



SOLOMON ISLANDS GOVERNMENT

SPECIAL AUDIT REPORT

Into the

National Cattle Rehabilitation Project

for the

Ministry of Agriculture & Livestock Development

Reported by:

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March 2009

TABLE OF CONTENTS

EXECUTIVE OVERVIEW	3
Background.....	3
Audit Objectives and Scope	3
Conclusion	6
DETAILED AUDIT FINDINGS AND RECOMMENDATIONS	7
1. No Bank Reconciliations.....	7
2. Political Influence in the Allocation of Funds	8
3. Lack of Documentation to Support Payment	9
4. No Authorisation of Requisitions and Payment Vouchers	10
5. Non-Compliance with Tender Process.....	11
6. Delivery Dockets not Found	12
7. Payment Made in Advance in Breach of Unsigned MOU	12
8. No Requisitions and/or Payment Vouchers Sighted for 3 Payments	13
9. No Contract Agreement Sighted	14
10. No With-Holding Tax Deducted.....	15
11. Excessive Expenditure – Purchase of 2 Toyota Land Cruisers.....	15
12. Failure to Retire Imprest Promptly and Forgone Interest Revenue.....	16
13. No Commitment Cards.....	17
14. Cancelled Cheque #191592 Not on File.....	18
15. Requested Cheque Book # 533001 – 533060 Not Made Available	18
16. Difference between Amounts in Payment Voucher and General Ledger	19
17. Inappropriate Expenditure	19
18. Difference of Amounts in Approval and Payment Voucher.....	20
19. No Segregation of Duties	21
Appendix 1: Details of lack of documentation.....	23
Appendix 2: Non-compliance with Tender Process	24
Appendix 3: Contractors without Contract Agreement	25
Appendix 4: No With-Holding Tax Deducted	27
AUDIT ACTION PLAN.....	30

EXECUTIVE OVERVIEW

Background

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.

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.

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.

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.

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

Audit Objectives and Scope

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.

The audit covered the period from 7th June 2007 to 30th September 2008.

Key Findings

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 1 - 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

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.

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

- 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).
- 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.
- No documentation could be found for a quarter of the payments reviewed by OAG
- 8% of the sample did not have authorization of requisitions and payment vouchers in the Ministry

- 13% of purchases by the Ministry did not comply with the required tender processes,
- 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.
- 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.
- 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.
- 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.
- The Chief Accountant advised that the Ministry did not use commitment cards for 2007 and 2008.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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

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.

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. 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.

DETAILED AUDIT FINDINGS AND RECOMMENDATIONS

1. No Bank Reconciliations

Risk Rating – High

The Ministry opened a bank account called Cattle Rehabilitation Project Standing Imprest Account to manage the project payments.

Section 397 (2) of *Financial Instructions 2004* requires authorised officers to prepare a bank reconciliation on receipt of bank statements. Furthermore Financial Instruction 324(3) states “Where banking facilities are available, Standing Imprest holders with Imprests of \$1000 or more, are required to maintain a bank account following Chapter 15 of these Instructions.”

Bank reconciliations ensure that all public revenue and expenses are accounted for and are fairly reflected in the cattle rehabilitation project standing imprest account. Bank reconciliations also ensure that any debits or credits to the account other than the normal depositing of moneys or drawing of cheques are brought to account immediately and any entry on the bank statement that does not appear to be a liability or accrual to Government funds shall be queried immediately with the bank concerned and the bank requested to reverse the entry in the Government's bank account.

The Chief Accountant was employed in mid 2008 after the previous Chief Accountant moved to the Ministry of Mines and Energy. He advised that a junior officer in the Animal Health and Production Division is doing the bank reconciliations; however OAG was not provided with bank reconciliations for 2007 and part of 2008.

Furthermore, OAG noted that this issue was brought up in the audit of imprest and bank accounts for the Ministry of Agriculture and Livestock Development (the Ministry) for 2007.

Implications

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. Also, non-performance of bank reconciliation increases the risk of misappropriation.

Recommendation 1

OAG recommended that the Ministry:

- Perform the bank reconciliation for 2007 immediately; and
- 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.

2. Political Influence in the Allocation of Funds**Risk Rating – High**

During the audit OAG noted that a Member of Parliament in the Government requested through the Prime Minister for funding to cattle farmers in his constituency despite the fact that they were not listed in the work plan of the project. The Ministry has earmarked 4 cattle farmers in Malaita that is in West Kwaio and West Kwara'ae and 4 cattle farmers in Guadalcanal as the beneficiaries in phase one of the project.

