

2.37 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. Although this was not material in 2007, it may be in future years and should be addressed in the review of the presentation of the annual accounts.

Other control weakness identified regarding payments

2.38 A number of other control weaknesses were identified during controls testing at line Ministries. These include:

- Not obtaining three written quotes or not submitting larger purchases for open tender in 20% of the value of the sample selected;
- A couple of payment vouchers were not signed by the Certifying Officer;
- In a couple of cases the Payment Voucher was signed by the same officer as Authorising Officer and Purchasing Officer;
- Commitment cards or registers not being consistently updated; and
- Lack of reconciliation of revenue from Customs and IRD.

2.39 OAG noted that each of Customs and Inland Revenue Divisions have their own systems for tracking and monitoring revenue, but that the revenues recorded according

to these systems are not reconciled to the central ledger system Maximize. Given the control weaknesses identified in the CRC and that data from each of these Divisions is manually transcribed into the ledger system, reconciliations between the data in each system would provide management and audit with greater assurance that the central ledger is complete and accurate, and identify errors in account coding and omissions to enable corrections to be processed. This reconciliation would give greater confidence in the accuracy and completeness of all three systems.

Recommendations

2.40 OAG recommended that the Ministry of Finance and Treasury:

- Continue to resource the Financial Reporting section with skilled and experienced officers to ensure the progress in improving the presentation and timeliness of completion of the annual accounts is maintained;
- Extend the program of catching up on the backlog of reconciliations to include the other asset and liability accounts in the general ledger, and the bank accounts operated by line Ministries;
- Reconcile high volume transaction accounts such as payroll deduction accounts, accounts receivable and accounts payable control accounts monthly;
- Through the Ministry's Debt Management Unit continue to take a more proactive role in managing and monitoring the debt transactions recorded on the Ministry's behalf by CBSI;
- Create an asset register for all Ministries and assets be required to be recorded and a stocktake taken on an annual basis, with a view to eventually recording the total assets held in the Statement of Assets and Liabilities;
- In conjunction with the SOE donor assisted project, consider the measurement of value of investment in each entity for eventual recording in the Statement of Assets and Liabilities;
- Record the balance of Public Debt Liability in the Statement of Assets and Liabilities; and
- Report revenue by sub-headings of Government Taxes and Services, Funds Recovered, and Borrowings.

Ministry Response

2.41 The Ministry agreed with the recommendations of the audits.

Attachment 1 - Audit Certificate on SIG Accounts

CERTIFICATE OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE SOLOMON ISLANDS GOVERNMENT FOR THE YEAR ENDED 31ST DECEMBER 2007

Scope

I have audited the accompanying annual accounts of the Solomon Islands Government for the financial year which ended 31st December 2007, consisting of the Statement of Assets and Liabilities, Summary of Consolidated (Revenue) Account, Summary of Consolidated (Development) Account, Statement of Deposits, Statement of Investments, Statement of Advances, Summary of Public Debt Liability, Summary of Contingent Liabilities, Summary of On Lent Loans, Summary of Special Funds, Comparative Statement of Estimated and Actual Recurrent Revenue and Expenditure, Detailed Development Expenditure Accounts, Detailed Revenue Development Account, and Schedule of Losses set out in the proceeding pages, pursuant to section 108(3) of the Constitution as read with section 39 (1) of the Public Finance and Audit Act [Cap. 120]. The Permanent Secretary for the Ministry of Finance and Treasury is responsible for the preparation and presentation of the annual accounts and the information they contain in accordance with section 38 of the Act. My audit was conducted in order to express an opinion on them to the National Parliament.

The audit examinations and reviews have been conducted in accordance with the International Standards on Auditing, the International Organization of Supreme Audit Institution (INTOSAI) Auditing Standards and other applicable guidelines to provide reasonable assurance as to whether the financial statements are free of material misstatements. The procedures included examination, on test basis, of evidence supporting the amounts and other disclosures in the financial statements, and evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with generally accepted accounting practice and the requirements of the Constitution, the Public Finance and Audit Act [Cap. 120] and the Solomon Islands Government Financial Instructions (2004) as amended, so as to present a view which is consistent with my understanding of the Solomon Islands Government's financial position and the results of its operations.

The audit opinion expressed in this report has been formed on the above basis.

Qualifications

The accounting records of the Solomon Islands Government were not properly maintained in accordance with the requirements of the *Public Finance and Audit Act 1978* and the *Financial Instructions 2004*. Notwithstanding significant improvements noted in this period, there was a continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to materially support transactions and accounts. For this reason and the fact that information sought could not

be provided, I was unable to obtain all the information I required in order to form an opinion as to whether the financial statements present fairly the results of the Solomon Islands Government's operations for the year ended 31 December 2007.

This resulted in a limitation of scope of the audit work and identified a range of control and other matters, the following of which are more significant:

- Chapter 27 of the *Financial Instructions 2004* states that “*The Permanent Secretary shall ensure that the Government's accounts comply with the relevant National and International Accounting Standards*”. There are no National Accounting Standards. The Annual Accounts as at 31st December 2007 do not comply with the 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 and a statement of receipts and payments. The Statement of Assets and Liabilities does not include all assets of the Solomon Islands Government. Property, plant and equipment assets are not able to be ascertained due to lack of accounting records for these items;
- As a result of the qualified audit opinion for the year ending 31st December 2006, the comparative figures cannot be relied upon;
- Although bank reconciliations were performed for the main government bank accounts controlled by the Ministry of Finance and Treasury, many of the bank accounts controlled by other Ministries were not reconciled during 2007. Therefore I have not been able to determine whether all receipts and payments transacted during the year were properly authorized, for proper purposes and have been accounted for and reported during the year;
- Many of the ledger accounts for Other Assets, Deposits and Other Liabilities balances were not reconciled to supporting ledgers and registers. Therefore I have not been able to determine whether these balances are materially correct; and
- 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 accounts of the Noro Fuel Depot Sinking Fund have not been submitted to the Auditor-General for audit. Similarly the financial statements for the National Disaster Relief Special Fund have not been prepared and no figures for this Special Fund are included in Statement 1I of the financial statements.

Consequently, I am unable to and do not express an opinion on the Annual Accounts of the Solomon Islands Government for the year end 31st December 2007.

Emphasis of Matter

Without further qualification to the opinion expressed above, attention is drawn to the following matters:

- The Public Debt Liability of \$1,698,719,583 and On Lent Loans of \$158,165,755 as at 31 December 2007 were not disclosed in the Statement of Assets and Liabilities. Although these balances are disclosed as Note 2 to Statement 1, as the total

assets of SIG are disclosed as \$270,123,526 the omission of these items from the Statement of Assets and Liabilities significantly distorts the understanding of the financial position of SIG that a user would obtain; and

- The Solomon Islands Government recorded an accumulated surplus of \$247.7 million and a public debt liability of \$1,698.7 million as at 31st December 2007. In light of the significant limitations of the scope on the audit, and I note that the Government's ability to meet its financial obligations and at the same time provide the necessary services to the people remains dependent upon the support of its creditors and donor partners.

Audit Opinion

I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purposes of the audit of the Solomon Islands Government for the financial year ended 31st December 2007, except as stated above.

In my opinion, and to the best of the information and according to the explanations given to me, because of the limitation in the scope and the uncertainties described in the preceding qualification paragraphs, I am unable to and do not express an opinion as to whether the annual accounts give a true and fair view of the financial position of the Solomon Islands Government as at 31st December 2007 and the results of its operation for the year then ended.

Eric Muir
Acting Auditor-General

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

Dated: 9 February, 2009

3. Findings from Audits of Ministries

Imprest Accounts

3.0 Two categories of imprest accounts are described in the Financial Instructions, namely Standing and Special, with specific rules outlined for each. From 2004 imprests were accounted for “above the line” (i.e. direct to expenses) resulting in the ending of tracking imprests as assets. This introduced considerable difficulty in the OAG’s efforts to identify all existing imprest accounts and increases the risk that Ministries are unable to identify and control these accounts appropriately.

3.1 From the register of imprests held and currently maintained by the Treasury Division, the following statistics regarding known imprests during 2006 and 2007 are summarised below:

	2006	2007
Special - Number	611	820
Special - Value	\$9,770,607	\$7,397,203
Standing - Number	100	24
Standing - Value	n/a	n/a

Audit Objective

3.2 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 assessment of compliance with Financial Instructions.

Conclusion

3.3 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 with respect to the management of special and standing imprest accounts. Disregard for requirements of the Financial Instructions, particularly Chapter 11 relating to imprests, has resulted in a lack of accountability and transparency with respect to the use of public funds. It has also represented a loss of monies to the Solomon Islands Government regarding interest revenue and non-retirement of imprests. 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 monitor either budgets or other government activities. Significant balances were written off during these years, due to the unrecoverability of imprest funds from past government officers. However, OAG has observed some improvement in the coordinating and monitoring of imprest in 2007 by the Treasury Division, Ministry of Finance and Treasury.

Key Findings

3.4 The process to issue, manage and monitor imprest accounts is inadequately controlled with little to no regard for the requirements of the Financial Instructions. Improvements are not expected in the 2007 audit as reporting of prior year audit findings were communicated to ministries in 2008. A summary of the nine audit issues identified are summarised below:

Late Retirement of Imprests and Writeoff of Uncollected Monies

3.5 Special and standing imprests accounts have not been retired in a timely manner. The Treasury Division attempted to recover outstanding imprests and was compelled to write off substantial amounts of unretired imprest monies. There is an increased risk of loss or misuse of government monies when imprests remain outstanding. Further, the SIG general ledger cannot accurately record the expenditure until the imprests have been acquitted and the transactions entered against the correct expenditure code.

Salary Deduction Forms Could Not Be Located

3.6 Financial Instructions require Ministries to recover monies from government officers that have not retired their imprest accounts within the stipulated time. Salary Deduction forms could not be located for some imprest holders and this increases the risk that the Ministry is unable to track evidence as to whether the imprest holder has agreed to the salary deductions. It is expected that ministries will improve this process in 2008 as indicated in their 2007 audit action plans.

Failure To Maintain A Register Of Imprests

3.7 A register of active imprests are not maintained by some Ministries. Without a properly maintained register the Chief Accountant cannot monitor imprest accounts and ensure that they are used appropriately.

Lack Of Supporting Documentation For Imprests Retired or Replenished

3.8 There was a lack of documentation to support the legitimacy of the payments made from some imprests that had been retired. This increases the risk of loss or misuse of government moneys. Furthermore these 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.

Unauthorised Special Imprests for Permanent Secretaries

Special imprests were created for a number of Permanent Secretaries without the approval of the Permanent Secretary of Minister of Finance and Treasury (MoFT). The Financial Instructions recognises Permanent Secretaries, with the exception of Permanent Secretary MoFT, as the Accounting Officers of their departments. Section 313 (6) requires that the creation of special imprests for Accounting Officers are approved by the Permanent Secretary MoFT

Creation Of New Imprests Without Proper Retirement Of Previous Imprest

3.9 New imprests have been issued to officers prior to them properly retiring their outstanding imprests. Financial Instruction require that outstanding imprests must be retired prior to new imprests being issued. There is an increased risk of loss or misuse of government monies where multiple imprests are outstanding.

Imprest Applications Are Incomplete

3.10 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.

Recommendations

3.11 OAG made the following recommendations to each Ministry:

- Paragraph 313 (3) of the *Financial Instructions* provide for recovery of monies from public officers who have not retired their Special Imprest within a reasonable period. This facility should be utilised to close out imprest accounts that 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 proper supporting documentation and approvals exists for imprests to be created, retired or replenished; and
- 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.

