



SOLOMON ISLANDS GOVERNMENT

ANNUAL REPORT OF THE AUDITOR-GENERAL 2009

Reported by:

Office of the Auditor-General
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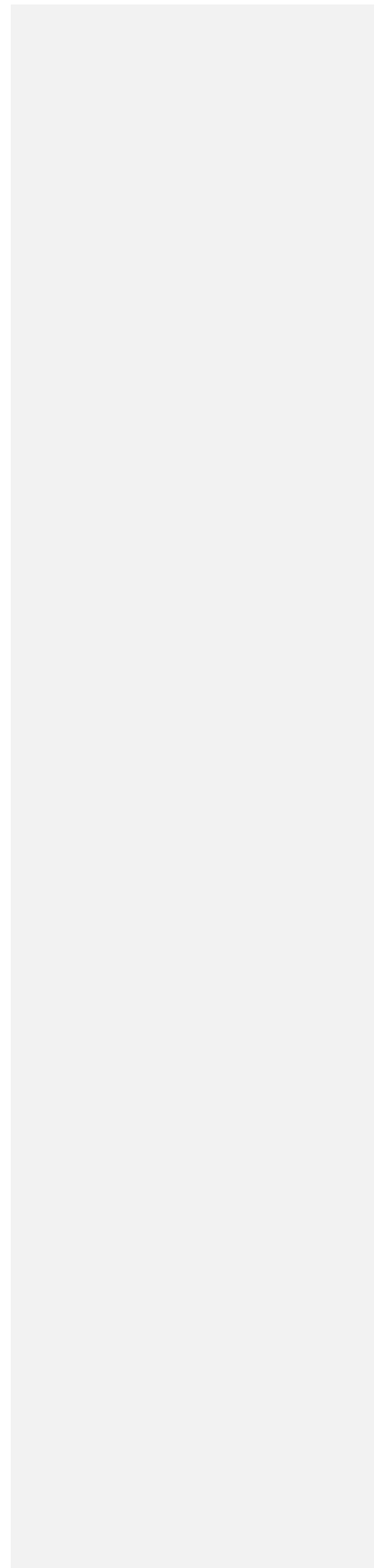


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Forward by the Auditor-General

Since I was appointed to the position of Auditor-General in May 2009, I have seen the development of the Office of the Auditor-General (OAG) continue as it evolves into a credible professional national audit office. Through the work of my predecessors, Mr Floyd Fatai and Mr Eric Muir, who stepped into a caretaker role after Mr Fatai's death, OAG has come a long way since 2003 when it was not capable of performing audits due Government neglect of the Office.

From just two staff in 2003, OAG now have a staff of almost thirty. Most of the officers recruited since 2003 are SICHE Diploma graduates and are currently studying for their accounting degrees.

The Office has developed an audit program of financial audits which have been successfully implemented with the objective to have all public entities financial reports up to date within the next two years. At the end of 2009 the Office completed the audit of the 2008 SIG National Accounts within the required timeframe. This has never been done before. The audit opinion was a disclaimer but there were improvements in the processing of transactions and in some of the surrounding internal controls.

OAG is developing a performance audit capability to enable the Office to identify waste and inefficiency in Government Ministries and other public entities and make recommendations to improve public administration.

OAG performs audits of grant expenditure on behalf of international donors. It is now able to conduct the audits of all of the provincial government financial statements and in doing so it is providing valuable advice to help them improve their accounting systems and processes. OAG is advising both the National Government and the Provincial Government to adopt internationally recognised reporting standards for their annual report presentation. Hopefully within the next two years both the national and provincial governments will adopt IPSAS Cash for their financial reporting.

Due to capacity limitations within the OAG a number of the SOE audits are outsourced. They include the audit of CBSI, SINPF, Postal Corporation, Solomon Airlines, SIEA and SIWA. SOE's are often slow in their presentation and submission for audits. There is an apparent inadequate capacity in terms of skill and the urgency to comply with legal and financial regulations in the production of SOE accounts. The delay by SOEs in producing financial reports on their operations hampers OAG's program of SOE financial audits.

In view of the need to improve accountability within the country, OAG has been instrumental and supportive in the development of the draft Bill for the establishment of the Institute of Solomon Islands Accountants (ASIA). In the last sitting of the recent Parliament the ISIA Bill was table and passed in Parliament.

Overall, thanks to the efforts of the staff of OAG and the advisers provided through the Accountability Program established by RAMSI, the Office is functioning. But there is still a long way to go to be a truly independent and effective national audit office.

Over the last twelve months the OAG has been concentrating on accelerating the development of local staff. There has been a change of focus on the part of the Technical Advisers, with a shift of responsibility for doing tasks to local staff and with the Advisers able to assist them when they have problems. This has certainly slowed down the pace of work but is a crucial process to ensure local staff are properly prepared to carry out the functions of the OAG effectively, even after the expiry of the current SIG/RAMSI partnership agreement in 2012.

As I mentioned above most of our staff are studying for their accounting degrees. Much of the work of the national audit office revolves around accounting systems. Even performance auditors benefit from having a good understanding of financial management systems and the data they provide.

OAG was successful in having one person awarded a tertiary scholarship for 2010 and another one was successful without OAG support. A third person, a senior female officer who has proved to be an effective student and is a long-serving and diligent officer was not successful. At the rate of one a year it will be nearly fifteen years before the Office is staffed by qualified accountants. This is not satisfactory.

The OAG did have two degree-qualified officers who were employed for all of 2009 on a six-month renewable contract basis. It was a great disappointment that we lost them because the Ministry of the Public Service would not approve their appointment. There did not appear to be any decision made by the Ministry to stop these appointments, just a lack of action on the part of the Ministry to process the paperwork OAG submitted on them.

The OAG previously deteriorated because successive Governments allowed its funding and resources to decline. This should not be allowed to happen again.

Staffing of OAG with professionally qualified and experienced persons is critical not only for improvement on the present

corruption and lack of accountability situation of the country but most especially for the future effective and efficient delivery of the functions of the Office.

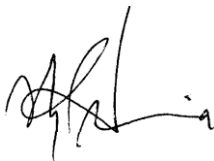
The Prime Minister has said publically on several occasions that a new Audit Act was a priority for his Government, to help in the fight against corruption and to improve accountability. The OAG had a new Audit Bill drafted in late 2008 and it has been circulating within the legislation system since then. It has been with the Attorney-General since August 2009. No Minister gave it priority and therefore it did not rank when the Attorney-General was deciding which Bills would go before Parliament.

The failure to pass this Bill means that Audit Office is not appropriately independent. I am dependent upon the Ministry of Finance and Treasury to pay my bills and this appears to be a random process. I am dependent upon the Ministry of Public Service to approve my staffing, and that has recently proved to be totally ineffective. These things restrict the ability of the Audit Office to develop to the level of independence and effectiveness required of it.

It is not appropriate that the work of the Auditor-General can be so significantly impacted by decisions made by two Ministries which are among his most important auditees.

It is universally recognised that an effective national audit office is essential for the good governance of a country. Such an office should be professionally staffed and be largely independent of the Government of the day, and of the various bureaucratic instruments of that Government, reporting to and being accountable to the Parliament.

The proposed Audit Act will make the Office of the Auditor-General suitably independent and allow it to develop to be an effective watchdog over public funds and Government financial reporting.