However when the funds were allocated to East Kwaio constituency on the influence of the Member of Parliament, the 4 cattle farmers from West Kwaio and West Kwara'ae have to be left out in the phase one.

The amount of \$650,000.00 was paid to the Member of Parliament for East Kwaio to assist the cattle farmers in his constituency in two instalments that is \$277,000.00 and \$353,000.00 as reported by Internal Audit of the Ministry of Finance & Treasury in May 2008. However OAG sighted only a payment voucher for \$353,000.00 but it did not appear in the general ledger accounting system. There is a payment of \$177,500.00 that appeared in the general ledger accounting system but the payment voucher can not be sighted. OAG has requested the Internal Audit to provide the documents to verify the total payment of \$650,000.00. The Ministry informed OAG that the MP gave a report that the fund was used to purchase barbed wire, posts and nails but there were no receipts to verify his report. Furthermore no report was received from Agriculture Officer at Auki to update the Ministry on the status of the cattle farms in East Kwaio.

Implications

The manner in which the payment was made increases the risk of corruption, fraud and thief of public funds. Furthermore, the project could not be implemented fully due to lack of resources to monitor the cattle farms in East Kwaio.

Recommendation 2

OAG recommended that:

- The Ministry to locate the missing documents and submit to OAG for audit;
- The Ministry to request the MP for East Kwaio to provide receipts of expenditure for OAG to audit;
- Request Agriculture Officer in Auki to provide a report on the status of cattle farms in East Kwaio for OAG to audit;
- Strictly adhere to the work plan in the allocation of funds

3. Lack of Documentation to Support Payment**Risk Rating - High**

OAG noted that no documents could be located for a large proportion of the sample selected for expenditure testing. In 2007, 25% (6/24) of documents were missing and in 2008, 24% (4/17). These are detailed in Appendix 1.

Section 108 (3) of the Solomon Islands Constitution and Section 36 (1) of the Public Finance and Audit Act states that the Auditor General or any person authorised by him shall at all times be entitled to access all books, records, returns and all other documents relating to such accounts of the Solomon Islands Government.

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

The Ministry has breached section 108 (3) of the constitution, section 36 (1) of the Public Finance and Audit Act, the Government Records Management Policy and specific paragraphs of the Financial Instructions, as the supporting critical records and information which were requested by OAG were not produced for audit.

Implication

Without sufficient supporting documentation there is a risk of money being misappropriated. The legitimacy of expenditure is unsubstantiated as there are insufficient procurement documents such as requisitions and payment vouchers to confirm verification, approval and authorisation by the delegated officers.

Recommendation 3

OAG recommended that the Ministry:

- Locate the documentation that is missing for the payments noted above and produce these to OAG for audit; and
- Comply with Government Record Management Policy and ensure all documents and records are readily available and filed.

4. No Authorisation of Requisitions and Payment Vouchers**Risk Rating – High**

Financial Instruction 233 (1) and (2) states that “*General Payment Vouchers may only be certified and signed for payment by an Accounting Officer, or an officer authorised to sign on his behalf, as prescribed by FI 206. Any General Payment Voucher not so signed must not be paid.*”

However, OAG noted that the Ministry processed the following payments from the standing imprest without authorization of requisitions and payment vouchers which is a breach of the Financial Instructions 233 (1) and (2):

Table 1 contains the details of payments made in 2007 and 2008 without authorization of requisitions and payment vouchers by the Ministry.

2007	Payee Name	Amount Paid
1	Cattle Rehabilitation Project Standing Imprest Replenishment	\$38,260.05
2	Cattle Rehabilitation Project Standing Imprest Replenishment	\$94,955.00
2008		
1	Cattle Rehabilitation Project Standing Imprest Replenishment	\$1,000.00
TOTAL:		<u>\$134,215.05</u>

Implications

The lack of authorization of payments may lead to fraud, corruption, nepotism and theft of public funds.

Recommendation 4

OAG recommended that the Ministry of Agriculture and Livestock Development:

- Strictly comply with the Financial Instructions; and
- Refer these transactions to appropriate authorities such as the Police and Leadership Code Commission for further investigation and appropriate action.