Management Response

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

Bank Accounts

Audit Objective

3.13 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. OAG conducted this audit to verify the accuracy of the cash at bank balances presented in the SIG Financial Statements and ensure that these balances were accounted for and controlled in accordance with the Financial Instructions and generally accepted Best Practice.

Conclusion

3.14 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 its continuing efforts to produce timely, accurate and reliable bank reconciliations. OAG also identified some control weaknesses regarding 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.

3.15 OAG identified that most bank accounts, operated by line Ministries, were not reconciled and many had no cash books prepared. This represents a significant lack of oversight with respect to the use of public monies.

Key Findings

3.16 Improvements are not expected in the 2007 audit as reporting of prior year audit findings were communicated to ministries in 2008. Key findings arising from the audit are listed below.

Significant numbers of Bank Accounts Have Not Been Reconciled

3.17 OAG noted that bank reconciliations were not performed for most bank accounts controlled by the line Ministries. It is expected that the ministries should improve as indicated in their 2007 audit action plan. Bank reconciliations ensure all public revenue and expenses are accounted for and fairly reflected in the national accounts. Non-performance of bank reconciliations results in improper debits or credits not detected and adjusted, hence balances of cash at bank and revenue and expenditure transactions at the end of the financial year 2007 as per the Cash Book/Ledger may not be reliable. Furthermore the Ministry does not maintain a complete listing of existing bank accounts.

Cash Books Not Made Available for Audit

Cash books for a number of 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. It is expected that ministries will improve in 2008 as indicated in their audit action plan.

Lack of Controls to Ensure Accuracy and Reliability of Bank Reconciliations

3.18 OAG observed a number of control weaknesses that occurred consistently with respect to the completion of bank reconciliations. For example, lack of completed bank reconciliations and cashbooks, unsigned bank reconciliations, conflict of interest, lack of management oversight and missing records of payment. It is expected that the ministries should improve in 2008 as indicated in their 2007 audit action plan. 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 with respect to use of Ministerial bank accounts.

Bank Reconciliation with significant unreconciled differences

3.19 The two primary cash accounts, namely SIG Creditors and SIG Revenue, include significant unreconciled differences for the year ended 2007. These accounts are administered by the Ministry of Finance and Treasury. As a result the bank balances in the SIG financial statements will not be accurate and reliable. It is expected that the Ministry of Finance and Treasury should improve in 2008 as indicated in their audit action plan.

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

3.20 Reconciliations for the SIG Revenue and SIG Creditors accounts were not performed on a daily basis. Financial Instruction 397(2) require that with respect to bank accounts that provide daily statements (i.e. SIG Revenue and SIG Creditors accounts), then bank reconciliations must be performed on a daily basis. 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.

Recommendations

3.21 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;
- The Ministry of Finance and Treasury should ensure that hard copies of all reconciliations are retained in hardcopy 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.

Management Response

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

Procurement and Expenditure

Background

3.23 OAG conducted audits to review the processes and controls over the procurement and payment of goods and services by the Ministries listed in the table below and assessed compliance with Financial Instructions and the Public Finance & Audit Act. The adequacy of the payroll processes were also reviewed for some of the Ministries as indicated in the table below.

Ministry	Reviewed Procurement & Expenditure	Reviewed Payroll
Ministry of Agriculture and Livestock Development	yes	no
Ministry of Commerce, Immigration and Employment	yes	no
Ministry of Communication and Aviation	no	yes

Ministry of Development Planning and Aid	no	yes
Ministry of Education and Human Resource Development	yes	yes
Ministry of Finance and Treasury	no	yes
Ministry of Forests, Environment and Conservation	no	yes
Ministry of Health and Medical Services	yes	yes
Ministry of Infrastructure Development	yes	no
Ministry of Mines and Energy	no	yes
Ministry of Police and National Security	no	yes
Ministry of Provincial Government and Institutional Strengthening	yes	no
Ministry of Public Service	yes	no
Office of the Prime Minister	no	yes

3.24 According to the Financial Instructions 2004, decisions relating to purchases under \$50,000 should be based on 3 quotations. Purchases over \$50,000 should go to tender through the Ministerial Tender Board (MTB), whilst purchases over \$500,000 are required to be processed and approved through the Central Tender Board (CTB).

Conclusion

3.25 OAG noted that observations and findings highlighted in the 2004 to 2006 audit report reoccurred in 2007. Not all large purchases were assessed by the MTB or the CTB as required by the Financial Instructions. There was a general lack of control over payments representing little to no improvement on the 2004 to 2006 audit report. Some payments could not be verified to determine their as neither originals or copies of the payment vouchers and supporting documents were available. The lack of adherence to the Financial Instructions has led to a greater risk of inadequate value for money, poor quality of goods or services, non-delivery of goods or services and fraud. OAG however noted that the Ministries are progressively implementing their Action Plans for the recommendations made in the audit of the 2004-2006 transactions, and that the actions taken by the Ministries would not be reflected in the 2007 audit results as the previous audits were undertaken and reported during 2007.

Key Findings

3.26 Audit issues identified is summarised below:

Breach of Procedures to Purchase 52 Vehicles Costing \$12 million

3.27 The Ministry of Infrastructure Development and the MoFT breached Government procedures and circumvented checks and controls to purchase 52 motor vehicles for \$12 million from one supplier during the period. The Permanent Secretary has been advised to refer the matter to the Leadership Code Commission.

High Value Procurements Not Referred to appropriate authorities and without tenders.

3.28 A number of purchases over \$500,000 had not been referred to the CTB and tenders were not called. A number of purchases over \$50,000 and under \$500,000 had not been referred to the MTB and tenders were not called.

Approval for Variations to Contract Obtained After Additional Works were Completed

3.29 Approval for variation to Contracts were obtained after the additional works had been completed which is in breach of Financial Instruction 531(1). This increases the risk that unauthorised payments are being made and the government is not receiving value for money.

Ministerial Tender Board Members Not Appointed in Accordance with the Financial Instructions

3.30 Financial Instruction 527(1) which requires the MTB to consist of the Accounting Officer as the Chairman and two other senior public officers appointed by the Chairman was not complied with.

Expenditure**Payment Vouchers and Supporting Documents not Available to Audit**

3.31 Original payment vouchers and supporting documents for payments in 2007 were not available to audit. OAG could not therefore determine whether these expenses were genuine and incurred in accordance with SIG Policies and Financial Instructions. The absence of a proper records management system will result in Ministries being unable to monitor the appropriateness of activities. There is a significant risk that fraud, error or corruption may occur undetected. 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.

Control Weaknesses in the Processing of General Payment Vouchers

3.32 OAG noted the following control weaknesses when processing general payment vouchers and payroll:

- Lack of proper checks to ensure proper documentation is available to support validity and accuracy of expenditure;
- Approval for Contract Variations obtained after works were completed;
- Unauthorised waiver of tender;
- Inefficiency and ineffectiveness of communicating the unauthorised absence of employees as well as terminated employees. As a result these officers continued to be paid salaries, allowances and stayed in government quarters while no longer entitled to the benefits;
- Officers residing in government institute dormitories and guest houses without paying rent and utilities since occupancy in 1999; and

- Conflict of interest when awarding shipping services for a bi-election. This led to payments made in advance without the authorisation of the Permanent Secretary for MoFT as required under the Financial Instruction and the amount paid was more than the contracted rate.

Management Response

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

Recommendations

3.34 OAG recommended that the Ministries implement the following key recommendations:

- Implement the Action Plans for the 2004 – 2006 audit report, which if implemented will address most of the issues raised in this report;
- Ensure appointments to the Ministerial Tender Board are documented and are in accordance with the Financial Instructions;
- Ministerial Tender Board approve and put to tender, through public advertisement, the procurement of goods and services costing \$50,000 up to \$500,000;
- Refer to the Central Tender Board purchase of goods and services required frequently during the year and total cost of which may exceed \$500,000;
- Put in place a process that will improve the process of communicating terminated as well as inappropriately absent employees to the Ministry of Finance and Treasury Payroll division;
- Maintain copies of supporting documents of the general payment vouchers before they are sent to the Ministry of Finance and Treasury;
- Refer variations to Contract in excess of 10% back to the Ministerial Tender Board as required under Financial Instruction;
- Ensure that the recruitment and selection process is in accordance with the General Orders and be completed in an accountable and transparent manner;
- Rent, electricity and water charges owed by staff residing in dormitories and guest houses is calculated and salaries deducted to recover the amount owed;
- Ensure that staff vacate quarters from the date they cease to work with SIG;
- Ensure that the Ministerial Tender Board processes and procedures comply with the requirements of the Financial Instructions; and
- Properly document and maintain records of all tender assessments and decisions of the Ministerial Tender Board.

Assets

3.35 The estimated value of assets procured each year continues to increase and in 2007 total asset procurement exceeded \$40 million.

3.36 It is critical that all SIG assets are recorded, monitored and secured to prevent theft and misuse. A failure to capture the details of all assets at the time they are procured makes it unlikely that they will ever be accurately or completely recorded and makes safeguarding the assets themselves extremely difficult.

Audit Objective

3.37 OAG reviewed the adequacy of processes and controls over assets held by some Ministries in 2007 and assessed compliance with Financial Instructions, Public Finance & Audit Act and Stores Instructions as appropriate.

Key Findings

3.38 There has been no improvement in the accounting for assets during the 2007 audit. Each of the issues outlined below are all carried forward from the 2004 audit.

- There is no policy on accounting for assets. As a minimum, the policy should include the requirement for an appropriately maintained Fixed Assets Register.
- No Ministry had commenced the construction of a Fixed Assets Register for the 2007 audit. Although, the OAG acknowledges that some ministries have started collating asset information for transactions related to the 2008 financial year.
- Sighted Government Assets did not include any labelling to indicate that the asset is the property of the SIG.

Lack of controls to track, monitor and maintain government assets is a breach of Financial Instructions and increases the risk of theft and loss of funds to SIG.

3.39 All Ministries in their Audit Action Plans for 2007 indicated that audit recommendations regarding assets are currently being implemented. OAG will assess the progress of this implementation during the audit of the 2008 financial statements.

Recommendations

3.40 OAG's key recommendations require that Ministries implement their respective Audit Action Plans for 2007, particularly ensuring that:

- An assets policy is established;
- All ministries commence the implementation of a fixed asset register; and
- All assets are marked in accordance with Financial Instruction 60.

Management Response

3.41 The Permanent Secretaries of respective Ministries each provided Action Plans that agreed for the need to implement the above recommendations.

Revenue

3.42 The revenue systems examined by OAG for 2007 are addressed separately for each responsible Ministry.

MoFT - Customs & Excise Duties and Income Taxes

3.43 The table below summarises the recorded actual amounts of monies collected by Inland Revenue Division (IRD) as well as Customs and Excise in 2007. This information is based on data from the General Ledger Accounting System (provided by the Treasury Division Ministry of Finance and Treasury).

Inland Revenue Division	\$ 599,556,816
Customs and Excise	\$ 346,328,938
Total	\$ 945,885,754

Audit Objective

3.44 OAG conducted the audit to determine the occurrence, completeness and accuracy of recording income taxes as well as customs and excise duties in 2007.

Key Findings

3.45 Significant deficiencies in internal control procedures and practices were identified as follows:

Customs and Excise Duties

No Reconciliation of Customs Records and General Ledgers

3.46 There is no reconciliation between Customs and Excise systems and the Maximise General Ledger regarding duty revenue collected. This represents a critical control to ensure that revenues collected are accounted for properly as well as reducing the risk of revenue leakage.

Inadequate Control Over Beer Sales Reported by Solbrew Company

3.47 The collection of excise duties from Solbrew Company is based on the delivery dockets of beer sales to customers, which are provided by the company to Customs & Excise. There is inadequate control in place to ensure the delivery dockets are verified. OAG noted from the sample selected that delivery docket numbers are not in sequence. Customs Officers advised that they assumed the missing delivery docket numbers are for soft drink sales. The delivery dockets are accepted at face value.