Edward Ronia

Auditor-General for the Solomon Islands
30 June 2010

Chapter 1 - Solomon Islands National Accounts

Introduction

The Auditor-General is required under the law to examine the national accounts produced by the Ministry of Finance and Treasury (MOFT) on behalf of the Solomon Island Government annually. The Auditor-General issued a disclaimer of opinion on the 2008 Financial Statements just as in previous years, but there were a smaller number of issues that contributed to the inability to form an opinion. The issues that resulted in the accounts being disclaimed for this period included:

- A large portion of original documents were not able to be located and so OAG was not able to verify a large portion of expenditure;
- A significant number of bank accounts operated by the line ministries had not been authorised by the Permanent Secretary MOFT and many had not been reconciled throughout this period;
- Several asset and liability accounts in the general ledgers had not been reconciled to supporting ledgers;
- The accounts of the Special Funds had not prepared and submitted for audit within the statutory timeframe; and
- Internal controls within the expenditure and revenue process are inadequate for both the line Ministries and the Ministry of Finance and Treasury.

It is encouraging to note that MOFT continues to enhance and improve the financial accounting and reporting processes within the ministries.

Background to SIG Accounts and Audit Approach

In accordance with Section 38 of the Public Finance and Audit Act (the Act) the Permanent Secretary MOFT is in charge of preparing the Solomon Island National Accounts each year for issuing to the Auditor-General for certification.

The Permanent Secretary submitted the signed Annual Accounts for 2008 in September 2009. This meant that the 2008 Annual Accounts have been submitted for audit within the legislative requirements.

During 2008, OAG carried out testing on the controls for the financial processes within the Ministries. The findings of these

audits are summarised further on in this Report. Transactions were audited surrounding the main systems of Procurement, Bank Accounts, Expenditure, Assets, Revenue and Imprest Accounts.

The intention of these audits was to assess the trustworthiness of the financial information contained in the SIG general ledger and examine and report on the strength of the controls functioning in the Ministries including the central processing areas in the Ministry of Finance and Treasury.

The audits of the SIG Annual Accounts were then taken on to consider whether the financial statements fairly showed the transactions and financial position of SIG for the year. The results of these audits are summarised below in the key findings. A comprehensive report on the outcome of the audits in the Ministries that led to the completion of the sign off on the National Accounts is included in the “Status of Audits of Solomon Islands Government Entities as at 30 June 2009” report of the Auditor General.

Financial Statements 2008

Under section 38 of the Public and Audit Act [Cap 120], the Permanent Secretary of Finance is required to submit signed statements of account to the Auditor-General every financial year. These Statements must 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.

The Annual Accounts of the Solomon Islands Government were in arrears after the period of civil unrest due to serious break down in the controls resulting a failure report financial statement within the legislated timeframe. Since the arrival of RAMSI in 2003 MOFT has been able to provide the Annual Accounts of 1998 to 2007 which

the Auditor-General has audited and reported on as required in the Constitution.

This report is of the audit of 2008 Annual Accounts which were submitted for audit in September 2009. The improvement in the timing of the submission of the 2008 national accounts and the completion of its respective audit has accelerated the production of this report which in past years has been published not less than 24 months after the end of each financial year. Financial reports are only useful if they are timely and MOFT has been able to bring the timing of its report close to the statutory deadline.

Statement of Assets and Liabilities

Table 1 below provides a statement of assets and liabilities at the end of 2008 with comparative figures for 2007.

Summary of Consolidated Fund (Revenue) Account

Table 2 provides a summary of revenue and expenditure recorded against the Consolidated Fund (Revenue) Account during 2008.

Audit Objective

The objective of the audit was to establish whether the annual accounts are free from material misstatement and presented in accordance with the prescribed requirements. The audit coverage was for financial year 2008.

Conclusion

OAG recognises that there has been considerable progress in improving the general ledger accuracy and in identifying unexplained variances and discrepancies in the reconciliations of the major bank accounts. In addition, OAG noted that there has been a significant improvement in the Note disclosures. This provides valuable information for the users of the annual accounts.

The Auditor-General provided a Disclaimer of Opinion for the 2008 Annual Accounts for the following reasons:

- The Annual Accounts were not prepared according to the applicable financial reporting framework.
- Even though significant improvements were recognised in this period, there is continuous failure in the system of recording and managing accounting transactions and lack of

audit evidence to support transactions and accounts within the Solomon Islands Government.

- The comparative figures in the Annual Accounts could not be relied upon due to the disclaimer of opinion issued by Auditor-General for the year ended 31 December 2007 and the reasons for that disclaimer.

Table 1 Statement of Assets and Liabilities

	2007	2008
Assets		
Bank - Headquarters	(6,287,840)	82,785,819
Bank - Sub Accounts	21,328,329	12,864,554
Bank - Overseas	426	332
CBSI	201,769,447	55,693,476
Special Funds		
Other Assets	43,407,998	19,364,615
Advances see 1E	9,905,166	30,492,818
Net Overdraft		
Total Current Assets	270,123,526	201,201,614
Investment see 1D		
On Lent Loans		
Total Assets	270,123,526	201,201,614
Consolidated Fund		
Opening Revenue Account	262,773,440	323,630,301
Surplus (Deficit) see 1A	60,856,861	162,606,325
Closing Surplus (Deficit)	323,630,301	486,236,626
Open. Development Acct	21,232,720	(45,542,664)
Surplus (Deficit) see 1B	(66,775,385)	(203,717,443)
Clos. Development Acct	(45,542,665)	(249,260,107)
Special Fund (Deficit)	4,113,873	(6,575,936)
Special Stabex fund	(34,532,428)	(34,532,428)
Total Accumulated Deficit	247,669,082	195,868,155
Liabilities		
Deposits see 1C	(1,799,727)	1,732,325
Other	206,707	(13,422,429)
CBSI Advance Account	24,047,465	17,023,563
Public Debt Liability		
Total Liabilities plus Deficit	270,123,526	201,201,614

Table 2 Summary of Revenue and Expenditure 2008

Head of Expenditure	Revenue (\$m)	Expenditure (\$m)
Agriculture and Livestock Development	1.5	19.1
Office of the Auditor-General	0.5	2.9
Education and Human Resources	1.4	311.4
Finance and Treasury	1226.8	59.9
Foreign Affairs and External Trade	0.0	23.1
Office of the Governor General	0.0	5.0
Health and Medical Services	0.2	171.1
Infrastructure Development	1.2	50.8
National Debt Servicing	2.3	170.9
National Parliament	0.0	27.8
Forestry and Research	1.1	11.8
Office of the Prime Minister and Cabinet	0.0	51.1
Pensions and Gratuities	0.0	6.0
Police and National Security	0.4	100.1
Provincial Government and Rural Development	0.0	48.2
Lands, Housing and Survey	5.3	12.8
Development Planning and Aid Coordination	0.0	3.2
Culture and Tourism	0.0	6.8
Commerce, Industry and Employment	7.8	14.9
Communication and Aviation	17.2	24.1
Fisheries and Marine Resources	95.4	8.4
Public Service	1.6	21.3
Law and Justice	0.7	13.8
Home Affairs	0.8	29.2
National Unity, Reconciliation and Peace	0.0	3.0
Mines, Energy and Rural Electrification	0.9	8.7
National Judiciary	0.3	9.3
Women, Youth and Children's Affairs	0.0	5.4
Rural Development	0.0	7.6
Environment, Conservation and Meteorology	0.2	10.6
Total	1365.6	1238.3

The main government bank accounts were reconciled by the Ministry of Finance and Treasury but OAG noted that many of the bank accounts controlled by the other line ministries were not reconciled. As a result, OAG was unable to determine whether all receipts and payments transactions throughout the year were properly authorised as well as correctly accounted for and reported for the financial year.