5. Non-Compliance with Tender Process

Risk Rating – High

Financial Instruction 518 (1) states that *“The procurement of all works, goods and services in excess of \$2,000 is to be subject to quotation or tendering process with the exception of the following:*

- a) Purchase of eggs, fresh fish, fresh local chickens, fresh bread, fresh fruit and vegetables. Procurement of these items is subject to FI 519 (6).*
- b) Purchase of this nature made pursuant to the preferred supplier tender process are subject to FI 519 (7).”*

Furthermore, Financial Instruction 519 (3) and (4) states *“Procurement between \$10,000 up to \$50,000. A minimum of three written quotes are to be obtained and evaluated. The selected supplier must be approved by the Accounting Officer or officer authorized to incur expenditure.”*

“Procurement between \$50,000 up to \$500,000. A tender must be called and a Ministerial Tender Board must evaluate the tender.”

OAG noted that within the Ministry in 2007, 13% (3/24) of payments did not comply with Financial Instructions 518 (1) and 519 (3) and (4) and in 2008, 12% (2/17). The Ministry did not submit the procurement of goods and services for competitive tendering from suppliers and no Ministerial Tender Board minutes were sighted by OAG for payments of \$10,000.00 and over. Details of transactions that do not comply with the required tender process are listed in Appendix 2.

Implications

The lack of compliance with Financial Instructions increases the risk of corruption, fraud, low quality goods procured and conflict of interest.

Recommendation 5

OAG recommended that the Ministry:

- Strictly comply with the Financial Instructions and relevant legislation;
- Attach a copy of the tender award approval to the payment voucher for payment; and
- Refer the matter to appropriate authorities such as the Leadership Code Commission for further investigation and consideration of disciplinary action.

6. Delivery Dockets not Found**Risk Rating – High**

Normally when payments are made to the supplier of goods, there should be delivery dockets issued by the supplier to the buyer/SIG when the goods are delivered or collected. However OAG discovered that 17% (4/24) in 2007 and 12% (2/17) in 2008 do not have delivery dockets, which is in breach of the Financial Instructions and relevant legislation.

The delivery docket is an important document which provides evidence that the Ministry actually received the goods, and what type and quantity of goods were received. Table 2 lists the purchases for which there is no delivery docket.

Table 2 contains detail of suppliers that does not provide delivery dockets in 2007.

2007	Payee Name	Amount Paid
1	Ela Motors Ltd	\$245,000.00
2	Ela Motors Ltd	\$430,000.00
3	Bowmans Hardware	\$ 28,695.05
4	Bowmans Hardware	\$ 18,914.65
2008		
1	Farmset Ltd	\$ 23,748.00
2	Bowmans Hardware	\$ 16,133.20
TOTAL:		<u>\$762,490.90</u>

Implications

The lack of compliance with relevant legislation contributes to the risk of low quality goods being supplied, corruption, fraud and conflict of interest in the procurement of goods.

Recommendation 6

OAG recommended that the Ministry:

- Provide the documents to OAG if they are available; and
- Ensure delivery dockets are received and attached to the Payment Voucher for payment of goods.

7. Payment Made in Advance in Breach of Unsigned MOU**Risk Rating – High**

OAG noted that 17% (4/24) of the sample of payments were made in advance to the landholding groups as gesture payments and access landing fees. The Memorandum of Understanding stated in section 3 (2) that the payment of

\$50,000 for each landholding group should be made by MALD not later than thirty one days after the signing of the MOU being 30 April 2008. However, only the unsigned draft MOU was attached with the requisition and payment voucher for the disbursement of the funds to the land holding groups.

The manner in which the payments were made is not in accordance with the requirements of the Financial Instructions and the Public Finance and Audit Act. Table 3 lists the payments in advance with the unsigned MOU.

Table 3 consist of list of payment in advance with unsigned MOU

2007	Payee Name	Amount Paid	Remarks
1	Ghaobata Trust Account	\$50,000	Gesture Payment
2	Lathi Koh Trust Account	\$50,000	Gesture Payment
3	Thimbo Landing Site	\$50,000	Access Landing Fee
4	Thimbo Trust Account	\$50,000	Gesture Payment
TOTAL:		<u>\$200,000</u>	

Implications

The manner in which the payments were made increases the risk of fraud, conflict of interest and illegal payments. Furthermore there is lack of internal control within the Ministry of Finance and Treasury which should have questioned such payments.

Recommendation 7

OAG recommended that the Ministry:

- Comply with the requirements for payment in advance; and
- Refer the matter to the Leadership Code Commission for further investigation and consideration of disciplinary action.

8. No Requisitions and/or Payment Vouchers Sighted for 3 Payments

Risk Rating – High

OAG noted that three payments -two from the standing imprest replenishment and one to eWorld Technology - do not have requisition forms and/or payment vouchers as required by Financial Instructions 231 and 233 (1) to (5). The list of payments without requisitions and payment vouchers is shown in table 4 below.