Lack of Daily Banking and Timely Collection of Duties

3.48 Financial Instruction 32 (e) requires all cash collections be banked on a daily basis. OAG noted that the Customs and Excise Division daily collections, ranging from \$1.5 million to \$2.2 million, were not banked daily but 2 to 3 working days later. There is an increased risk of misappropriation if receipts and cash/cheques collected are not reconciled and banked daily. It was further noted that the duty for beer, totalling

\$1,538,763.60 for January 2007, was not paid the following month, as required, but two months later.

Inland Revenue – Taxes

No Reconciliation of Tax Revenue Received and Manual Ledger Records

3.49 Inland Revenue Division has maintained manual records of companies and individuals tax collection. In the process of maintaining the accounting records the collection of tax is also uploaded into the Maximise system at the Treasury Division Ministry of Finance and Treasury. OAG noted that there is no reconciliation between the manual ledger records of Inland Revenue and the general ledger records in the Maximise general ledger. The general ledger reports a total of \$599 million whilst the manual ledger records a total of \$589million; this is a significant variation of \$10 million.

Substantial Tax Arrears On Goods Tax

3.50 Goods tax is lodged monthly to Inland Revenue Division for assessment and subsequent payment by customers. OAG noted that, of the sample selected, 63% of the companies did not pay their goods tax by the due date in 2007. Some of the companies paid three to four months in arrears, the other companies paid a month overdue and in one case the company has one year of tax in arrears.

Inefficient Process of Preparing Tax Summary and Reconciling Tax Arrears

3.51 The current process of manually processing the tax summary including the tax arrears spreadsheets of each company is not efficient. The tax summary and the tax arrears should be captured in the RMS or another integrated computer program and printed accordingly. In addition, there is a significant backlog of receipts to be recorded in the manual ledger.

Poor Record Keeping

3.52 Inland Revenue Division maintained manual ledger records. OAG noted that some manual ledger cards were missing. It was further noted that some of the companies and individuals did not produce IR 9 forms, which are forms lodged when paying for withholding tax and PAYE. This is an important administrative function to ensure tax payers are monitored and keep track of revenue due to the government

Recommendations

3.53 OAG's key recommendations are that the Ministry:

- Prepare monthly reconciliations of revenue received and uploaded into the Maximise ledger system to both the Customs and Excise and Inland Revenue Division records;
- Provide adequate controls to ensure beer sales delivery dockets are verified and not just accepting the documents provided by the company on face value;
- Carry out daily banking as required by Financial Instruction 32 (e);
- Update the manual ledger records of receipts on a daily basis and ensure the manual ledgers are reconciled with the Maximise ledgers;
- Clear the backlog of receipts into the manual system; and

- IRD introduce a computerised tax revenue management system which is integrated with accounting and management records to be more efficient and effective.

Management Response

3.54 The Comptroller of Customs and the Commissioner of Inland Revenue provided a detailed Action Plan that provided for all of the recommendations to be implemented.

Ministry of Communication and Aviation

Telekom Licence Fees

3.55 Solomon Telekom Company was granted a fifteen year exclusive license in November 2003 to provide, operate and develop the public Telecommunication System and further to be exclusive provider of all Telecommunications Services in Solomon Islands or to or from any destination outside Solomon Islands as further stipulated under section 2 of the Telecommunications license.

3.56 The license fee is determined at the rate of 7% of the gross revenue received from the provision of Authorised Telecommunications Services by the company. It comprises of 6.5% for the grant of License and 0.5% for the grant of Frequencies. Section 7.2 stated that *“the payment of the fee shall be paid quarterly in arrears within thirty days after the end of each Quarter at a Bank situated in Solomon Islands as may from time to time be nominated in writing by the Authority to the Company”*.

3.57 A summary of license fees received is shown below based on data from the General Ledger Accounting System “Maximise” (provided by the Ministry of Finance and Treasury):

License Fees	Year	Actual Amount Received \$
Telekom License	2004	Nil
Telekom License	2005	2,712,413
Telekom License	2006	7,591,097
Telekom License	2007	4,508,084
	TOTAL	\$14,811,594

3.58 The Ministry of Communication and Aviation through the Spectrum Division administer the telecommunications, radio and television signals in the Solomon Islands.

Audit Objective

3.59 OAG conducted the audit to determine occurrence, completeness and accuracy of Telekom license fee paid by Solomon Telekom Company from 2004 to 2007.

Key Findings

3.60 The audit noted that the responsible Ministry has neglected its functions in administering the Telecommunication Act in a manner prescribed by the Act and the Telecommunication License Agreement. The audit further noted deficiencies in internal control procedures and practices as follows:

Telekom License Fees Offset To Outstanding Telephone Bills

3.61 The Telekom License fees due in 2004 were not paid to the government. According to correspondence obtained by OAG from the Debt Management Unit of the Ministry of Finance and Treasury, dated 17 February 2005, a total of \$2.9million was outstanding from telephone bills over prior years. \$2.5million was agreed to be offset whilst \$0.4million was said to be in arrears. This arrangement was made between the government and Solomon Telekom at that time, but no documentation was held by the Ministry to support this arrangement. Audit could not further substantiate and verify whether these arrangements were legal and legitimate. Lack of documentation involving financial decisions increases the risk of misappropriation of public funds.

Foregone License Fees

3.62 Due to lack of evidence regarding calculation or verification of the amount paid by Solomon Telekom, OAG made an estimation of the licence fees based on reported revenue turnover of Solomon Telekom Company from 2004 to 2007. There is no definition of what is "Gross Revenue" in the telecommunication license agreement. The method of payment stipulated under section 7.2 of the Telecommunication Act requires quarterly payments in arrears within thirty days after the end of each quarter.

3.63 The Turnover figures were obtained from the Solomon Telekom Company Annual Report for each year. Unfortunately the Notes to the financial statements have been omitted from the previous 3 year's financial statements. Therefore OAG does not have access to the detail of gross revenue included in Turnover for 2005 to 2007. Note 2 to the 2004 financial statements disclosed minimal income from interest and property rentals, which may be considered to be other than revenue from operating a telecommunications service. Without this detail available for each year, the Turnover figures have been used in the following recalculation of what the required licence fees may have been.

License Fees	Year	Audit Calculation \$	Actual Amount Received \$	Possible Amount Under Paid \$
Telekom License	2004	5,964,764	2,500,000	3,464,764

Telekom License	2005	7,549,669	2,712,413	4,837,256
Telekom License	2006	8,905,726	7,591,097	1,314,629
Telekom License	2007	10,545,864	4,508,084	6,037,780
	TOTAL	32,966,023	17,311,594	15,654,429

3.64 SIG should require Solomon Telekom to justify the amount of licence fees remitted, and then audit this amount using Solomon Telekom's financial statements to verify the accuracy of the calculation and payment. The lack of supporting documentation and verification of licence fees increases the risk of non collection of government revenue.

Recommendations

3.65 OAG's key recommendations were that the Ministry:

- Further investigate and obtain relevant documentations as required by section 4.2 of the Telecommunication License on how Telekom License fee was calculated and provide the documentation to OAG;
- Provide minutes and correspondence to OAG relating to the authority and legality of the offset;
- Provide a listing of outstanding bills offset by Solomon Telekom Company and demonstrate how the 2004 license fees was calculated;
- Provide correspondence of advice given by the Authority as stipulated under section 7.2 regarding the method of payment of License fees;
- Negotiate with Solomon Telekom for payment of any license fees determined to be under paid;
- Commence regular checks of the licence fees paid by calculating the fee payable and verify with Solomon Telekom revenue accounting records; and
- Maintain proper records and filing system for all licenses issued.

Management Response

3.66 The OAG has yet to receive an Action Plan from the Permanent Secretary providing for the recommendations to be implemented.

Office of the Prime Minister and Cabinet

Filming Revenue Fees

3.67 The Communication Unit within the Office of the Prime Minister and Cabinet collects "Filming Revenue Fees" from overseas filming companies that want to make documentaries about the Solomon Islands. The rate of fees charged is usually SBD\$6,000 per documentary with a SBD\$1,000 refundable amount if a copy of the documentary is provided to the Communication Unit.

3.68 The Chief Accountant advised that she is not involved in any process regarding this revenue. The revenue is collected by the Communications Unit and taken to Central Processing Unit at MOFT to receipt.

3.69 During the 2007 financial year the Communication Unit collected a total of \$30,000. However no documentation to support this revenue was sighted.

3.70 The lack of documentation to support film revenue collected decreases assurance that revenue collected for 2007 is complete. There is a risk that revenue is stolen or lost

Recommendation

3.71 OAG recommended that the Office of the Prime Minister and Cabinet ensures the Chief Accountant is made aware of all financial transactions and where all supporting documentation are held.

Management Response

3.72 The Secretary to the Prime Minister provided an Action Plan that provided for the recommendation to be implemented.

Ministry of Agriculture and Livestock Development

Quarantine Fumigation Fees and Pesticide Registration Fees

3.73 Under the Quarantine Act Cap 106, the Ministry is expected to collect revenue from Quarantine Fumigation Fees and Pesticide Registration Fees. These fees include:

- Inspection Fees;
- Clearance Fees; and
- Export and Import Fees

3.74 The Ministry did not provide all services and collect all fees required under the Act as it did not have the capacity to do so even though there was a need. A number of facilities had been destroyed during the tension and had been rebuilt. OAG also noted that the Ministry was collecting fees for Destruction using Incinerator (Dusting and Dipping – Heat Treatment) although there were no proper facilities.

3.75 Lack of facility to provide the necessary services as required under the Act increases the risk of non-compliance with government regulations and non-collection of government revenue. Also, lack of proper facility for services such as “Destruction using Incinerator” exposes the Ministry to possible environmental and legal implications.

Recommendation

3.76 OAG recommended that the Ministry consider rebuilding the damaged facilities to enable provision of services required under the Quarantine Act Cap 106.

Management Response

3.77 The Permanent Secretary for Agriculture and Livestock Development provided an Action Plan that provided for the recommendation to be implemented.

4. Results of Other Audits in Ministries 2008 - 2009

Ministry of Agriculture and Livestock Development - 2007 Donor Funded Cattle Project

4.0 On 28th March 2007 the Office of the Prime Minister prepared the Cattle Development Work Plan 2007 which was to be coordinated by the Livestock and Veterinary Service Divisions of the Ministry of Agriculture and Livestock Development. The Work Plan comprised two phases with the first phase to commence in May 2007 and phase two to begin in August 2007. The first phase consisted of two components being the establishment of quarantine holding grounds and other logistic support and cattle farms restoration programme (CFRP) with a total value of \$2,354,966.00.

4.1 The second phase was to consist of one component which was the import of some 700 head of cattle in calf (pregnant) with a total value of \$7,893,427.29.

4.2 The start of the project was delayed but the Republic of China (ROC) released the first payment of \$2,337,423.61 into the Infrastructure Rehabilitation & Development Account at Central Bank of Solomon Islands on 7th June 2007. The second payment of \$7,848,237.09 was received by Central Bank of Solomon Islands on 13th September 2007.

4.3 As at 30th September 2008 the total funds expended on the project was \$2,478,930.67 which mainly related to costs associated with the preparation of the holding ground and quarantine area at Tenavatu farm in North Guadalcanal, and four (4) other farms in Guadalcanal and a further four (4) farms in Malaita that were to be part of the breeding and distribution of cattle to other farmers.