The signed financial statement was submitted within 9 months of the financial year end for the first time in many years and the Auditor-General commends the Ministry for its success in achieving this timeframe.

Key Findings

Applicable Financial Reporting Framework

OAG has noted that the 2008 Annual Accounts were not presented in accordance with an applicable financial reporting framework such as the International Public Sector Accounting Standards (IPSAS) or the International Financial Reporting Standards. They also did not comply with International Accounting Standards. Since no financial reporting framework has been adopted by SIG, under the International Standards on Auditing (ISA), it is not possible for the Auditor-General to express an opinion on whether the figures in the accounts are accurate and can be relied upon.

OAG has recommended that SIG Annual Accounts should be prepared in accordance with an applicable financial reporting framework and the management of the Ministry of Finance and Treasury has agreed to implement the recommendation for 2010 Annual Accounts.

Timeliness of Reporting

Section 38 of the Public Finance and Audit Act requires the Permanent Secretary of MOFT to submit signed accounts by 30 June each year to the Auditor-General to audit and express an audit opinion. However, the 2008 Annual Accounts were issued to the Auditor-General on 21 September 2009 which is 83 days after the statutory dateline. Although well after the deadline, this still signifies a remarkable improvement on prior years where Annual Accounts were issued from 12 to 30 months after the statutory deadline.

The delay in reporting of financial statements to users such as Parliament, policy makers, donor partners, lenders and investors

within the statutory requirement can lead to inappropriate decisions being made which results in undesirable consequences.

OAG has recommended that the MOFT recruits additional officers with appropriate skills and experience or train the current resources to complete the Annual Accounts within the required statutory dateline.

The Ministry has agreed to the recommendation and promised to implement them in 2010.

Cash at Bank

A large number of bank accounts operated by line ministries have not been reconciled at the end of 31 December 2008. Furthermore, a large number of these are not incorporated into the general ledger and 2008 Annual Accounts.

OAG acknowledges MOFT for embarking on a major work program to progress the bank reconciliations and improvement in the dependability and correctness of these accounts. However, the lack of bank reconciliations by the Ministry means that OAG could not obtain assurance that all transactions are recorded in the Government's accounts and establish the value and so the materiality of any error which may exist in the accounts for 2008 is difficult to determine.

As the Ministries have not performed bank reconciliations and MOFT have not included these balances in the general ledger, OAG is unable to ascertain whether the cash balance is correct. OAG has recommended that the Ministry ensure that all bank accounts are identified, registered and reconciled properly by the responsible officers. MOFT has agreed to the recommendations and will implement them in 2010.

Receipts and Payments

During the interim audits of all ministries, it was found that a considerable number of deficiencies were identified in accounting controls and record keeping. These deficiencies are reported in the interim audit report to each Ministry in 2009 and most are carried forward from previous financial years. They include but are not limited to:

- No monthly bank reconciliations.
- Cash Receipts books are not reconciled with the General Ledger.

- Bank Accounts excluded from the General Ledger.
- Imprest Accounts are not retired on a timely manner.
- Lack of supporting documentation for imprest accounts.
- Source documents are unavailable for procurement.
- Source documents are unavailable for payroll related master data and transactions.

All the significant deficiencies found during the audits are moreover breaches of the Financial Instructions. This may result in material misstatement of receipts and payments.

OAG recommended that the Permanent Secretary of MOFT remind all line Permanent Secretary and Chief Accountants of the breaches of Financial Instructions which is misconduct in office. Furthermore, where officers are found to have breached the Financial Instructions, the Permanent Secretaries are to refer the officers to Ministry of Public Service for disciplinary action. MOFT agreed with the findings and recommendations and has produced an action plan that outlines their activities to address the problems.

Recoverability of Other Assets

There is uncertainty considering recoverability of Other Asset balances that appeared on the Statement of Assets and Liabilities. OAG could not review and reconcile these balances with the General Ledger as no asset register was provided. When there is a material overstatement of assets as well as revenue or equity, users of the Annual Accounts will be misled which affects their decision making activities.

OAG recommended that MOFT carry out a comprehensive review of its balances in Other Assets, construct and maintain clear registers of these balances and write off any amounts considered unrecoverable. MOFT has agreed with the recommendations and will implement them in 2010 through their audit action plan.

Accuracy of Advances Balance

It was noted that there is lack of certainty in the accuracy of Advance balances on the Statement of Assets and Liabilities. This balance is made up mainly of Special and Standing Imprest accounts. It was found in MOFT as well as in the line ministries that there are significant deficiencies in the commencement, maintenance and retirement of imprest accounts. These deficiencies basically mean that there is very little control over significant amounts of cash.

OAG recommended that MOFT conduct a comprehensive review of its balances in Advances, construct and maintain clear and complete registers of these balances, make sure that reconciliations are prepared for all imprest accounts and write off any amounts that are regarded as unrecoverable. MOFT has agreed with the recommendations and indicated it will implement them in 2010.

Fixed Assets not included in Statement of Assets and Liabilities

A fixed asset balance was excluded from the Statement of Asset and Liabilities. Note 8 in the Statement of Assets and Liabilities describes the current status on accounting for fixed assets. The absence of a fixed assets balance in the Statement of Assets and Liabilities will make it difficult for the users to comprehend the Solomon Island Government financial position.

OAG recommended that MOFT ensure that a complete and accurate fixed assets register is constructed and properly maintained. In addition, MOFT will be able to include Fixed Asset balances in the Statement of Assets and Liabilities.

MOFT has agreed with the recommendations and will implement them according to their action plan in 2010.

Investments not included in the 2008 Annual Accounts

It has been noted that investments are excluded in the Statement of Assets and Liabilities. For a number of years the value of investments has not been included in the Annual Accounts. Statement 1D, Statement of Investments includes information only on the percentage of ownership of various government owned entities. Financial statements for the entities identified in Statement 1D were not available for the 2008 Annual Accounts as stated in the notes to the Statement. The omission of investments in the Annual Accounts means that users of the Statements do not have sufficient information to assess the Solomon Island Government financial position.

OAG recommended that MOFT continues to encourage the completion and publication of audited financial statements for these investments to enable them to be included in the SIG Annual Accounts. MOFT agreed with the recommendation.

Public Debt Liability not disclosed in Statement of Assets and Liabilities

A balance of \$1.603 billion of public debt liability is disclosed in Statement 1F, Statement of Public Debt; however it is not included in the Statement of Assets and Liabilities. Furthermore, Note 5 in the Statement of Assets and Liabilities provides a balance of \$1.587 billion Public Debt Liability, which does not agree to the balance of \$1.603 billion in Statement 1F.

The omission of \$1.603 billion of public debt liability in the Statement of Assets and Liabilities is misleading with respect to the Solomon Island Government financial position.