Table 4 consist of payments without requisition and payment vouchers

Year	Payee Name	Detail	Chq	Amount
2007	eWorld Technology	Stationeries	191558	\$1,880
2007	Cattle Rehabilitation Project Standing Imprest Replenishment	Final contract payment – Duddley Maetia	191565	\$1,741
		Carrying of timbers for stockyard – Ben Pilapaso	191566	\$660
TOTAL:				<u>\$4,281</u>

Implications

Lack of appropriate supporting documents for payments increases the risk of fraud, nepotism, corruption and theft of public funds.

Recommendation 8

OAG recommended that the Ministry strictly comply with the Financial Instructions.

9. No Contract Agreement Sighted

Risk Rating – High

The Ministry indicated that they made agreements with individuals/groups for contract activities on the Tenavatu cattle farm; however during the audit OAG could not sight any contract agreement for 13% of the sample in 2007 and 12% in 2008. The Financial Instructions require that there be a contract agreement for any payments for goods and service that is continuous for more than a month. The Cattle Rehabilitation Project incurred expenditure from contractors who were repairing the fences and stockyard and Appendix 3 shows the detail of payments to contractors.

Implications

The lack of contract agreements may result in fraud, misappropriation of funds and conflict of interest.

Recommendation 9

OAG recommended that the Ministry of Agriculture and Livestock Development always obtain contractual agreements and attach a copy of the contract agreement with the requisition and payment voucher for the payment.

10. No With-Holding Tax Deducted**Risk Rating – High**

Section 37 (2) (a) of the Income Tax Cap 123 states *“To the extent that the income specified in subsection (2) is not exempt from tax, every person resident in Solomon Islands who makes a gross payment to any person or group of persons resident in Solomon Islands shall deduct therefrom tax at the appropriate withholding rate specified in the Seventh Schedule. For the purpose of subsection (1), income paid to a resident person as a gross payment and subject to resident withholding tax consists of – income from contracting or subcontracting.”*

OAG observed that 13% of the sample for 2007 did not have with-holding tax deducted which totals \$10,238.27 whereas in 2008, 12% of sample with value of \$6,984.60 did not have with-holding tax deducted as required by the Income Tax Act. Furthermore OAG noted that the with-holding taxes were not deducted when payments were made from the standing imprest in the Ministry. The list of transactions is summarised in Appendix 4.

Implications

The lack of with-holding tax deduction results in Solomon Islands Government losing revenue.

Recommendation 10

OAG recommended that the Ministry:

- Recover the money from the contractors and remit to IRD; and
- Comply with the Financial Instructions for deduction of tax from contractors.

11. Excessive Expenditure – Purchase of 2 Toyota Land Cruisers**Risk Rating – High**

Financial Instruction 203 (1) states that *“An Accounting Officer is responsible for ensuring that no commitment is entered into that would result in an account code exceeding the approved estimates once the subsequent charge is made.”*

OAG noted that the work plan submitted to the Ministry of Finance & Treasury included provision for the procurement of one Toyota Land Cruiser at \$235,000.00; however on the 28th of August 2007 a payment of \$430,000.00 was made for two Toyota Land Cruisers for the project. This is excessive expenditure in that it is not complying with the budget and thus is a breach of Financial Instruction 203 (1).

Implications

The lack of expenditure control increases the risk of incomplete implementation of the project, unnecessary procurement of goods and conflict of interest. In addition there is the risk of donor partners not being willing to support similar projects in the future.

Recommendation 11

OAG recommended that the Ministry of Agriculture and Livestock Development always comply with the work plan budget of the project when incurring expenditure.

12. Failure to Retire Imprest Promptly and Forgone Interest Revenue

Risk Rating – High

Financial Instruction 312 requires special imprests to be accounted for or retired in full when the purpose for the imprest has finished or within the period allowed, whichever is sooner.

Furthermore, *Financial Instruction* 313 (3) authorises action to be undertaken by the Permanent Secretary of the Ministry of Finance and Treasury to recover any outstanding moneys from the imprest holder either as deductions from salary or by any other legal action he/she sees fit.

OAG noted that a special imprest of \$32,760 was issued to Dr Israel Wore on 13/09/2007 for accommodation and internal travel at Australia to meet with Australia Quarantine Services (AQS) and inspect the cattle holding sites. This imprest should have been retired on 15/10/07 but it still remains outstanding at the time of this audit.