4.4 At the time of commencement of the audit there had been no cattle imported despite the availability of the funding.

Audit Objective

4.5 In view of the importance of this project strategically to Solomon Islands and the concerns by the donor about the lack of progress on this project OAG conducted this audit to determine whether the project was planned and implemented in accordance with the intentions of the grant and whether the processes employed complied with the Financial Instructions and Finance & Audit Act.

Key Findings

4.6 The major finding of the audit is that despite the availability of the funding for this important project the management of the project was very poorly carried out resulting in significant delays in the completion of Stage 1 of the project and major issues in the manner in which this stage was able to meet its objectives. Although the spending in the is Phase roughly equates to the original budget (\$2.478M expended compared to \$2.337M provided by the donor) the lack of proper records associated with the management of the project do not enable a this review to confirm whether that phase has in fact been achieved to allow progress to the next phase. The Project management records are abysmal. The following Table shows expenditure to date on the project:

Table - Cattle Project - Outlays to Date

Component	Budget	Actual
Phase One		
Quarantine Facility	468,838	468,187
Cattle Farm Support	986,128	1,223,171
Logistical Support	900,000	767,043
Total Phase	2,354,966	2,458,401
Phase Two		
Cattle Import	7,893,427	203,680
Total Project	\$10,248,438	\$2,672,081

4.7 Further it has subsequently been established that the second phase of the project the actual importation of the cattle has not considered the significant additional funding associated with the "Import Protocol" which ensures the smooth process of the importation of the cattle through the various regulatory requirements including quarantine. This has resulted in major delays to the project whilst additional funding is being sought by the Ministry.

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

Bank Reconciliations not performed

4.9 Contrary to the requirements of Section 397 (2) of Financial Instructions 2004, bank reconciliations were not performed for the cattle rehabilitation project standing imprest account operated and controlled by the Ministry in 2007 and 2008 (excluding October to December).

Member of Parliament pressures Ministry staff to pay funds.

4.10 Records at the Ministry indicated that they had been pressured by a Member of Parliament to allocate and pay funds to cattle farmers in his constituency which resulted in 4 cattle farmers in Malaita Province missing out the benefits planned for phase one of the project. In addition, one payment was not entered into the general ledger accounting system.

Missing payment documentation

4.11 No documentation could be found for a quarter of the payments reviewed by OAG.

Purchases made without authorization

4.12 8% of the sample did not have authorization of requisitions and payment vouchers in the Ministry

Purchases not made in accordance with required procedures

4.13 13% of purchases by the Ministry did not comply with the required tender processes.

Payments outside of terms of MOU

4.14 The Ministry made four payments in advance to land holders for a total of \$200,000 in 2007 which does not comply with the Memorandum of Understanding between SIG and Landholding groups. Furthermore the MOU attached with the payment vouchers was not signed by the parties.

No contract agreements for some contracted tasks

4.15 OAG was advised by the Ministry that they have made agreements with individuals/groups to do contract tasks; however there were no contract agreements for 13% of the sample in 2007 and 12% of the sample in 2008.

Purchases outside of approved budget

4.16 The work plan budget provided for procuring one Toyota Land Cruiser at \$235,000; however OAG noted that on 28th August 2007 the Ministry procured three vehicles in total including two Toyota Land Cruisers at \$430,000 which is excessive expenditure for the project and breaches Financial Instructions.

Failure to retire imprest accounts in a timely manner

4.17 There has been a failure to retire a special imprest of \$32,760 in a timely manner within the Ministry and this increases the risk of loss or misuse of government moneys. Furthermore, interest is not being charged for the late retirement of imprest and salary deduction for the recovery of the money.

Non-use of commitment cards

4.18 The Chief Accountant advised that the Ministry did not use commitment cards for 2007 and 2008.

Missing cancelled cheque

4.19 OAG noted during the audit that a cheque of \$23,045.00 for one chainsaw and accessories from Multi Trade Holding was cancelled. However, OAG could not locate the cancelled cheque. The lack of retention of the cancelled cheque increases the risk of authorised person cashing, fraud, corruption and loss of public funds.

Cheque book to provided for audit

4.20 Section 36 (1) of the Public Finance & Audit Act requires that all records, books, vouchers and documents relating to finance and accounts must be available to the Auditor-General and his officers. However OAG was not provided with cheque book number 533001 to 533060 despite requesting it from the Ministry.

Payment voucher has different amount to recorded payment

4.21 OAG found that one payment from the sample in 2007 has a different amount on the payment voucher compared to the general ledger accounting system (Maximize) in the Ministry of Finance & Treasury. The lack of internal control increases the risk of corruption, fraud and misstatement of the project account.

Purchases outside of authorised purpose of imprest account

4.22 OAG noted that the Ministry made two payments for phone cards and flash drives in 2007 that were not provided for in the purpose of the standing imprest as recommended by the then Permanent Secretary of Finance when he agreed to the creation of the standing imprest.

Payment voucher different to amount cheque amount

4.23 The Ministry made one payment from the cattle rehabilitation standing imprest replenishment that was approved by the authorized officer and paid to the supplier; however when the cheque was collected and signed off on the payment voucher, the amount stated was different hence is a breach of Financial Instructions.

No separation of duties

4.24 OAG found two payments were made in 2007 where the same officer signed the payment voucher as authorized purchasing officer and authorized payment officer therefore breaching Financial Instruction 206.

Conclusion

4.25 The audit identified a number of serious problems that resulted from the lack of proper control in the payments of project funds to the individuals and groups for the implementation of phase one. As a consequence of the lack of proper control of expenditure, the Ministry is not able to implement phase two of the project which is the purchase and transporting of cattle from Australia to Solomon Islands for the breeding programme.

4.26 In addition, political influence in the disbursement of the funds to farmers not listed in the work plan has contributed to the overspending of project funds for phase one and delay of phase two as well as diverting funds from the intended objectives and areas of benefit.

4.27 OAG noted that there is a need for a proper process of expending funds by the Ministry of Agriculture & Livestock Development to achieve the aims and objectives of the project. The Ministry of Agriculture & Livestock Development needs to liaise closely with the Ministry of Finance & Treasury to update the project's accounts in order to prevent overspending of public funds and to allow proper management monitoring and control.

Recommendations

4.28 OAG recommended that the Ministry:

- Perform the bank reconciliation for 2007 immediately;

- Perform monthly bank reconciliations for 2008 and ensure they are checked for accuracy and signed by an officer other than the officer who prepared the reconciliation;
- Request the MP for East Kwaio to provide receipts of expenditure incurred;
- Request Agriculture Officer in Auki to provide a report on the status of cattle farms in East Kwaio;
- Strictly adhere to the work plan in the allocation of funds;
- Locate the documentation that is missing for the payments and produce these to OAG for audit;
- Comply with Government Record Management Policy and ensure all documents and records are readily available and filed;
- Refer some transactions to appropriate authorities such as the Police and Leadership Code Commission for further investigation and appropriate action;
- Strictly comply with the Financial Instructions and relevant legislation;
- Attach a copy of the tender award approval to the payment voucher for payment; Refer the matter to appropriate authorities such as the Leadership Code Commission for further investigation and consideration of disciplinary action;
- Provide requested documents to OAG if they are available;
- Ensure delivery dockets are received and attached to the Payment Voucher for payment of goods;
- Comply with the requirements for payment in advance;
- Refer the matter to the Leadership Code Commission for further investigation and consideration of disciplinary action;
- Always obtain contractual agreements and attach a copy of the contract agreement with the requisition and payment voucher for the payment;
- Recover the money from the contractors and remit to IRD;
- Comply with the Financial Instructions for deduction of tax from contractors;
- Immediately implement recovery measures from the imprest holder such as deduction from import protocol contract payments since SIG is engaging him for the phase two of the project;
- Monitor closely imprests issued and due for retirement so that recovery action such as salary deduction and interest charges are applied;
- Develop a mechanism to ensure that when public servants leave the Ministry that recovery action for all outstanding imprests are implemented immediately; and
- Advise imprest holders that interest will be charged to discourage late retirement of imprests.

Ministry Response

4.29 The Ministry developed an Action Plan to implement the recommendations.

Ministry of Comm. and Civil Aviation - Civil Aviation Special Fund 2007

Audit Objective

4.30 The Solomon Islands Government provides a number of services, including air traffic services for the purposes of giving effect to international convention relating to the safety, regularity or efficiency of air navigation. Under a contract to the Solomon Islands Government, Airservices Australia collects air navigation fees (as per the Air Navigation (Fees) Regulations 1998) from Aircraft operations using this airspace.

4.31 The Civil Aviation Special Fund (the Fund) commenced operation on 31 October 2005. The Fund was established under the Civil Aviation (Amendment) Act which outlines the operational parameters for the usage of the Fund.

4.32 An audit of the Fund was required for the financial year ended 1 January 2007 to 31 December 2007. The Financial Statements and accompanying notes were prepared by the Accountant-General, in particular the Financial Reporting Unit, for signature by the Permanent Secretary – Ministry of Communication and Aviation and the Permanent Secretary – Ministry of Finance and Treasury.

Key Findings

4.33 The lack of supporting documentation for expenditure, in particular, missing documents for 94% of total expenditure from the Fund, resulted in the Auditor-General being unable to form an opinion on the truth and fairness of expenditure disclosed. This has resulted in the Auditor-General expressing a qualified audit opinion. The following specific matters were raised with management:

Lack of Documentation

4.34 General Payment vouchers and supporting documentation could not be located for the majority of total expenditure. This includes telegraphic transfers totaling \$1.5 million and procurement of two vehicles for \$426,000. OAG requested documentation to support payments and was only provided with appropriate documentation for \$351,925.76 out of a total of \$5,927,988 expenditure. There is a total of 94% of total expenditure on the face of the financial statements that cannot be substantiated. Without sufficient documentation there is a risk of money being misappropriated and lack of evidence of a transparent tender process for significant purchases. Furthermore the Auditor-General is not able to conclude whether payments are valid, correct and have all been accounted for.

Lack of Evidence of Preparer and Reviewer of Bank Reconciliations

4.35 The absence of this important internal control increases the risk that bank reconciliations are not conducted in a timely manner and therefore variances or errors are detected late.

Foreign Exchanges Rates are not adequately documented.

4.36 There was a lack of supporting documentation to confirm the exchange rates and calculations carried out for the foreign exchange transactions. Without sufficient

supporting documentation there is a risk of human error and inaccuracies for these complex foreign exchange transactions.

Recommendations

4.37 OAG's key recommendations are for the Ministry of Finance and Treasury and the Ministry of Communications and Civil Aviation to ensure supporting documentation for payments, in particular telegraphic transfers and tender documents for significant purchases be retained and kept on file to enhance accountability and transparency. This is a major concern for OAG because this was an audit issue raised in 2006 which resulted in a qualification of the 2006 Financial Statements. This matter has not been addressed adequately in 2007 and OAG will monitor this closely in 2008.

Management Response

4.38 The Ministry of Finance and Treasury acknowledged the issues raised and proposed actions to ensure future documentation and processes are appropriate for the Fund.

Spectrum Licence Fees

4.39 Telecommunications in Solomon Islands is governed by the Telecommunication Act Cap. 115. Section 12 of the Act requires the Minister of Communication and Aviation to make regulations in carrying out the Act, one of which is to regulate the licensing, and fees as stipulated under section 12 (f) of the Act. Subsection 5 of the regulation classifies the types of telecommunication licenses which may be granted by the Telecommunication authority on payment of the fee.

4.40 Solomon Telekom Company was granted a fifteen year exclusive license in November 2003 to provide, operate and develop the public Telecommunication System and further to be exclusive provider of all Telecommunications Services in Solomon Islands or to or from any destination outside Solomon Islands as further stipulated under section 2 of the Telecommunications license.