OAG recommended that MOFT include its Public Debt Liability in the Statement of Assets and Liabilities as well as ensure consistency in its Note 5 and Statement 1F disclosure. MOFT has agreed with the recommendation. MOFT also responded that a significant portion of the public debt liability has been incurred in the acquisition or upgrading of social assets such as roads, wharves, airports and bridges which would be difficult and expensive to value. Many of these assets which were acquired through the accumulation of public debt will not be recorded or reported.

On Lent Loans not included in the Statement of Assets and Liabilities

It was noted that a balance of \$25.3 million of On Lent Loans is disclosed in Statement of On Lent Loans, but is not included in the Statement of Assets and Liabilities. Furthermore, Note 5 in the Statement of Assets and Liabilities provides a balance of \$26.7 million On Lent Loan Liability, which does not agree to the balance of \$25.3 million in Statement 1H. The omission of approximately \$26 million of On Lent Loans from the Statement of Assets and Liabilities is misleading to users.

OAG recommended that MOFT includes its On Lent Loans Liability in the Statement of Assets and Liabilities as well to ensure consistency in its Note 5 and Statement 1H disclosures. MOFT agreed with the recommendation and will implement it in 2010.

Special Funds

The Statement of Special Funds is incomplete since it provides information related to 3 special funds, but it is evident from discussion with MOFT staff and other audit engagements completed

by OAG that there are a large number of other Special Funds operating within the Solomon Island Government. This incomplete list of Special Funds may mislead the users of the Annual Accounts in regards to financial transactions that happen outside of the Consolidated Fund.

OAG recommended that MOFT identify all Special Funds and reveal them in the Statement of Special Funds. The Ministry has agreed to the recommendation and provide an audit action plan to implement it in 2010.

Chapter 2 Audits of Economy and Effectiveness

Introduction

Under the Public Finance and Audit Act 1997, the Auditor-General may report on instances of waste and inefficiency that are revealed in the course of his work. When audits uncover such examples or when instances are brought to his attention, the Auditor-General may undertake a special investigation to allow him to report more fully to the Parliament and to make recommendations as to how this poor performance may be managed. Although the Office resources in 2009 were mostly focussed on completing mandatory financial statements work, some special investigation activity was undertaken. The results of these special investigations are detailed below.

Ministry of Education and Human Resources Development – Malaita and Western Provinces Education Authorities Primary School Grants

The New Zealand Government provides NZD\$10 million annually to the Solomon Islands Government to support the development of education. The Ministry of Education and Human Resources Development (MEHRD) provides through its fund budget and disbursement for primary school grants.

The Ministry (MEHRD) using the Grant Disbursement Guidelines channelled grants that will be disbursed by the Malaita Education Authority and Western Province Education Authority into Primary School Bank Accounts.

Audit Objective

The Ministry requested OAG to conduct a special audit on primary school grants given to Malaita Education Authority and Western Province Education Authority. The main objective of this audit is to determine the primary school grants paid by the Ministry to the Authorities were disbursed and spent for the intended purposes and in accordance with the Primary School Grant Disbursement Guidelines and Manual, the Financial Instructions and the Public Finance and Audit Act.

Conclusion

The audit of the Primary School Grants established under the

MERHD through the Malaita Education Authority and Western Province Education Authority, noted significant deficiencies in internal control procedures and practises highlighted in the audit report.

Key Findings

The process to issue, manage and monitor expenditure (primary school grants) is inadequately controlled. A summary of these audit issues identified is described below.

Non Compliance with Disbursement Guidelines and Manual

From 2005 to 2008, the Western Province Education Authority did not disburse to schools a total of \$1,344,920. These monies were spent on other activities of the Authority rather than being provided directly to schools as required...

Malaita Education Authority records of primary school grants for 2005, 2006 and 2007 were not available for audit. In 2008, the Authority did not disburse to schools a total of \$1,199,481 and these monies were spent on operational costs of the Authority and other activities. A total of \$76,752 was paid to the Authority accountant's personal account. He was suspended pending a fraud investigation.

Inappropriate Disbursement of Fund to Teachers

Sample test for Western Province Education Authority showed funds were spent on non-approved activities contrary to fund/grant guidelines. The guidelines further required funds to be monitored by school committees. The findings showed this has not been the case.

School Quarterly Accounts Reports Not Monitored

The audit has discovered that both the Malaita Education Authority and Western Province Education Authority have not monitored School Quarterly Accounts Reports as required by the Grants agreement.

Recommendations

OAG recommended that the Ministry of Education and Human Resources Development:

- Recover from the Education Authorities funds yet to be disbursed to the primary schools.
- Take appropriate disciplinary action against the Malaita Education Authority accountants.
- Enforces compliance with the conditions and guideline of the Primary School Grants Disbursement Guideline and Manual.
- Comply with the requirements of the Guidelines and ensure that schools quarterly accounts reports are checked and any discrepancies are communicated to the schools.

Management Response

MEHRD agreed with the recommendations.

Incomplete and pending audits

Solomon Islands Government Motor Vehicle Management

The OAG is conducting a special investigation into motor vehicle management by Ministries. This audit will examine the controls over the acquisition, use, security and disposal for Ministry motor vehicles. The Ministry of Infrastructure and Development (MID) and Ministry of Finance and Treasury (MOFT) will be the key ministries for this audit. Other line Ministries will be investigated especially for effective implementation of the policies established by MID.

New Zealand Aid primary school support project

The Ministry of Education, Human Resources and Development has asked the OAG to conduct a performance audit as part of its commitment under an agreement with NZ Aid with regard to the funding of primary school education in the Solomon Islands. The OAG is developing the scope of this audit in conjunction with MEHRD and NZ Aid.

Comment [e1]: Is this a separate audit from the one already described above?

Agriculture Development Projects

The OAG has begun the audits of the three development projects run by the Ministry of Agriculture and Livestock Development in 2009; the Choiseul Oil Palm Project, the GPPOL Out-Grower Project and the Choiseul Staff Housing Project. The audit of these projects has been suspended due to staff capacity limitation. The audits will resume depending on staff availability after mandatory conventional audits are completed.

Comment [e2]: Should we be reporting on incomplete audits that we do not complete to report on the following year?

Chapter 3 Audits of Provincial Governments

Introduction

In 2008, the OAG worked with the Provincial Government Strengthening Project to update the backlog of Provincial Government Financial Statements. The Project was initiated by RAMSI and aimed at updating the provincial accounts and improving internal accounting and administrative processes and procedures. The project was partially successful especially in the improvement in the administrative processes within provincial government. They are generally better than previously but still require close monitoring and supervision in order to be deemed reliable. The financial statement backlog was eliminated and financial statements are being produced annually.

The financial procedures and statements are not yet sufficiently developed to the point where the Auditor-General can rely on the figures on the financial statements. A disclaimer of opinion has been issued on the provincial government financial statements audited in 2009. A disclaimer of opinion means either that the financial statements are not prepared in accordance with an appropriate financial reporting framework or the systems used to prepare the financial information are inadequate that the information in the statements cannot be relied upon. Both of these situations apply in respect of the Provincial Government statements audited in 2009 thus attracting a disclaimer opinion by the Auditor-General.

It is commendable that the provincial government accounts have been regularised and there is marked improvement in the delivery of financial reports to the OAG.