Furthermore the imprest holder was the Permanent Secretary for this Ministry at the time but left the office in Nov/Dec 2007 and is now running a private consultancy business and is to be engaged for Phase 2 of this project. There was no salary deduction and interest charged as required in *Financial Instruction* 313 (3) even though a reminder letter has been sent to the imprest holder.

Implications

The Ministry has not been systemically enforcing the requirements of the *Financial Instructions* for prompt retirement of imprest which increases the risk of misuse of government funds and therefore a potential loss of SIG funds.

Recommendation 12

OAG recommended that the Ministry:

- 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.

13. No Commitment Cards**Risk Rating – High**

The Chief Accountant advised that in 2007 and 2008 there were no commitment cards to keep up to date records of the project's funds. The Chief Accountant advised that he has not got enough time to update the commitment cards, but promised to start using them in 2009.

The Financial Instructions require all accounting officers to keep a Vote Ledger or Commitment Cards which shall show at all times details of the actual expenditure incurred to date, total commitments entered into to date, balance of funds available and other important details.

In particular, Financial Instruction 220 (1) states *“The Accounting Officer shall enter, as an expenditure item in the “Expenditure” column of the Vote Ledger, the value of each payment voucher at the time it is issued”*.

Implications

Not recording expenditure in the Commitment Cards is not only non-compliance with Financial Instructions, but the inaccurate information relating to the balance of funds available may result in incorrect decision-making by management and possible over-expenditure.

Recommendation 13

OAG recommended that the Ministry of Agriculture & Livestock Development use the Commitment Card as required by the Financial Instructions to keep accurate data from all General Payment Vouchers and requisitions processed to enable management to monitor commitments against budget.

14. Cancelled Cheque #191592 Not on File**Risk Rating – Moderate**

During the audit OAG noted on the cheque butt number 191592 that a payment of \$23,045.00 was made out to Multi Trade Holding for 1 x 090 STIHL Chainsaw with accessories was cancelled. However, the cancelled cheque could not be sighted or located.

OAG confirmed that as at the time of the audit the cheque still has not been presented on the bank statement.

Implications

The lack of availability of the cancelled cheque increases the risk of an unauthorized person cashing it.

Recommendation 14

OAG recommended that the Ministry of Agriculture & Livestock Development:

- Locate and provide the cancelled cheque to OAG for audit; and
- Ensure that cancelled cheques are attached to the cheque butts or payment vouchers for availability to OAG when audits are undertaken.

15. Requested Cheque Book # 533001 – 533060 Not Made Available**Risk Rating – High**

Section 36 (1) of Public Finance & Audit Act states *“In the exercise of his duties, the Auditor General or any person duly authorised by him in writing shall have access to all records, books, vouchers, documents appertaining to matters of finance and accounts; and to all cash, stamps, securities, stores or other Government property whatsoever in the possession of any public officer.”*

OAG was not provided with cheque book number 533001 to 533060 even though a request was made through the Permanent Secretary of the Ministry.

Implications

The lack of compliance to Public Finance & Audit Act increases the risk of fraud, corruption, misappropriation of funds and OAG unable to provide an audit opinion from this audit.

Recommendation 15

OAG recommended that the Ministry of Agriculture & Livestock Development locate and provide this cheque book to OAG for audit.

16. Difference between Amounts in Payment Voucher and General Ledger
Risk Rating – Moderate

OAG found one transaction in the sample where the amount on the payment voucher is different to the general ledger accounting system (maximize) and detail is shown in table 5.

Table 5 contains the difference in amounts

2007	Payee Name	Amount in Payment Voucher	Amount in Maximize
1	Duddley Wate	\$9,228.00	\$9,920.00

The amount paid was more than the amount approved. The Payment Voucher should have been returned for amendment and reauthorising before processing.

Implications

The lack of proper checking control increases the risk of corruption, fraud and misstatement of the project account.

Recommendation 16

OAG recommended that the Ministry of Agriculture & Livestock Development:

- Liaise with Ministry of Finance & Treasury to sort out the difference; and
- Undertake continuous monitoring of records from the Ministry of Finance & Treasury of the project and ensure adjustments are made where differences occur.