4.41 The license fee is determined at the rate of 7% of the gross revenue received from the provision of Authorised Telecommunications Services by the company. It comprises of 6.5% for the grant of License and 0.5% for the grant of Frequencies. Section 7.2 stated that *“the payment of the fee shall be paid quarterly in arrears within thirty days after the end of each Quarter at a Bank situated in Solomon Islands as may from time to time be nominated in writing by the Authority to the Company”*.

4.42 A summary of license fees received is shown below based on data from the General Ledger Accounting System “Maximise” (provided by the Ministry of Finance and Treasury):

License Fees	Year	Actual Amount Received \$
Telekom License	2004	Nil
Telekom License	2005	2,712,413
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Telekom License	2007	4,508,084
	TOTAL	\$14,811,594

The Ministry of Communication and Aviation through the Spectrum Division administers the telecommunications, radio and television signals in Solomon Islands.

Audit Objective

4.43 The main objective of this audit was to perform sufficient audit work to determine accuracy, existence and completeness of Telekom license fee paid by Solomon Telekom Company from 2004 to 2007.

Conclusion

4.44 The audit of the Telekom License fees administered by the Spectrum Division of the Ministry of Communication and Aviation noted significant deficiencies in internal control procedures and practices as highlighted in the audit report. It further noted that the responsible ministry has neglected its functions in administering the Telecommunication Act in a manner prescribed by the Act and the Telecommunication License Agreement.

Key Findings

4.45 The audit issues identified are summarised below:

- Telekom License Fees were offset against outstanding telephone bills, but no record of the calculation of the offset or evidence of formal approval was provided to OAG;
- Licence fees have been underpaid by up to \$15M due to lack of monitoring and verification by the Ministry; and
- Telekom License Fees were posted to the wrong general ledger account code thereby distorting SIG accounts.

Recommendations

4.46 OAG recommended that Ministry:

- Further investigate and obtain relevant documentations as required by section 4.2 of the Telecommunication License on how the Telekom License fee was calculated and provide the documentation to OAG;
- Provide minutes and correspondence to OAG relating to the authority and legality of the offset;
- Provide a listing of outstanding bills offset by Solomon Telekom Company and demonstrate how the 2004 license fees was calculated;
- Provide correspondence of advice given by the Authority as stipulated under section 7.2 regarding the method of payment of License fees;
- Negotiate with Solomon Telekom for payment of any licence fees determined to be under paid;
- Commence regular checks of the licence fees paid by recalculating the fee payable and verify with Solomon Telekom revenue accounting records;
- Maintain proper records and filing system for all licenses issued; and
- Prepare monthly reconciliations of revenues receipted and uploaded into the Maximise ledger system.

Management Response

4.47 The Director of Communications concurred with the Report findings and Recommendations to address the deficiencies disclosed and has agreed to proactively take steps to address each of these shortcomings highlighted in this report. The detailed responses are presented within each relevant section of this report.

Ministry of Education and Human Resource Development

Form 6 & 7 Computer Laboratory Project

Audit Objective

4.48 On 19th July 2007 the Solomon Star printed a story that a local firm (Antech Computing Ltd) won the contract to supply computers for 14 secondary schools, but were still to deliver all the computers despite having been paid the contract sum of \$4.9 million. This issue was brought to the attention of the public by the Leader of the Opposition. There was considerable public debate on the issue in the media.

4.49 The Auditor-General was asked to undertake a special audit to determine how the contract was awarded and why the supply of computers was delayed. This was a donor funded project and the donor was most supportive to OAG during this audit.

4.50 OAG conducted this audit to determine whether this particular project complied with the Financial Instructions and the Public Finance & Audit Act in the awarding of the contract and disbursement of funds and why the project was not fully implemented.

Key Findings

4.51 A number of issues were raised with the Ministry as a result of the audit.

Procurement not in accordance with procedures

4.52 There was a complete lack of open competitive bidding and transparency of process.

Conflict of interest in contract award

4.53 There was a conflict of interest in awarding the contract to Antech Computing Ltd.

Quotations accepted outside of bidding process

4.54 Two different quotations were received from the same bidder and the second was received some five months after the initial period when subsequent details of funding levels were determined by the donor.

Competitive quotation disregarded

4.55 One Quotation specifically requested by the Office of the Prime Minister from an alternate supplier was disregarded despite it being not only very competitive but also a quality bid that complied with the donors requirements whereas the other bid did not comply but was accepted.

No notification of results to tender bidders

4.56 Following the process there was no notification of tender result to bidders to ensure transparency and openness in the process.

Project not properly vetted

4.57 The Project was not included in the original development budget or supplementary budget and consequently was not properly vetted or supervised to ensure proper processes were employed.

Ministry responsible for activity not consulted

4.58 The project was driven by the Ministry of Finance and Treasury and Prime Minister's Office instead of the responsible Ministry of Education and Human Resource Development whose officers not consulted.

Full contract payment made in advance of any deliverables

4.59 The payment for the entire costs of the computers was made in advance to the supplier without proper authority and against sound practice. The decision to pay in advance led to the most unfortunate consequences wherein no computers were delivered until media attention brought this matter to notice.

Ministry could not provide a contract for supply

4.60 OAG was unable to sight a proper contract between SIG and the supplier.

Inadequate financial control over project expenditure

4.61 Contrary to Financial Instructions there was no project expenditure reference allocated to this project and consequently normal control procedures were not applied to this transaction.

Payment in breach of Financial Instructions

4.62 The Ministry of Finance and Treasury did not process a normal general payment voucher and consequently the payment to Antech for \$4.9m was in breach of the Financial Instructions and the Public Finance and Audit Act.

Some agreed schools excluded from final project

4.63 Contrary to the original listing of recipient schools agreed with the donor, four secondary schools were excluded from the final listing for funding.

Failure to provide project deliverables

4.64 Despite this project being more than twelve months since commencing many schools have still not received computers and equipment.

Different product supplied in one instance

4.65 OAG noted a different laptop computer brand was supplied to one secondary school.

Supplier did not address serious deficiencies

4.66 Until considerable pressure was applied by the Ministry there was little action being taken by the supplier to address the serious issues identified in this contract.

Conclusion

4.67 The audit revealed the above serious problems in the planning, supplier selection, monitoring and implementation of this project. The nature of the breaches of Financial Instructions and required procedures is such that there is a suspicion of

corruption, nepotism and/or fraud. This transaction needs to be further investigated by the Police, Leadership Code Commission and the Ministry of Public Service to determine whether prosecutions and/or disciplinary action are appropriate.

Recommendations

4.68 OAG's key recommendations were that:

- All Ministries should comply with the legislation relating to procurement of goods and services for SIG and circumstances surrounding this contract wherein normal processes were deliberately circumvented be investigated by the Police and Leadership Code Commission;
- The Ministry ensures the outcome of all tenders that are awarded must be made public for accountability and transparency of the process;
- The Ministry ensure that all development projects are included in the national or supplementary budget for Parliamentary approval before project is implemented;
- The Ministry liaise with the Ministry of Finance and Treasury set an acceptable timeframe for the supplier to be compelled to complete delivery of the computers;
- The Ministry ensure all sub standard computers supplied be replaced with equipment that meets the original standard;
- The Ministry of Finance and Treasury cease to make advance payments and direct transfers and ensure compliance with the established procedures for such contracting arrangements;
- A formal contract be put in place to protect SIG against further non compliance with the arrangements; and
- A full report be provided to the donor on the conclusion of the project.

Management Response

4.69 The Ministry of Education and Human Resource Development has actively pursued the supplier for performance of the contract and it may be necessary to consider legal action to recover funds paid in advance. As at the date of finalising this report on 29 May 2009, the Ministry had advised OAG that most of the computers had been received and delivered to the schools.

Education Authorities

4.70 The New Zealand Government and the Solomon Islands Government provided the primary schools grants through the Ministry of Education and Human Resources Development (herein refer to as the Ministry), which then disburses it to the schools through the respective Education Authorities (herein refer to as the Authority) in the provinces.

4.71 The Ministry requested the Office of the Auditor-General (OAG) to conduct an audit of the primary school grants given to the Guadalcanal Province, Honiara City Council and Temotu Province Education Authorities. Due to limited resources, audit of Temotu Education Authority was not carried out. OAG however visited some of the schools.

4.72 This report presents the findings and recommendations of the audit. Section 9 of the Education Act 1978 (Cap 69) provides for the Minister of Education and Human Resource Development to approve Education Authorities to operate schools and section 12 empowers the Education Authorities to maintain these schools and to “*ensure that the requirements of this Act, and any requirements of the Minister or Ministry made in accordance with the provisions of this Act, are complied with in respect of each school for which it is responsible*”.

4.73 Also, paragraph 3 of an instruction dated 2nd February 2005 attached to the Primary School Grant Disbursement Guidelines and Manual stated “*Education Authorities will disburse Grants into Primary School Bank Accounts.....*”. The instruction further required that the Grants shall be used only on the eligible expense items listed on the table attached to the instruction.

4.74 As such, the financial and operational affairs of the schools are to be subjected to the SIG Financial Instructions, Public Finance & Audit Act, General Orders and the Primary School Grant Disbursement Guidelines and Manual.

Audit Objective

4.75 OAG conducted this audit to determine whether the primary school grants paid to Guadalcanal and Honiara City Council Education Authorities were disbursed and spent for the intended purposes and in accordance with the Primary School Grant Disbursement Guidelines and Manual and in accordance with proper financial management as required under the Financial Instructions and the Public Finance and Audit Act. Due to limited resources OAG was not able to audit Temotu Education Authority but visited some of its primary schools. Period covered was from 2005 to 2007.

Conclusion

4.76 The Guadalcanal and Honiara City Council Education Authorities poorly managed the primary school grants. Internal controls to minimise and prevent the risk of misuse, abuse and fraud were lacking. Non-compliance with the Primary Schools Grant Disbursement Manual was prevalent. As a result substantial sums of the grants were not disbursed to the schools but were used to fund operational expenses and activities of the

authorities and the provincial government. For the Guadalcanal Province, OAG noted irregularities in some payments that could potentially be fraud.

4.77 OAG however acknowledges that the Ministry has from 2009 disbursed all grants directly to the primary schools instead of disbursing through the education authorities.

Key Findings

4.78 Below is a summary of the audit findings, which are rated as moderate to high risks:

Guadalcanal Province Education Authority

4.79 OAG noted irregular payments totalling \$590,900 that could potentially be fraudulent. The Ministry needs to investigate these further and take appropriate action.

4.80 From 2005 to 2007 grants totalling \$1.3 million were not disbursed to the schools. The following controls were lacking:

- There was no documentary evidence available to determine whether payments totalling \$51,400, \$31,700 and \$52,700 in 2007, 2006 and 2005 respectively were legitimate.
- There was no evidence that payment vouchers were checked to ensure that payments were genuine and correct.
- There was no record or evidence kept to show that \$63,600 disbursed as imprests had been retired.
- There was no review and verification of acquittals for 2005 to 2007 by the Education Authority and the Ministry.
- Education Authority did not produce reports of visits to schools to assess and review the use of grant funds.
- Three out of the six schools checked did not utilise grants for the intended purpose. Non-compliance with the Conditions and Guidelines governing the Primary School grants exposes the school to the risk of fraud and abuse of grant for purposes other than that for which the funding was established.

Honiara City Council Education Authority

4.81 Grants received by the Authority from 2005 to 2007 were not fully paid to the schools. 32% or \$710,191 of the total grants received by the Authority from the Ministry from 2005 to 2007 was not disbursed to the schools. Funds for the Authority's operations and the primary school grants are pooled in one bank account. The Authority did not however keep an up to date record of transactions and running balance for each activity increasing the risk of primary school grants being used for the operations of the authority. Also, bank reconciliations were not performed.