Reforming the Provincial Accounts

Prior to 2008 provincial accounts were prepared without any reference to a financial reporting framework. There were no appropriate accounting policies to guide the production and reporting of financial operations. There was an absence of comprehensive and reliable records.

The Provincial Financial Management Ordinance 2008 provides clear guidance and better practice procedures for provincial governments relating to, amongst other things, financial control, budget performance, accruals management, debtor management and financial reporting.

The UNDP sponsored Provincial Government Strengthening Program in partnership with the OAG reformed the provincial

government accounts process, recommending an enhanced financial statements format. This new format incorporated into the Financial Management Ordinance improved accounting disclosures, balance sheet items and accrual accounting treatments. The 2008/09 financial reports pioneered the use of this new financial reporting framework with full disclosure of activities and statements of financial position.

The Ministry of Provincial Government is considering adopting the International Public Sector Accounting Standard – Cash Basis (ISPAS) which is recommended for public sector entities. The ISPAS framework is being considered for adoption by the Ministry of Finance and Treasury for the SIG National Accounts for 2009 and the OAG concurs with its adoption by the Provincial Governments. IPSAS Cash Statements will greatly improve the financial reporting by provincial governments to a point where the Auditor-General may be able to express an opinion on them. The Ministry of Provincial Government is yet to decide on whether to use the ISPSAS Cash framework for the 2010 financial statements and thereafter.

General Audit Findings

OAG found that most provinces have little or no control over their internally sourced revenue. Revenues were diverted for non-authorized use by public officials or Members of the Provincial Assembly. Provincial Government management was not able to validate the internally sourced revenue figures, their variance against the budgeted figures and how much revenue may have been diverted to other purposes. OAG made recommendations to improve the internal control over internally sourced revenue.

OAG further recommended reforms to encourage improved financial management and transparent use of ward development grants as well as proper recording of provincial assets, better control over imprest accounts and improvement in a wide range of business processes.

OAG also found that no provincial government has control over its investment authorities, including the various investment subsidiaries.

In the absence of a credible financial statements to rely upon it is impossible to know whether there is significant unauthorised or even fraudulent expenditure and whether all revenue has been collected.

Audit Findings Related to Individual Provinces

Guadalcanal Province

OAG found that the Guadalcanal Provincial Government had made minimal improvements over its controls over receipts and expenditure for the 2008/2009 financial. Guadalcanal Province still

needs to implement major reforms over its financial management, accounting and reporting controls.

Choiseul Province

The Choiseul Provincial Government has made good improvement over its controls over receipts and expenditure for the 2008/2009 financial year, but major reforms are still needed for the improvement of the financial management system and accounting and reporting controls, particularly in relation to revenue, assets and liabilities. The audit findings suggest that the Choiseul Province administration needs to make continuing and persistent improvements to reach a point where the systems can be relied upon.

OAG also found that there is need for a complete review of the Province's business arm, its shipping division, to be performed in order to take effective control of provincial government assets which are currently under third party management.

Central Province

The Central Islands Provincial Government had made some improvements to expenditure processes, providing enhanced internal control over this activity. Improvement in other areas was not so strong, particularly in relation to revenue, assets and liabilities.

Isabel Province

The Isabel Provincial Government has made little improvement in internal controls over receipts and expenditure in the 2009 financial year. Major reforms and improvement to its financial management and across the entire range of Provincial Government activities – revenue, expenditure assets and liabilities, are needed. All its bank accounts must be reconciled on monthly basis to be properly accounted for in the provincial financial statements.

Makira Ulawa Province

The Makira Ulawa Provincial Government has made little improvement in internal controls over receipts and expenditure in the 2009 financial year. Major reforms and improvements are needed to its financial management systems and in the accounting, reporting and controls across the entire range of Government activities – revenue, expenditure assets and liabilities. All Provincial Government bank accounts must be reconciled monthly to be properly accounted for in the provincial financial statements.

Malaita Province

The Malaita Provincial Government has made little improvement in internal controls over receipts and expenditure in the 2009 financial year. Major reforms over its financial management are required as well as the need for improvement in accounting, reporting and internal controls across the entire range of Provincial Government activities – revenue, expenditure assets and liabilities. All its bank accounts must be reconciled monthly to be properly accounted for in the provincial financial statements.

Renbel Province

The Provincial Government of Rennell and Bellona has not improved its controls over receipts and expenditure for 2008/2009 financial year. Previous audit reports identified significant deficiencies in relation to financial management and accounting, reporting and internal controls relating to revenue, expenditure, assets and liabilities. The Government needs to take these deficiencies seriously and introduce the recommended reforms. Some provincial executive members exert too much influence on decisions to spend, particularly in the diversion of revenue received directly to spending without the normal process of depositing the receipts into a bank account before payment. This means that revenue received were diverted for unauthorised purposes without being recorded. Such unauthorised expenditure is not easy to identify and no action could be taken against the offenders.

A complete review of the business arm of the Province, and in particular its shipping division must be undertaken in order for the Provincial Government to take control of the public assets currently under third-party management.

Temotu Province

Temotu Provincial Government has made no improvements over its controls over receipts and expenditure in the 2008/2009 financial year. Its financial management as well as accounting, reporting and internal controls across the entire range of Government activities – revenue, expenditure assets and liabilities, need major review.

Western Province

Western Provincial Government continues to make improvements in its controls over receipts and expenditure in the 2008/2009 financial year. There is still need for major reform in its financial management systems, reporting and internal controls across the entire range of Government activities – revenue, expenditure assets and liabilities. Provincial Government bank accounts must be reconciled every

month to properly account for them in the provincial financial statements.

Comment [e3]: It seems the same views and points are reported in the sections on the individual provinces. It would be interesting to read of different findings on each province accounts audit.

Recommendations

The OAG has made generic recommendations for all provincial governments which may serve as best practice guidelines for improving financial management in accounting and reporting. These recommendations are made with reference to the Provincial Act 1997, established effective internal processes approved by various provincial executives and the Financial Management Ordinance, 2008. These recommendations are listed below.

The OAG recommends that all provincial governments:

- Introduce realistic budgets based upon historical data
- Commit to making improvements in accounting for and reporting their financial transactions.
- Establish a Public Accounts Committee to oversee the financial systems, reporting in general and in particular the ward development grants.
- Properly prepare Minutes of Provincial Executive meetings and safeguard those Minutes so they provide a permanent historical record of decisions made.
- Immediately take proper management control over receipt books and ensure that they are properly reconciled.
- Immediately cease the practice of not banking cash receipts and ensuring all monies are deposited in bank accounts prior to being available for expenditure.
- Ensure that expenditure claims are properly authorised and fully documented.
- Conduct regular stock take of all equipment, furniture and fittings and other assets to update the asset registers.
- Review the operations of the provincial development authorities and their subsidiaries, such as shipping entities and other commercial initiatives.
- Ensure full disclosure of the financial activities related to the provincial development authorities in the provincial government accounts.
- Ensure that subsidiary administration are catered for and controlled under the Financial Management Ordinance or appropriately provided for within the Provincial government Budget.
- Maintain proper records of trade creditors to incorporate the creditors' accounts in the financial systems and financial statements. Maintain proper records of trade debtors such as logging licenses, dues and other commercial agreements to

ensure that debtors are properly accounted for within the financial systems and reported in financial statements.