17. Inappropriate Expenditure
Risk Rating – Moderate

In a Minute dated 22nd August 2007 from the Assistant Accountant General – Payroll, Revenue and Imprest of the Ministry of Finance & Treasury, stated that the Permanent Secretary of Finance and Treasury recommended and agreed that the standing imprest is purposely for tool costs and other equipment only and should not be used for airfares, sea fares, telephones or internet installation. OAG noted a payment for telephone cards which does not comply with the instruction from the minute of meeting held on 21st August 2007. There is also expenditure

on flash drives which is excessive and not justified. Table 6 below provides the details of inappropriate expenditure.

Table 6 contains items of inappropriate expenditure

2007	Payee Name	Description	Amount Paid
1	Cattle Rehabilitation Project Standing Imprest Replenishment	5 x \$100 Phone Cards	\$550
		5 x 4GB Flash Drive	\$2,500
TOTAL:			<u>\$3,050</u>

Implications

The lack of over expenditure increases the risk of overspending of the budget and procurement of goods for personal use rather than office use.

Recommendation 17

OAG recommended that the Ministry of Agriculture and Livestock Development comply with the directive of the Permanent Secretary of Finance & Treasury for the purpose of the standing imprest.

18. Difference of Amounts in Approval and Payment Voucher

Risk Rating – Low

OAG noted one payment from the cattle rehabilitation project standing imprest replenishment where an amount of \$4,419.00 was approved and paid to the supplier; however the payment voucher shows that \$3,231.34 was received by the supplier which is inconsistent with the requirement of the Financial Instructions and relevant regulations. In other words the supplier has received \$1,187.66 more than the approved amount.

Furthermore, OAG discovered that one sample (as shown below) shows a difference in the amount on the requisition and payment voucher:

2007	Payee Name	Amount on requisition	Amount on Payment Voucher
1	Cattle Rehabilitation Project Standing Imprest Replenishment	\$77,502.68	\$75,757.68

Financial Instruction 234 (f) states “*In certifying and signing a General Payment Voucher the Accounting Officer, or authorised signatory, is responsible for ensuring that all arithmetic additions, extensions and other calculations have been verified and are correct.*”

Implications

The lack of proper monitoring of payments could result in incorrect information appearing in the general ledger accounting system, thus misstating the project’s account and misappropriation of funds.

Recommendation 18

OAG recommended that the Ministry of Agriculture & Livestock should:

- Always check all documents for accuracy, validity and completeness; and
- Liaise with the Ministry of Finance and Treasury to update the record of uncommitted funds.

19. No Segregation of Duties

Risk Rating – Moderate

Section 206 of *Financial Instructions 2004* states that the Accounting Officer is authorised to sign vouchers and there should be delegation of duties with written approval of Permanent Secretary. Furthermore Financial Instruction 233 states that the Accounting Officer to sign the payment voucher and check by a checking officer prior to payment being made.

OAG noted that one sample in 2007 the Director of Animal Health Protection signed the payment voucher as authorized purchasing officer and also signed as the authorized payment officer which is a breach of Financial Instruction 206 and 233. Summary of lack of segregation of duties is shown in table 7.

Table 7 shows summary of no segregation of duties.

2007	Payee Name	Purpose of Expenditure	Amount Paid
1	Cattle Rehabilitation Project Standing Imprest	Solomon Motors Ltd – Diesel	\$24,000
		Upfront payment of contract agreement – Thompson P Beto	\$1,700
TOTAL:			<u>\$25,700</u>

Implications

The lack of segregation of duties increases the risk of misappropriation of funds, errors not detected and conflict of interest in making the payment.

Recommendation 19

OAG recommended that:

- The Ministry of Agriculture and Livestock Development to always ensure segregation of duties in the process of making payments through the standing imprest; and
- The matter is referred to appropriate authorities such as the Leadership Code Commission for further investigation and disciplinary action.

Appendix 1: Details of lack of documentation

2007	Payee Name	Amount Paid
1	Barnabas Keqa	\$ 6,552.00
2	Pacifica Travel Centre	\$ 32,643.00
3	Duddley Wate	\$ 3,306.70
4	Dr. Israel Wore	\$ 10,920.00
5	Dr. Israel Wore	\$ 32,760.00
6	Cattle Rehabilitation Project – East Kwaio Constituency	\$177,500.00

TOTAL:**\$263,681.70**

2008	Payee Name	Amount Paid
1	Cattle Rehabilitation Project Standing Imprest Replenishment	\$ 90,308.78
2	Daniel Nunuvia	\$ 70,600.00
3	BOC Gases SI Ltd	\$ 7,216.00
4	Oceanic Marine Equipment Pty Ltd	\$ 28,036.00