4.82 OAG was not able to see any plans or reports of school visits detailing the purpose, frequency, timing, locations and results of the visits, improvements

recommended to the Ministry and to the school as well as improvements made by the school.

Temotu Primary Schools

4.83 OAG did not conduct an audit of the Education Authority but visited some schools and noted the following.

4.84 Venga Primary school pays its expenses through cash as it does not have a bank account. During a cash count at the school, OAG noted a shortfall of \$2,477, which was explained by the head teacher Alfred Mepenias to have been used for his personal needs and other school expenses, supporting documents for the expenses were not available at the time of the audit.

4.85 OAG noted that Venga Primary and Kati Primary schools do not have bank accounts. Cash is kept in a locked box or in a bag. Keeping of cash instead of operating a bank account increases the risk of misuse and fraud of grant funds.

4.86 Three of the four schools tested did not have copies of acquittals. The schools are Monene, Venga and Lata primary schools. OAG was unable to carry out any checks on the acquittals because copies were not held. The original copies had been sent to the Education Authority in Lata. Schools may not be able to defend themselves if the originals of the acquittals are misplaced by the Education Authority and this may lead to schools not receiving future grants as there are no documents to substantiate expenditure incurred.

Recommendations

4.87 OAG's key recommendations were that the Ministry:

- Require the respective education authorities and provincial governments to refund to the Ministry primary school grant funds that were not disbursed to the schools;
- Educate school administrators on how to properly administer and record grants received and utilised;
- Investigate and, if considered appropriate, take disciplinary action against officers who had deliberately breached the primary schools disbursement Guidelines/Manual;
- Provide in the Guidelines/Manual for disbursement of primary school grants penalties in the event of non compliance;
- Implement an effective monitoring system to ensure that grants are used for their intended purpose; and
- Where practically feasible, ensure schools have a bank account.

Management Response

4.88 The Permanent Secretary of Education and Human Resources agreed with the recommendations.

Ministry of Provincial Government and Institutional Strengthening

Rennell and Bellona Provincial Office

4.89 The 2007 Development Estimates under the Ministry of Provincial Government and Rural Development Account Code 484-7168-5799 provided \$2,000,000 for the Guadalcanal and Rennell Bellona Government Offices, whereby \$1,000,000 was allocated for each province which was to be funded by the Republic of China (ROC).

4.90 However, the funding for the Rennell Bellona office was delayed until 29th January 2008 after the current Prime Minister wrote to the ROC Ambassador on 16th January 2008 requesting the release of the fund for the implementation of the project.

4.91 On 29th January 2008 the Central Bank of Solomon Islands received SBD\$999,518.26 (USD\$130,548.30) from the ROC and deposited it into the SIG Infrastructure Rehabilitation & Development Account.

4.92 The Under Secretary of the Ministry of Provincial Government & Institutional Strengthening (MPGIS) wrote to the Permanent Secretary of Ministry of Finance & Treasury on 12th March 2008 requesting that the funds be transferred into the Ministry's project Account No. 4482604 with the ANZ Bank. On 28th March 2008 the Central Bank of Solomon Islands transferred SBD\$1,000,000 to the Ministry's project Account No. 4482604 on the Permanent Secretary of Finance & Treasury's directive.

4.93 There have been allegations of possible misappropriation of funds wherein the former Chief Accountant made several payments to suppliers for the procurement of timber, bricks and materials for the new Government office and other costs for transporting the building materials to the project site. However, there is still no sign of construction of the provincial office as anticipated by the Ministry. The Permanent Secretary of MPGIS requested the Office of the Auditor-General (OAG) to investigate the allegations and report its findings.

Audit Objective

4.94 OAG conducted this special audit to determine whether the payments were made in compliance with the Financial Instructions and Public Finance & Audit Act and to establish the status of this project.

Key Findings

4.95 The audit concluded that there has been a total lack of project management on this project and non-compliance with the Financial Instructions and Public Finance & Audit Act at every stage of expending the development funds. The combination of inept management and disregard for proper processes resulted in excess spending on services, supplies and transportation without any noticeable progress at the site of the new office accommodation. The following table shows the current position of the project.

Table 4 – Rennell Bellona Govt. Offices - Project Costs to Date

Component	Budget	Actual
Architectural drawings	nil	108,000

Freight and transportation	150,000	258,243
Materials procurement	525,000	218,750
Construction/Mobilization	250,000	0
Miscellaneous	75,000	914
Total	\$1,000,000	\$585,907

4.96 In view of all of the issues and allegations associated with this project the Ministry has ceased activities. The following are the key OAG findings following its investigation into the issues and allegations raised.

Documentation was not provided

4.97 No documentation could be found or sighted for the majority of expenditure (71%) in 2008. The Ministry has breached the Public Finance and Audit Act and Government Records Management Policy as the result of the Chief Accountant deliberately holding on to the supporting documents and not making them available to OAG.

Required procurement procedures not followed

4.98 OAG discovered that payments totalling \$518,420.00 from the Ministry did not comply with required quotation and tender processes. The lack of compliance with proper procurement processes increases the risk of fraud, corruption, low quality of goods and conflict of interest.

Bank Reconciliations not performed

4.99 Contrary to Section 397 (2) of Financial Instruction 2004 bank reconciliations were not performed for the Ministry's project account in 2008.

Payments of project funds to public officers

4.100 OAG noted three cases where public officers received project funds for claims of work done which is a breach of Financial Instruction 254.

Duplicate payment for same purpose

4.101 OAG identified that two payments totalling \$108,000 were made for the same purpose which is the drawing of office building by private architect firms. The initial budget indicated that these drawings would be provided free by MID but this did not occur and that Ministry rejected the initial plans drawn up

Payment from provincial funds without approval

4.102 OAG was advised that the Renbel Provincial Government has diverted provincial funds from their BSP account to meet the cost of office design from Elweens Architectural Services for \$56,000.00. OAG could not sight or locate approval from the Renbel Executive or Premier for the payment from the provincial funds on 11th January 2008. As these services were deemed unacceptable by MID the payment is questionable.

Payment to associates for materials not supplied

4.103 The Ministry has expended \$406,420.00 for building materials and transportation to date, but OAG discovered that there are no materials available at the project site. Much of these moneys had been paid to employees and friends of the Administration and wantoks of the Project Manager.

Payment without proper documentation

4.104 The Ministry informed OAG that they issued a cheque payment of \$52,000.00 to Wantok Architect for designing of the office building; however OAG was unable to sight the requisition and payment voucher for the expenditure which is a breach of Financial Instructions 2004.

Failure to reimburse SIG Creditors Account

4.105 OAG discovered that funding from the Republic of China (ROC) was received by Central Bank of Solomon Islands (CBSI) on behalf of Solomon Islands Government but there was no transfer of funds for the project to reimburse the SIG Creditors Account.

Conclusion

4.106 The audit of the Ministry of Provincial Government and Institutional Strengthening for the Rennell and Bellona Provincial Office Project revealed many serious shortcomings in the procedures and practices as well as deficiencies in internal controls. There is no doubt that poor management and administration, lack of accountability and transparency of disbursement of funds has resulted in a significant proportion of the project funds being unaccounted for and this has significant impact on the completion of the project. Payments were made to employees and wantoks for goods and services without proper process and with no evidence that these goods or services were received. OAG has identified areas where improvements in controls, procedures and practises would make the disbursement of project fund more accountable and transparent.

Recommendations

4.107 There are a number of very important recommendations contained in the Report but OAG considers that the undermentioned key recommendations require urgent Ministry consideration in order to enhance the accountability and transparency of the processes in expending the project funds:

- Ensure that records are kept as required under the Government Record Management Policy;
- Procurement of goods and services should comply with tender processes as required in the Financial Instructions;
- Ensure that monthly bank reconciliation is done as required in the Financial Instructions;
- Public officers must not be involved in receiving payments from the project funds and should be made fully accountable for goods and services provided and the Ministry should seek recovery of goods or moneys incorrectly applied to individuals;

- Ministry to recover the costs of the initial drawings which were deemed unsatisfactory;
- The Ministry take legal action to recover the supporting documents from the former Chief Accountant; and
- The Ministry to refer the payments for materials to suppliers that did not arrive at the project site to appropriate authorities including the Police and Leadership Code Commission for further investigations and action.

Management Response

4.108 The Ministry provided an Action Plan to implement the recommendations.

Ministry of Justice and Legal Affairs - Public Solicitor's Trust Account

4.109 The Public Solicitor requested the Office of the Auditor-General (OAG) to carry out an audit of the Public Solicitor's Trust Account to determine whether it was complying with its obligations in handling the account and to identify and recommend areas for improvement. The account was established in 1981 to facilitate settlement for clients it represents and to facilitate payment of client court fees.

This report presents the findings and recommendations of the audit.

Audit Objective

4.110 OAG conducted this audit to determine whether the Public Solicitor's Trust was operated in accordance with the Public Finance and Audit Act, Public Solicitors Act and the Financial Instructions. OAG also conducted this audit to identify areas for improvement.

Key Findings

4.111 A summary of the audit issues identified which have been rated as High Risk is noted below:

No control over the receipt and disbursement of client funds

- Receipts, cheque books and supporting documents for 20 years were not available for audit as they were stated to be missing;
- OAG was not able to determine the purpose of depositing in the trust account, funds totalling \$86,271.27 and \$80,005 for Mr Farsy and Mr J Sangu respectively as supporting documents were not made available to audit;
- Payments were not supported with evidences to ensure legitimacy of expenditure;
- Client funds were spent on expenditure other than court fees and payments to clients. These were authorised by the former Public Solicitor, Mr Ken Averre;
- No proper records of clients showing clients name, funds received, disbursements made and available balance; and
- Prescribed receipts issued by the Ministry of Finance and Treasury were not used to receipt public funds as required under the Financial Instructions. Generic receipts were used to receipt public monies.

OAG could not determine whether there was adequate control over cash at bank as bank reconciliations and cash book for some periods were not made available for audit.

Conclusion

4.112 OAG noted a serious breakdown in controls over the management and administration of the Public Solicitor's Trust Account. There was no regard for government regulations and procedures and neither was good practices of managing public funds followed. The account had been used to receive large sums of monies received from individuals and on behalf of individuals, purposes of which could not be

determined as supporting documents were not available for audit. Deposit of these monies into the Trust Account was authorised by the former Public Solicitor, Mr Ken Averre. Client monies had also been used for personal and office operational expenses approved by the former Public Solicitor, Mr Ken Averre. Furthermore, 20 years of receipt books, cheque books and supporting documents were not available for audit as they were stated to be missing.

Recommendations

4.113 OAG recommended that the Ministry implement the following key recommendations:

The purpose of the Trust Account be clearly defined and documented;

Operations of the trust account be limited only for the purposes under which it was established;

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;

Where necessary client ledgers recording receipts, disbursements and available balance be maintained;

Put in place a records management system to prevent the risk of losing critical financial documents; and

Recover funds that had been used for office operational and personal expenses and deposit it back into the Trust Fund bank account.

OAG has made other recommendations within the report and it is imperative that these be considered and implemented also.

Management Response

4.114 Agreed. Will be implemented as recommended.

Office of the Prime Minister - Constitutional Reform Unit

4.115 The Constitutional Reform Unit (CRU) is a Division within the Office of the Prime Minister and Cabinet (OPMC). Its immediate origins date back to the Townsville Peace Agreement and communiqué arising out of the Premiers conference in Buala endorsing constitutional reform. It was formally established in June 2007 following various recommendations from the Late Mamaloni report, 1987 and various consultations made by the government from then on.

4.116 Its primary role is to provide the Constitutional Congress (CC) and Eminent Persons Advisory Council (EPAC) secretariat support. It deals with matters of process not substantive issues and also prepares agendas and reports for the CC and EPAC. It also deals with the day to day management of the constitutional reform programme. It is funded under the recurrent budget and development budget funded by the Solomon Islands Government.