Overall Conclusion

The audit of the 2008/2009 financial statements of the Provincial Governments have found minimal improvements in procedures, practices and controls in some Provinces. Controls over both revenue and expenditure are generally weak. Fixed assets registers are not maintained. Controls over ward grants and other discretionary funds are weak. The absence of bank account reconciliations contributes to the inefficient controls.

The OAG plans to make two visits each year to conduct an interim and then the financial audit. It is hoped that a more frequent audit visit will cause the attention of provincial accountants to act on the recommended improvements to their systems of internal control. The support of the Ministry of Provincial Government and the Provincial Government Strengthening Program will assist the provincial governments to implement the necessary reforms promptly and effectively.

Provincial Executive Responses

Few provinces have responded to the OAG audit findings. Those responses that have been received concurred with the audit recommendations. Despite this concurrence, little action has been taken and the OAG believes that all provincial governments are a long way from implementing the audit recommendations. This is partly a capacity issue as the provincial governments often do not have access to an appropriate level of financial management resources. There is also lack of will on the part of Provincial Executives to introduce adequate level of control, allowing some to perpetuate their vested interest to abuse the systems.

Chapter 4 Audits of State-Owned Enterprises (SOEs) and Statutory Authorities

Introduction

In 2007 the Solomon Islands Government passed the *State-Owned Enterprises Act 2007* (SOE Act) which brings the government owned enterprises within the mandate of the Auditor-General. OAG conducts a program of audits to audit the financial statements of these entities.

When the Solomon Islands Government passed the SOE Act it provided a framework as to how SOEs were to operate. The Act requires each SOE to operate as a successful business and to be profitable and efficient, as well as being a good employer and acting in a socially responsible manner.

Objectives of Financial Statements Audit

Statutory Authorities and State-owned Enterprises (SOEs) are required to report annually on their operations. A key part of this report is the financial statements which show the financial operation and the position of the SOE at a certain date.

Most of the audit reports on financial statements of SOEs issued by the OAG in 2009 were disclaimers of opinion.

SOE Project Details

In order for the SOEs to commence operations under the requirements of the new Act it was essential that the backlog of financial reports be completed and submitted for audit. Donor's funded the SOE Project to clear this backlog. The SOE Project was implemented during 2008 and 2009 to assist with the preparation of all outstanding accounts for SOE for the years up until 2008.

The emphasis of the Project was to clear the backlog of accounts and pave the way for a new regime where financial statements were produced on time and were of sufficient quality for the Auditor-General to form an opinion. It was not possible to readily prepare the old financial statements to an auditable standard because systems were not sufficiently robust in terms of being able to produce the

Comment [e4]: This should be incorporated in the first paragraph as one section

relevant data and documents and records were either missing or were never created. The Project assisted with the creation of financial accounts for the following entities:

- Commodity Export Marketing Authority
- Investment Corporation of the Solomon Islands
- Solomon Islands Broadcasting Corporation
- Solomon Islands Electricity Authority
- Solomon Islands Ports Authority
- Solomon Islands Postal Corporation
- Solomon Islands Printers Limited
- Solomon Islands Water Authority.

In 2009 a financial consultant was engaged to help create the missing financial reports for these entities for the years up to 2008. The entities did not have the ability to prepare their own accounts and there were significant deficiencies in controls so that records were incomplete or unreliable. All of the statements resulted in a disclaimer of opinion, when auditors are unable to form an opinion as to whether the statements present fairly the financial activities and position of the entity.

The consultant accountant finished early in 2010 and did not completely bring the statements of the selected entities up to date. His role did not include the development and training of the accounting staff of the entities on what they needed to do to be able to produce statements themselves. This means that the entities are generally no more able to produce a set of financial statements themselves than they were prior to the SOE Project.

Unless specific action is taken to develop the capacity of the SOEs to manage their accounting systems and produce useful financial reports from those systems, the situation will quickly deteriorate to the point where no financial statements are produced. If no financial statements are produced and therefore no audits are undertaken, then accounting capacity and internal controls systems of the entities will decline and more and more funds will be wasted through inefficiency or misappropriation.

It is imperative for the economy that these major public entities become financially viable, efficient and effective. This will not happen until there are effective accounting systems capable of producing credible financial reports and providing reliable financial and performance data to management on a day to day basis in place. The audit results to date indicate that this objective is in the distant future.

Contracting Out Audits

The Office of the Auditor-General is itself still in developmental phase and does not have sufficient qualified and experienced staff to conduct all of the audits of the financial statements of SOEs and other statutory bodies itself. A number of these audits are contracted to local and international accounting firms. These include:

Auditee	Audit Firm
Central Bank of the Solomon Islands	Deloitte PNG
Solomon Islands National Provident Fund	Deloitte PNG
Solomon Islands Water Authority	KPMG Fiji (in negotiation)
Solomon Islands Electricity Authority	KPMG Fiji (in negotiation)
Solomon Islands Postal Authority	Morris & Sojnocki Accountants
Solomon Islands College of Higher Education	Morris & Sojnocki Accountants

OAG staff work closely in partnership with the firms contracted to do these audits. In some cases OAG staff are assigned to the contractors audit team to perform some aspects of the audit and to gain knowledge and experience. This is worthwhile experience that is helping to prepare the staff of the OAG to be able to perform and manage these audits themselves when the Office has sufficient qualified staff to undertake these audits in-house.

Results of SOE Audits

As noted above, the Auditor-General provided a disclaimer of opinion on most of the financial statements presented in 2009. Although there has been some improvement in the reliability and disclosure of financial information, there are many areas where it is still not possible to be certain that the information is accurate. Most entities need to apply significant resources to strengthening internal controls such as ensuring the security of transaction documentation and the reconciliation of bank accounts controlled by the entity.

OAG supports the ongoing efforts of the SOEs and other statutory bodies to continue to improve internal controls and the presentation of financial statements.

Results of Financial Statement Audits

The main outcomes of these audits were:

- That most public entities had limited capacity to maintain books and records and prepare financial statements

A variety of internal control weaknesses, as well as frequent lack of compliance with control requirements that did exist, combined with insufficient accounting knowledge and experience, meant that many entities are not yet capable of maintaining an effective accounting system to produce reliable financial or performance information. Aside from inadequate external reporting, this situation means that management cannot base key decisions on reliable and comprehensive information.

- Breaches of the SOE Act and other legislation requiring the submission of audited financial statements.

The SOE Act and the enabling legislation for bodies not covered by the SOE Act require entities to submit audited financial statements to the relevant Minister within three months of the end of their financial year. With a few exceptions most public entities have failed to meet the deadline for providing financial statements. Although there has been significant catch-up some entities are still more than a year behind in their financial statements.

- The Auditor-General was unable to form an opinion on most financial statements.

The Auditor-General issued a disclaimer of opinion on most of the financial statements presented for audit. This means that the statements cannot be relied upon by decision-makers. The impact of this on economic management and good governance cannot be overestimated and it is vital from a national perspective that these agencies get themselves to a position where their systems are sufficiently reliable for an audit opinion to be formed.