TOTAL:**\$196,160.78**

Appendix 2: Non-compliance with Tender Process

2007	Payee Name	Detail	Amount Paid	Remarks
1	Cattle Rehabilitation Project Standing Imprest Replenishment	Fuel & lubricants for vehicles for project – Solomon Motors Ltd	\$24,000.00	No MTB approval sighted and only one quotation submitted.
		1 x Husky Chainsaw with bar & chain – Farmset Ltd	\$13,000.00	No MTB approval sighted and only two quotations submitted.
2	Cattle Rehabilitation Project Standing Imprest Replenishment	Purchase of vasa posts – Ben Pilosapo	\$25,000.00	No MTB approval and no quotations sighted.
		Drafting & editing of MOU for the project – John M Hauirae	\$13,260.50	No MTB approval sighted and only one quotation submitted.
3	Cattle Rehabilitation Project Standing Imprest Replenishment	2 x 070 STIHL Chainsaws – Y. Sato Co. Ltd	\$29,140.00	No MTB approval sighted and only one quotation submitted.
		40 Roll barbed wires – Bowmans Ltd	\$26,316.00	No MTB approval sighted and only one quotation submitted.

TOTAL: \$130,716.50

2008	Payee Name	Detail	Amount Paid	Remarks
1	Cattle Rehabilitation Project Standing Imprest Replenishment	Diesel, petrol & oil for vehicle use – Solomon Motors Ltd	\$19,494.08	No MTB approval sighted and only one quotation submitted.
		Building of stockyard – Patrick Sukumana	\$10,500.00	No MTB approval sighted and only one quotation submitted.
		1 x STIHL Chainsaw – Y. Sato Co. Ltd	\$18,860.00	No MTB approval sighted.
		Purchase of 85 stockyard posts – Ben Pilopaso	\$12,750.00	No MTB approval and 3 quotations sighted.
2	Cattle Rehabilitation Project Standing Imprest Replenishment	1 x Laptop and HP printer – eWorld Technology (SI) Ltd	\$17,300.00	No MTB approval sighted and only one quotation submitted.

TOTAL: \$78,904.08

Appendix 3: Contractors without Contract Agreement

2007	Payee Name	Purpose of Expenditure	Amount Paid
1	Cattle Rehabilitation Project Standing Imprest Replenishment	Landing Site Clearing – Alfred Lova Quarantine Area Clearing (Tenavatu Farm) – Andrew Kuvu Tractor Hire – Aurther Manethagata Fencing Repair – Thompson T Beto Block 2 Clearing – Aurther Manethagata Tractor Slashing of Fence Lines – Aurther Manethagata Fence Line Clearing – Alfred Lova Tractor Slashing at Landing Site – Daniel Nunuvia Reassessment of Quarantine Area – Joel Rava Tractor slashing of fence line – Sam Tolobua	\$740 \$2,075 \$3,600 \$1,700 \$3,400 \$1,600 \$735 \$1,600 \$1,935 \$1,600
2	Cattle Rehabilitation Project Standing Imprest Replenishment	Clearing paddocks, maintenance & pasture replanting – Aurther Manethagata Tree felling, stumps blocking & fence erecting – Gavin Timas Laneway clearing, loading/transporting of posts – Hudson soboa Brushing of regrowth unwanted shrubs & trees – Joel Rava 2 Paddocks brushing, milling timber & carrying posts – Andrew Kuvu Posts for fence lines & stockyard – Ben Pilosapo Milling of posts & rails – Godfrey Feke Stockyard construction – Patrick Sukuman Fence line construction – Selwyn Boboli Fence line brushing & clearing – Aurther Manethagata Fence clearing & Paddock maintenance – Jacob Sibia Brushing of fence lines – George Bunga	\$5,520 \$1,350 \$3,600 \$690 \$6,500 \$2,500 \$5,600 \$8,500 \$2,500 \$1,250 \$4,000 \$2,400
3	Cattle Rehabilitation Project Standing Imprest Replenishment	Tractor transport of posts for stockyard & fences – Hudson Soboa Clearing of opening ceremony site – Aurther Manethagata Construction of stockyard & fence lines – Daniel Nunuvia Various jobs for 3 cattle holders – Jacob Simbea Pasture maintenance & rehabilitation of Jacob's cattle farm – Jacob Simbea Milling of stockyard rails – Kulagha Milling of stockyard rails – Mark Paso Erection of boundary fence lines – Duddley Maetia Carrying timbers for posts of stockyard – Ben Pilapaso	\$5,600 \$3,390 \$6,900 \$9,244 \$2,000 \$2,400 \$2,500 \$1,741 \$660