Audit Objective

4.117 The Office of the Auditor-General was requested by the Secretary to Cabinet to carry out a special audit on the operation of CRU. The main objective of this audit was to perform sufficient audit work to determine the accuracy, existence, validity, appropriateness and completeness of expenditures incurred during the period of 2007 and 2008.

Conclusion

4.118 The audit of the CRU established under the OPMC noted significant deficiencies in internal control procedures and practices as highlighted in the audit report.

Key Findings

4.119 The process to issue, manage and monitor budget, allowance, imprests, payroll, procurement, fixed assets and expenditures is inadequately controlled. A summary of these audit issues identified is described below.

Lack of detail for Recurrent and Development Budget

4.120 The 2007 and 2008 budget for both recurrent and development budgets respectively for CRU do not show a breakdown for each expenditure item. However, the Project Document details an expenditure breakdown for 2007 and 2008 being \$14.88 and \$10.88 million respectively compared to the actual budget figures of \$3.00 and \$9.00 million. The lack of involvement of CRU staff in this important budget process sets an unrealistic budget, which does not reflect the planned outcomes as set out originally by CRU.

Over expenditure of the Development Budget

4.121 Recurrent expenditure totalling \$632,728 in 2007 and \$658,286 in 2008 have been paid using monies from the Development Budget. This has resulted in the development budget being overspent for 2007. CRU officers advised they were not involved in this budget process, which increases the risk that the approved budget is not realistic and excess expenditure is expected. OAG confirmed that no Virement or

Contingency Warrant was approved for this expenditure, therefore this overspending is illegal.

Allowances Paid to Congress Members are not justified

4.122 The 2007 CRU Project Document budgeted for allowances totalling \$31,740 for congress members ranging from \$100 to \$120. However, the details of the type of allowances were not provided. In 2008 the budget for allowances totalled \$1,268,800 with rates ranging from \$300 to \$450. These were for Sitting Allowance, Subsistence Allowance and Road Transport Allowance. The total amount paid to Congress Members for sitting, subsistence and transport allowances totalled to \$797,494. CRU staff advised the rates were approved by congress members and they did not know the justification for this as it varied greatly from General Orders. The lack of transparency and accountability for the allowances provided to congress members increases the opportunity for theft and misappropriation of funds.

Standing imprests issued to congress members not monitored

4.123 There was a lack of monitoring of Standing Imprests issued to 10 congress members for provincial constitutional reform totalling \$569,000. As congress members are not public officers SIG faces the risk of not being able to recover SIG funds. Further legal advice should be obtained to consider the consequences of issuing imprests to non-public officers.

Failure to retire Standing and Special Imprests promptly

4.124 There has been a failure to retire Standing Imprests totalling \$169,082, which is in breach of Financial Instructions 312(a) and 322(1). Also there has been a failure to retire Special Imprests totalling \$37,647 in a timely manner, which is in breach of Financial Instruction 312. Furthermore interest was not being charged for these late retirements of imprests and an estimated \$15,463.00 pro rata at 10% per annum for Standing and Special Imprests interest revenue was forgone.

Inappropriate Use of a Standing Imprest to Purchase a Laptop

4.125 A congress member for the Malaita Province used a standing imprest to purchase a laptop and mouse totalling \$7,938. The procurement requirements under Financial Instructions were not followed and the purchase was not approved by the Accounting Officer as the purchase details were only known to the CRU accountant when the standing imprest was acquitted. This inappropriate use of standing imprests increases the risk of unauthorised purchases resulting in misuse or wastage of SIG funds.

Special imprest from CRU budget used for PMO Christmas party

4.126 A special imprest for \$10,000 was issued to the Assistant Officer to the Secretary to Cabinet (OPMC) for an Office Christmas function, however the funds were approved by the former PS of CRU to be taken from the CRU recurrent budget. This is a clear breach of the relevant Financial Instructions as the payment does not relate to CRU activities.

Salaries and wages not going through Central Payroll

4.127 CRU employed and paid 8 staff without any contracts being signed and before the Public Service Commission issued an official appointment letter. Without an official employment, CRU is at risk and liable for any potential lawsuit should anything happen to the contracted staff. Furthermore CRU cannot enforce any disciplinary action if the contract staff does not comply with Financial Instructions or General Orders. The officers were issued with cheques by the Treasury Division charged to the 2008 recurrent and development budgets of CRU.

Inconsistent application of Withholding Tax

4.128 The application of a Withholding Tax rate for a Service Contract for the Technical Adviser at CRU was inconsistent. Rates less than 20% were used for some payments. However the company which the Service Contract fee being paid to is a non resident company therefore it is liable to a 20% withholding tax. The tax revenue uncollected is estimated at \$75,000.

Unauthorised Purchasing Officers

4.129 OAG noted two CRU officers signed General Payment Vouchers totalling \$973,784 but they were not authorised purchasing officers as required by FI 206(1). This was further confirmed by the CRU Accountant. There is an increased risk of loss or misuse of SIG moneys where authorised officers are not monitored properly, which increases the opportunities for unauthorised officers signing General Payment Vouchers.

Inappropriate tendering processes for media equipment for \$519,200

4.130 OAG did not sight any documentation to suggest a transparent or accountable process was followed according to Financial Instructions, for the purchase of Media Equipment totalling \$519,200 paid to Pidgeon Holdings Ltd. The lack of a transparent and accountable process increases opportunities for fraud and corruption. Furthermore there is a risk that SIG is not getting value for money.

Unauthorised Purchase of two second hand Motor Vehicles

4.131 The purchase of two used motor vehicles for \$183,000 from Kana Trading Ltd was conducted outside the normal procurement process as required under Financial Instructions. Furthermore the date of the invoice attached to the payment voucher is dated 17th February 2006, but the payment was made in July 2007, which is more than 1 year later when CRU was actually established. This could imply prior arrangements were made to purchase the vehicle for personal reasons or motives.

Lack of compliance with procurement procedures

4.132 OAG noted that the CRU has inadequate procurement processes within the Unit thereby breaching provisions of the Financial Instructions relating to Procurement of goods and services. The lack of a transparent and accountable process increases opportunities for fraud and corruption. Furthermore there is a risk that SIG is not getting value for money.

Lack of asset planning

4.133 OAG noted there was no asset planning for the purchase of furniture totalling \$70,415 in 2008. There is a lack of office space to put the furniture and these are

currently stored offsite at the Ministry of Provincial Government warehouse. Furthermore, the former PS of CRU who authorised the purchase of this furniture has since left CRU and is now working at the Ministry of Provincial Government. Breach of Financial Instructions, lack of an asset planning increases the risk of theft resulted in wastage of SIG funds.

Lack of monitoring of assets and an out-of-date assets register

4.134 OAG estimated assets purchased such as mobiles, computers and laptops totalled \$415,501. However, laptops and mobiles could not be located by OAG because these assets are being kept and used at the officers' homes. Furthermore the Assets Register established in 2007 is out of date as it does not include the furniture as noted in the Audit Issue 14 above. The lack of controls over the security of assets increases the risk of theft resulting in a loss of SIG funds.

Lack of supporting documentation

4.135 OAG could not locate payment vouchers to support several expenditure transactions totalling \$850,180. The lack of supporting documents increases the risk that administration of payments is not evidenced by documentation and therefore increases the opportunity for theft and loss of SIG funds.

Purchase Of Alcohol And Cigarettes

4.136 A CRU officer charged \$2,089 to his hotel room for alcohol and cigarettes during a Congress Meeting for Congress members held at the Honiara Hotel. These are private purchases that do not relate to CRU activities. This is a clear breach of Financial Instructions as the purchase is the use of public funds for personal benefit. There is a lack of regard to fulfil the roles and responsibilities of a public officer, which decreases public confidence in public servants. Furthermore, the lack of monitoring closely of expenditure results in a waste of public funds to pay inappropriate expenditure such as those described above.

Recommendations

4.137 OAG recommended that the Office of the Prime Minister:

- Ensure their input is considered during the budget preparation process, and that formally agreed budgets are communicated back to all operating areas;
- Ensure that Contingency Warrants or Virements are authorised before any overspending of the Recurrent or Development Budgets;
- Remind all CRU staff and Congress members of the requirement for strict adherence to procurement requirements under Financial Instructions;
- Consider referring senior officers to the Ministry of Public Service for consideration of disciplinary action for breach of Financial Instructions and General Orders and for mismanagement and waste of government funds;
- Monitor closely all imprests issued and commence action as soon as possible for outstanding imprests;
- Ensure supporting documentation for related expenses are filed; and

- Conduct a stocktake of all assets and develop an asset management procedure to safeguard assets from theft or misuse.

Management Response

4.138 The Ministry agreed with the recommendations.

Ministry of Home Affairs - 2008 Solomon Games

4.139 The Ministry allocated \$2.5million in its 2008 budget for the Solomon Games (the Games). Of the \$2.5 million the Ministry disbursed \$1million to the Games Committee to improve the sports facilities before the Games. This was disbursed in three tranches of \$200,000, \$500,000 and \$300,000.

4.140 The Games Committee comprised of members of the Malaita Province Sports Association. The Association was established in 2007 with the help of the National Olympics Committee of Solomon Islands (NOCSI). The Association was subsequently endorsed by the Malaita Provincial Council to organise and manage the Games. OAG also noted that NOCSI had met twice with the committee to provide advice and assist in the planning and preparation for the Games. The Association was endorsed by the Malaita Provincial Executive to organise and manage the Solomon Games.

4.141 The Games should have been held in Malaita in 2008 but were postponed by the Committee to 2009 because the \$1 million allocated by the Ministry had been fully spent but improvements to sports fields and a new tennis court had yet to be completed. The Ministry during its inspection of the sports facilities in August 2008 noted a number of irregularities and requested OAG to conduct a special audit of the Games expenditure.

This report presents the findings and recommendations of the audit.

Audit Objective

4.142 OAG conducted this audit to determine whether the expenditure incurred on the improvement of the sports facilities for the 2008 Solomon Games was valid, authorised and in accordance with proper financial management as required under the Financial Instructions and the Public Finance and Audit Act.

Conclusion

4.143 OAG noted poor control over the management of \$1 million given by the Ministry to the 2008 Solomon Games Committee to improve the sports facilities which were to be used for the Games. OAG was not able to see supporting documents and authorisation for expenditure totalling \$119,829. There was no regard for economy as procedures and processes for ensuring economical use of funds were not practiced. There were no Ministry approved work plans and budgets to guide and control spending by the Committee and as a result the Committee continued to order goods and services totalling \$0.5million after it had expended the \$1 million given by the Ministry.

4.144 There was a lack of accountability and control over the award and management of the construction contracts for the new tennis court and improvements to the sports fields. OAG further noted a number of irregularities which the Ministry needs to investigate further and refer to the appropriate authority for appropriate action. Also, OAG is of the view that the amount of funds expended on the sports fields is not consistent with the work done and has therefore requested the assistance of the Ministry of Infrastructure and Development to evaluate and provide an expert opinion.

Key Findings

Below is a summary of the audit findings:

Lack of Supporting Documentation and Bank Reconciliations

4.145 No supporting documents and payment vouchers for expenditure - The Ministry paid \$1,000,000 to the Committee in three tranches of \$300,000, \$500,000 and \$200,000. OAG noted that cash at bank as at 4/8/08 as per the bank statement was only \$280.57. The Committee was not able to account for and provide payments vouchers and supporting documents for \$119,829. Furthermore, OAG noted that bank reconciliations were not performed. Lack of accountability and lack of supporting documents to substantiate expenditure signals the risk of fraud, which needs to be investigated and reported to the appropriate authority.