Table 3 Status of Financial Statements (at 31 December 2009)

Auditee	Last Financial Statements	Sign Off by Auditee	Sign Off by Auditor-General
Commodities Export Marketing Authority	2007	24/06/2009	10/07/2009
Solomon Islands Broadcasting Corporation	2007	19/10/2009	07/12/2009
Solomon Islands Electricity Authority	2006	11/11/2009	15/12/2009
Solomon Islands Water Authority	2007	19/11/2009	07/12/2009
Central Bank of Solomon Islands	2008	24/04/2009	28/04/2009
Solomon Islands Provident fund	2009	15/10/2009	16/10/2009
Development Bank of Solomon Islands	2006	Not yet signed off	Not yet signed off
Investment Corporation of Solomon Islands	2003	Not yet signed off	Not yet signed off
Solomon Island Airlines Limited	2009	Not yet signed off	Not yet signed off
Solomon Islands Port Authority	2005	1/12/2009	Not yet signed off
Solomon Islands Postal Corporation	2005	Not yet signed off	Not yet signed off
Solomon Islands Printers Limited	2008	30/11/2009	Not yet signed off
Solomon Islands Colleague of Higher Education	2004-2008	Not yet signed off	Not yet signed off
Solomon Islands Visitors Bureau	2007	7/8/2009	Not yet signed off

Chapter 5 The Office of the Auditor-General

New Auditor-General

In May 2009 Edward Ronia has been appointed by the Governor General to the position of Auditor-General as provided for under Section 108 of the Constitution. Before his appointment Edward Ronia was the Chief Manager for Finance and Accounts Department with the Central Bank of Solomon Islands.

Edward Ronia replaced Mr. Eric Muir who took up the position as Auditor-General (Acting) following the passing away of the late Floyd Fatai in June 2008.

A New Audit Act

The Office of the Auditor-General is the entity that has been created to provide the means for the Auditor-General to perform the tasks allotted to him under the Constitution and the Public Finance and Audit Act.

The staff of the OAG, except for the Auditor-General himself, are public servants employed under the Public Service Act 1992 and governed by the terms and conditions promulgated in the General Orders issued under that Act. The appointment, classification and long-term career prospects of the staff of the OAG are controlled by the Ministry of Public Service and the Public Service Commission. The funding of the OAG is provided by the Parliament through the Budget process and is subject to recommendations made by the Ministry of Finance.

The Accountant-General is able to determine which of the accounts of the OAG will be paid and which will be delayed, without reference or input from the OAG. Thus, while the Constitution provides that the Auditor-General shall not be subject to direction from any person, the ability of the Auditor-General to carry out his Constitutional functions is controlled, both directly and indirectly by the staff of agencies that are amongst the most important entities subject to audit scrutiny. This is an untenable situation and it means that despite the absolute freedom of restriction provided in the Constitution, the Auditor-General is not truly independent of these agencies.

In 2008 the then Auditor-General set in train the procedures to develop a new audit act which would significantly improve the independence of the Audit-General and also outlines his responsibilities and powers. A Bill was drafted in late 2008 and has been subject to significant consultation and redraft. As it currently

stands the Bill is with the Office of the Attorney-General but was not presented to the Parliament in the latest Parliamentary session. Despite repeated public Government statements that a new Audit Act is an important part of its anti-corruption program, there has been no effective political support for the draft Bill and it continues to languish in legislative limbo.

RAMSI Assistance to the OAG

The Regional Assistance Mission to the Solomon Islands, through its Accountability Program has provided considerable support to the OAG since 2003. At that time the Office had diminished to just two staff and did not have the resources to conduct audits. RAMSI identified the importance of a national audit office to a nation where most governance and accountability mechanisms had broken down and extensive corruption existed. RAMSI initially provided five advisers in in-line audit positions to revive the audit function and also to develop the capacity of the OAG to conduct audits itself. The first advisers came and did audits themselves, focussing on re-establishing the presence of audit as a feature of public sector management. As the Office has recruited staff the focus has shifted to developing those staff to a point where they are capable of managing an effective national audit office without fulltime technical assistance from external advisers.

In the latter half of 2009 this process has been accelerated with a restructure of the Office which places more responsibility for the management of audits and of audit units in the hands of the local staff with the technical advisers taking a more arms length approach. The Accountability Program has an expiry date in 2012 and the Office and the current advisers are working on making the Office self-sufficient by that deadline. Five RAMSI advisers left the office in 2010 including Mr Eric Muir, who acted as the Auditor-General for almost a year after the death of Mr Floyd Fatai. Mr Muir worked in the Office for over three years and was instrumental in making major advances in the infrastructure of the Office and re-establishing its presence as the watchdog of Government financial reporting. At the farewell function to mark the end of his service to the Office the Auditor-General announced that the Office training room which Mr Muir had been instrumental in setting up and equipping, was to be renamed the Eric Muir Training Room.

Staff of the OAG

The staff of an Audit Office is its most important resource. An Auditor-General can conduct audits with inadequate buildings or IT capability but without appropriate trained and experienced staff, the Auditor-General is unable to function at even a basic level. It is

possible to contract out audits, and as noted in the section on financial statements the OAG does contract out some but it is still important that staff have sufficient skills to be able to review the work of the contract auditor if the Auditor-General is to meet his professional obligations.

In 2009 the OAG staffing levels and personnel remained fairly static. One officer left and a two accounting graduates were engaged as contractors. After a period as contractors it was planned to engage them as permanent officers but the restriction on public service recruitment came into effect. These restrictions were then lifted but despite the best efforts of the OAG to engage these officers, the Public Service Commission has not given its permission. In the early 2010 these two officers both left the OAG, because it had been unable to give them a permanent position, leaving the Office with just two auditors with accounting degrees. This was a major loss to the Office.

Most of the staff in the Office hold a Diploma in Accounting or Finance from the Solomon Islands College of Higher Education and most are studying for their accounting degree through one of the two universities that provides a facility to do so in the Solomon Islands. Most students need to go to Fiji or PNG to complete their degrees and the Office is encouraging this through supporting applications for scholarships through the National Training Council. One of two applicants supported by the Office was successful in winning a scholarship for 2010 and another two who were not supported were also successful.

Professional Standards

The Auditor-General has chosen to apply the International Standards on Auditing to his audit work and requires accounting firms who are undertaking contracted financial statement work on his behalf to also apply these standards.

Involvement in International Audit Organisations

The OAG is a member of the International Association of Supreme Audit Institutions (INTOSAI) and is also a member of the corresponding regional body, the Pacific Association of Supreme Audit Institutions (PASAI). Membership of these bodies provides valuable access to up to date information on new issues and developments affecting SAI globally and regionally. Member SAIs receive information and invitations to attend conferences and seminars to address and share common issues and concerns.

Relationship with Parliament

During 2009 the Parliamentary Accounts Committee (PAC) held hearings into the Draft Estimates of Expenditure for 2009 and the Supplementary Estimates for 2009, and, in December 2009, the

Draft Estimates for 2010. The PAC met twice in 2009 in relation to hearings of audit reports. These hearings had commenced in 2008 and concluded hearing evidence in relation to those reports in late 2009. No report has yet issued from the PAC in relation to those hearings.

Finances

The OAG is funded through by the Parliament through the Budget Process. There is currently no safeguard over this process and if the Government wishes to reduce audit scrutiny of its activities it merely needs to reduce the funds allocated to the Office. The Ministry of Finance can similarly impact the ability of the Auditor-General to pursue his assigned role by failing to support funding requests or assign priority to the payment of OAG Accounts.

Anti-corruption Task Force

In February 2009, the Prime Minister established an Anti-Corruption Task Force to develop a National Anti-Corruption Policy for the Solomon Islands. The Auditor-General is a co-chair of the Task Force. Towards the end of 2009 the Task Force, with financial assistance from RAMSI, facilitated a series of workshops with a wide range of participants from all sectors to explore corruption issues. The deliberations of these workshops were then to inform the development of the Policy. The draft Policy had not been developed by the end of 2009.

Outsourced Audit

In the budget process in 2009 the Government did not approve funding for contract audit fees of \$2 million. These fees are used to pay accounting firms to conduct audits of such entities as the Central Bank and the National Provident Fund. The staff of the OAG do not yet have the necessary skill and experience to conduct these audits so they must be conducted by accounting firms. The failure to approve this funding for contract audit fees will mean that some mandatory audits will not be conducted.

The OAG has prepared 2009 financial statements under the International Public Sector Accounting Standards – Cash Basis (IPSAS-Cash). This is not a requirement but provides an example to other public sector entities as to what such statements should look like, because the Government is moving towards using ISPAS-Cash as a basis for financial reporting by non-trading entities.

The Statement below is unaudited. If the draft audit Bill is passed in its current form, the Office will be required in the future to produce financial statements and to have them audited by an independent auditor.

Appendix 1 Unaudited Annual Accounts

For the year ended 31 December 2009

Office of the Auditor-General
Statement of cash receipts and payments
For the year ended 31 December 2009

	Notes	31 December 2009		
		Final budget	Treasury account	Payments by external third parties
		\$	\$	\$
Receipts				
Allocations/Appropriations	2	4,763,560	2,685,147	-
Audit fees		544,085	408,064	-
		<u>5,307,645</u>	<u>3,093,211</u>	<u>-</u>
External assistance – Multilateral agencies	3			
Regional Assistance Mission to Solomon Islands		-	-	475,000
		<u>-</u>	<u>-</u>	<u>-</u>
Total receipts		<u>5,307,645</u>	<u>3,093,211</u>	<u>475,000</u>
Payments				
Wages, salaries and employee benefits	4	(2,882,662)	(1,324,447)	(475,000)
Other allowances		(110,338)	(76,268)	-
Operating payments	5	(1,359,656)	(1,148,066)	-
Learning and development		(247,395)	(268,161)	-
Repairs and maintenance		(445,310)	(88,444)	-
Capital payments		(262,284)	(187,825)	-
Total payments		<u>(5,307,645)</u>	<u>(3,093,211)</u>	<u>(475,000)</u>

Office of the Auditor-General
Statement of comparison of budget and actual amounts
For the year ended 31 December 2009
Budget approved on the bash basis

	Actual amounts	Final budget	Original budget	Difference: Actual amount and final budget
	\$	\$	\$	\$
Receipts				
Allocations/Appropriates	2,685,147	4,763,560	4,570,988	2,078,413
Audit fees	408,064	544,085	960,000	136,021
External assistance – Multilateral agencies	-	-	-	-
Total receipts	<u>3,093,211</u>	<u>5,307,645</u>	<u>5,530,988</u>	<u>2,214,434</u>
Payments				
Wages, salaries and employee benefits	(1,324,447)	(2,882,662)	(3,068,815)	1,558,215
Other allowances	(76,268)	(110,338)	(110,338)	34,070
Operating payments	(1,148,066)	(1,359,656)	(1,300,519)	211,590
Learning and development	(268,161)	(247,395)	(184,844)	(20,766)
Repairs and maintenance	(88,444)	(445,310)	(605,639)	356,866
Capital payments	(187,825)	(262,284)	(260,833)	74,459
Total payments	<u>(3,093,211)</u>	<u>(5,307,645)</u>	<u>(5,530,988)</u>	<u>2,214,434</u>
Net cash flows	-	-	-	-

Notes to the financial statements

1. Accounting policies

Basis of preparation

The annual accounts have been prepared in accordance with the International Public Sector Accounting Standards under The Cash Basis of Accounting (Cash Basis IPSAS). Comparative information has not been included as this is the first time the Office has adopted Cash Basis IPSAS.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The annual accounts are for the Office of the Auditor-General, a public sector entity. The Office is fully appropriated by the Solomon Islands Government. The Office's principal activity is to provide audit services to the Solomon Islands Government, State Owned Enterprises and the Provincial Governments.

The Office does not operate its own bank account. The Solomon Island's Government operates a centralised treasury function which administers cash expenditures incurred by all departments during the financial year. Payments made on this account in respect of the Office are disclosed in the Treasury Account column in the Statements of cash receipts and payments.

External assistance

The Office receives a benefit from payment made by external third parties (entities external to the Solomon Islands Government) for goods and services. These payments do not constitute cash receipts or payment for the Office, but do benefit the Office. They are disclosed in the *Payments by external third parties* column in the Statement of cash receipts and payments.

Reporting currency

The annual accounts are presented in the Solomon Islands currency, the Solomon Islands dollar (\$).

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate at the date of the transaction.

Note 2. Allocations/Appropriations

Amounts appropriated to the Office of the Auditor-General are managed through a central account administered by the Finance Department. These amounts are not controlled by the Office but are deployed on the Office's behalf by the central account administrator on presentation of appropriate documentation and authorization. The amounts reported as allocations/appropriations in the Statement of Cash Receipts and Payments is the amount the Finance Department has expended for the benefit of the Office.

Note 3. External assistance – Multilateral agencies

Payments by external third parties

All payments made by external third parties are made by external third parties that are not part of the Office.

Regional Assistance Mission to Solomon Islands

- The Office has five positions which were funded for various periods of time during the 2009 financial year. Two of these positions are in-line and three are advisor roles. At the time of publishing the unaudited annual accounts, the non-cash benefit to the Office of the Auditor-General for the five positions was not available because it has commercial significance and is confidential. An estimate has been calculated based on the cost of filling these positions with local staff. This basis has been chosen because eventually these positions will be filled by local staff at specific public service employment levels.

	31 December 2009		
	Final budget	Treasury Account	Payments by external third parties
	\$	\$	\$
<u>Note 4. Wages, salaries and employee benefits</u>			
Wages and salaries	2,768,809	1,288,205	445,000
National Provident Fund	113,853	36,242	30,000
	<u>2,884,762</u>	<u>1,324,447</u>	<u>475,000</u>

Note 5. Operating payments

Contracted audit fees	526,168	689,498	
Office expenses	202,072	150,683	
Utilities	285,690	107,633	
Staff travel costs	345,726	200,252	
	<u>1,359,656</u>	<u>1,148,066</u>	.

Note 6. Original and final approved budget

During the year there were eight appropriations for which the actual expenditure exceeded the authorised expenditure by a total of \$201,644. The Office did not make use of the virements called for in the Financial Instructions 2004 to deal with cases where it wished to spend more than the authorised amounts. As such, these payments were unauthorised. It should be noted that the Office did not exceed its overall budget and that the submission of the necessary virements would have ensured that expenditure did not exceed the budget of any individual head of expenditure. The failure to submit these virements was the result of administrative oversight.

Note 7. Authorised date

The annual accounts were authorised for publication on 30 June 2010 by Edward Ronia, Auditor-General.