Alleged Misappropriation of Funds

4.146 A number of examples were found which indicate that funds may have been misappropriated in this project or at least managed in a negligent fashion. These included:

- As at the end of November 2008 a total of \$1,542,165 had been spent on construction of the new tennis court and improvements to existing basketball/netball and 2 soccer fields which to date have yet to be completed. Works for the existing concrete netball/ basketball court located beside the new tennis court involved extending less than half of the existing court but the cost totalling \$359,221.14 is higher than the cost of the new tennis court which was \$330,938.
- The contractor for the new tennis court had been paid the total agreed contract price but the court has yet to be fenced and does not as yet have markings on it. Also, it was alleged to OAG that an edge of the court is dropping.
- A total of \$29,949 was spent on timber, paint, nails and louver blades which appeared to be irregular as these are not materials which would be required for the extension of the basketball/netball court and the new tennis courts.
- Payment of \$600 was made for the construction of a fence around the netball/basketball court. OAG noted during our physical inspection of the court in December 2008 that it did not have a fence;
- A board displaying “Ngalikekero Vocational Training Centre” as the company constructing the new tennis court was paid out of the Games funds. The expenditure on the board totalling \$11,794 should have been funded by the contractor, the owner of the Vocational Training Centre whose students constructed the new tennis court.
- OAG noted instances where officers who are in positions of authority had been contracted and hired to provide services for the preparation of the Games and also noted the lack of control over the management of the construction contracts as follows:
 - Contractors were paid in full although the agreed works had yet to be completed;
 - Contractors were not required to submit to the Committee progress reports certified by an independent expert;

- The materials purchased and supplied by the Committee for the jobs were not monitored to ensure that they were all used for the jobs and any surpluses accounted for. OAG noted payments for supervisory work done on delivery of materials but there was no record or reports of the deliveries, usage and running balance;
- For the new tennis court, another contractor, was paid a sum of \$10,000 to complete the works not completed by the initial contractor, who was paid \$43,170; and
- OAG could not verify the validity of fuel purchased for \$122,497 for the Community Sector Program machines as there were no records of when, where and for how long were the machines used.

4.147 Inconsistency of funds spent with work done signals possible misappropriation and fraud. Also, lack of control over the management of contracts increases the risk of wastage and fraud. The Ministry of Infrastructure and Development officials have yet to travel to Auki to make an assessment of the work done and report to OAG.

No Work Plan and Budget Submitted to the Ministry

4.148 The Ministry did not require the Committee to provide a Work Plan and a Budget to indicate the scope of the improvements it was planning to undertake for the sports fields before releasing \$1 million in three tranches of \$200,000, \$500,000 and \$300,000. The Ministry also did not conduct monitoring assessment over the first tranche of \$200,000 before releasing the second tranche of \$500,000. Lack of a Work Plan and Budget increase the risk of project objectives not being achieved.

No Bill of Quantity for the Construction

4.149 There were no Bills of Quantities for the construction of the new tennis court and improvements to the netball, basketball and rugby fields. OAG could not therefore determine whether costs incurred were reasonable and valid. Lack of a Bill of Quantities for construction works increases the risk of waste and extravagance, misuse and fraud as there is no limit to spending.

Goods and Services outstanding

4.150 Claims totalling \$542,165.12 had yet to be paid at the date of audit in December 2008. The claims had not been paid as the Committee did not have funds available to meet the expenses. The Committee hope to pay these expenses when the next tranche is received from the Ministry. Since a significant part of the next tranche will be used to settle the outstanding claims of more than half a million, there will be no further progress in completing the sports facilities.

Funds Spent on Renovating a Private Property in Error

4.151 Funds were spent on renovating a residential property in Auki which was assumed by the Committee to have been owned by the Province. The Committee did not verify with the Lands department the ownership of the property before carrying out the renovations and as a result wasted funds on a private property. OAG noted that on completion of the renovations, a Telecom employee provided his Title to the Committee

claiming to be the owner of the property. OAG further verified with the Lands Department in Auki and noted that the person acquired the title of the land in 1994. OAG could not determine from the acquittals how much was spent on renovating the property as most of the expenses did not specify what it related to. The Secretary of the Committee however confirmed to OAG that the cost of the renovations was estimated to be \$30,000. OAG noted that the owner Mr John Bulu has rented out the house and the Committee has not claimed reimbursement from him. Lack of verification to substantiate ownership before spending funds to improve fixed assets increases the risk of fraud and wastage of SIG funds.

Suppliers handpicked by the Chairman of the Committee

4.152 Services procured for the improvement of the sports field were not put to open tender. The Chairman handpicked the contractors without the knowledge of the Committee members. The Chairman advised OAG that it was expensive to procure through tender and that the decision of awarding contracts was based on involving local communities. He further added that selection of contractors was based on the assessment by a Committee member and determination of contract price by another member who is an Engineer. OAG however did not see any reports or evidence of assessment. Lack of open tender for the procurement of goods and services increases the risk of abuse and fraud.

Poor Accountability of Assets and Stationeries

4.153 Some assets procured by the Committee were not available in the office. It was explained that the assets had been taken to some Committee members' residences since it was not safe to keep them in the office. OAG did not see any written authority or a written record as evidence that these assets had been taken to the Committee members' residences. OAG also noted that the Committee had purchased a large amount of stationery but there was a lack of accountability and monitoring of its usage and there was no proper storage to minimise the risk of misuse and fraud.

Payment Vouchers Not Checked and Authorised

4.154 OAG noted that there was no indication on the payment vouchers prepared by the Committee that they were checked, authorised and cheques had been collected by the correct recipient.

Payments and authorisation done by only two members of the Committee

4.155 OAG noted that the Secretary and the Chairman made all of the decisions to raise payments and the Committee members were not informed. The Secretary explained to OAG that Committee members were not advised because payments were done in accordance with the Committees initial budget of \$6.3 million and there was no need to inform them. Limiting the initiation and authorisation of expenditure to two people increases the risk of misuse and fraud.

Recommendation

4.156 OAG recommended that the Ministry:

- Investigate further the alleged fraud of \$119,829 and misappropriation of funds raised in this report and report the matter to the appropriate authority; and

- Provide Guidelines on how important events such as the Solomon Games should be managed. The Guidelines should include controls and accountability procedures that should be put in place by project implementers to manage funds given by the Ministry to Sports Committees or Organisations.

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

Management Response

4.157 The Permanent Secretary for Home Affairs agreed with the recommendations.

Index of Findings

Alleged Misappropriation of Funds	65
Allowances Paid to Congress Members are not justified	60
Approval for Variations to Contract Obtained After Additional Works were Completed	27
Bank Reconciliation with significant unreconciled differences	24
Bank Reconciliations	3, 37, 42, 54, 65
Bank Reconciliations not performed	3, 37, 54
Breach of Procedures to Purchase 52 Vehicles Costing \$12 million	26
Cash Books Not Made Available for Audit	24
Cheque book to provided for audit	38
Competitive quotation disregarded	47
Conflict of interest in contract award.....	47
Control over assets.....	4
Control Weaknesses in the Processing of General Payment Vouchers	27
Creation Of New Imprests Without Proper Retirement Of Previous Imprest.....	22
Different product supplied in one instance	48
Documentation was not provided	54
Duplicate payment for same purpose.....	54
Failure to manage imprest accounts.....	4
Failure to provide project deliverables	48
Failure to reimburse SIG Creditors Account.....	55
Failure to retire imprest accounts in a timely manner	38
Failure to retire Standing and Special Imprests promptly.....	60
Filming Revenue Fees.....	34
Foregone License Fees.....	33
Foreign Exchanges Rates are not adequately documented.	42
Full contract payment made in advance of any deliverables	48
Funds Spent on Renovating a Private Property in Error.....	66
Goods and Services outstanding	66
High Value Procurements Not Referred to appropriate authorities.....	27
Imprest Applications Are Incomplete	22
Inadequate Control Over Beer Sales Reported by Solbrew Company	30
Inadequate financial control over project expenditure.....	48
Inappropriate tendering processes	61
Inappropriate tendering processes for media equipment for \$519,200	61
Inappropriate Use of a Standing Imprest to Purchase a Laptop	60
Inconsistent application of Withholding Tax	61
Inefficient Process of Preparing Tax Summary and Reconciling Tax Arrears	31
Lack of asset planning.....	61
Lack of compliance with procurement procedures.....	61
Lack of Controls to Ensure Accuracy and Reliability of Bank Reconciliations	24
Lack of Daily Banking and Timely Collection of Duties	30
Lack of detail for Recurrent and Development Budget	59
Lack of Documentation.....	42
Lack of Evidence of Preparer and Reviewer of Bank Reconciliations.....	42

Lack of monitoring of assets and an out-of-date assets register.....	62
Lack of records	3
Lack of supporting documentation	62
Lack of Supporting Documentation and Bank Reconciliations	65
Lack Of Supporting Documentation For Imprests Retired or Replenished	22
Late Retirement of Imprests and Writeoff of Uncollected Monies	22
Member of Parliament pressures Ministry staff to pay funds.	37
Ministerial Tender Board Members Not Appointed in Accordance with the Financial Instructions	27
Ministry could not provide a contract for supply	48
Ministry responsible for activity not consulted	48
Missing cancelled cheque.....	38
Missing payment documentation	37
No Bill of Quantity for the Construction	66
No contract agreements for some contracted tasks.....	38
No control over the receipt and disbursement of client funds.....	57
No Evidence that Bank Reconciliations for SIG Revenue and Creditors Were Performed Daily	24
No notification of results to tender bidders	47
No Reconciliation of Customs Records and General Ledgers	30
No Reconciliation of Tax Revenue Receipted and Manual Ledger Records.....	31
No separation of duties	39
No Work Plan and Budget Submitted to the Ministry	66
Non-use of commitment cards.....	38
Other control weakness identified regarding payments.....	16
Over expenditure of the Development Budget.....	59
Payment from provincial funds without approval	54
Payment in breach of Financial Instructions	48
Payment to associates for materials not supplied	54
Payment voucher different to amount cheque amount	39
Payment voucher has different amount to recorded payment	39
Payment Vouchers and Supporting Documents not Available to Audit.....	27
Payment Vouchers Not Checked and Authorised	67
Payment without proper documentation	55
Payments and authorisation done by only two members of the Committee	67
Payments of project funds to public officers.....	54
Payments outside of terms of MOU	38
Poor Accountability of Assets and Stationeries	67
Poor control over assets	4
Poor Record Keeping	31
Procurement not in accordance with procedures.....	47
Procurement procedures ignored	4
Project not properly vetted	47
Purchase Of Alcohol And Cigarettes.....	62
Purchases made without authorization.....	38
Purchases not made in accordance with required procedures	38

Purchases outside of approved budget	38
Purchases outside of authorised purpose of imprest account	39
Quotations accepted outside of bidding process.....	47
Required procurement procedures not followed	54
Salaries and wages not going through Central Payroll	60
Salary Deduction Forms Could Not Be Located	22
Significant numbers of Bank Accounts Have Not Been Reconciled.....	24
Some agreed schools excluded from final project	48
Special imprest from CRU budget used for PMO Christmas party.....	60
Standing imprests issued to congress members not monitored.....	60
Substantial Tax Arrears On Goods Tax	31
Supplier did not address serious deficiencies.....	48
Suppliers handpicked by the Chairman of the Committee.....	67
Telekom License Fees Offset To Outstanding Telephone Bills.....	33
Timeliness of Preparation of Annual Accounts.....	12
Unauthorised Purchase of two second hand Motor Vehicles.....	61
Unauthorised Purchasing Officers	61
Unauthorised Special Imprests for Permanent Secretaries	22
Unsatisfactory documentation	4