TOTAL:**\$97,830****Appendix 3: Contractors without Contract Agreement**

2008	Payee Name	Purpose of Expenditure	Amount Paid
1	Cattle Rehabilitation Project Standing Imprest Replenishment	Repair & clearing of boundary fence line – Duddley Maetia Fence line clearing – Aurther Manethagata Fence line clearing of Tenavatu farm – Paul Paula Construction of Tenavatu stockyard – Patrick Sakumana Digging, standing & milling posts – Ata Manethagata Clearing fence line after bad weather & flooding – Ata Manethatagata Clearing laneways fence – Philip Iro Clearing & digging fence posts – Duddley Maetia Milling stockyard posts – Ben Pilopaso Tractor hire for clearing ground breaking ceremony site – Ata Manethagata	\$2,000 \$800 \$800 \$10,500 \$1,600 \$400 \$150 \$200 \$12,750 \$2,400
2	Cattle Rehabilitation Project Standing Imprest Replenishment	Tractor clearing of landing site – Daniel Nunuvia Tractor slashing, carrying & distribution of laneway posts – Aurther Manethagata Cutting of 150 posts – Maclean Poghula 12 people engaged in various tasks in Jacob’s farm – Jacob Simbea Clearing of fence lines – Daniel Palua Tree felling on paddock 8 & 12 – Aurther Manethagata Tree felling on paddock 2 & 3 – Daniel Nunuvia Tree felling on paddock 1 & 4 – Rex Ata Tree felling on paddock 5, 6 & 7 – Eric Ata Tree felling on paddock 9, 10 & 11 – Andrew Kuvu Milling posts & clearing of divisional fence line – Thomas Garimane Chainsaw operator to cut laneway fences – James Nakisi Fence construction of laneway lines – Philip Iro Clearing lane way & chainsaw operation – Philip Iro	\$800 \$4,000 \$4,500 \$4,800 \$3,928 \$3,000 \$3,000 \$8,000 \$8,000 \$8,000 \$3,060 \$2,460 \$5,020 \$960
TOTAL:			<u>\$83,128</u>

Appendix 4: No With-Holding Tax Deducted

2007	Payee Name	Purpose of Expenditure	Amount Paid	WithHolding Tax Forgone
1	Cattle Rehabilitation Project Standing Imprest Replenishment	Landing Site Clearing – Alfred Lova	\$740.00	\$55.50
		Quarantine Area Clearing (Tenavatu Farm) – Andrew Kuvu	\$2,075.00	\$155.63
		Brushing & Clearing of Stockyard – Aurther Manethagata	\$1,300.00	\$97.50
		Tractor Slashing – Aurther Manethagata	\$3,600.00	\$270.00
		Fencing Repair – Thompson T Beto	\$1,700.00	\$127.50
		Bush Clearing Paddock 11 & 12 – Andrew Kuvu	\$6,000.00	\$450.00
		Block 2 Clearing – Aurther Manethagata	\$3,400.00	\$255.00
		Tractor Slashing of Fence Lines – Aurther Manethagata	\$1,600.00	\$120.00
		Brushing & Clearing Paddock 10 – Andrew Kuvu	\$1,500.00	\$112.50
		Brushing of Laneway – Alfred Lova	\$735.00	\$55.13
		Tractor Slashing at Landing Site – Daniel Nunuvia	\$1,600.00	\$120.00
		Reassessment of boundary lines – Joel Rava	\$1,935.00	\$145.13
		Supply of posts – Ben Pilosapo	\$6,000.00	\$450.00
		Tractor Slashing – Sam Tolobua	\$1,600.00	\$120.00
2	Cattle Rehabilitation Project Standing Imprest Replenishment	Clearing paddocks, maintenance & pasture replanting – Aurther Manethagata	\$5,520.00	\$414.00
		Laneway clearing & posts transporting – Hudson Soboa	\$3,600.00	\$270.00
		Brushing & clearing – Joel Rava	\$690.00	\$51.75
		Tree felling/bush clearing – Jimmy Palmer	\$3,780.00	\$283.50
		Tree felling – Gavin Timas	\$1,350.00	\$101.25
		2 Paddocks brushing, milling timber & carrying posts – Andrew Kuvu	\$6,500.00	\$487.50
		Milling of posts – Ben Pilosapo	\$25,000.00	\$1,875.00
		Milling posts & rails – Godfrey Feke	\$5,600.00	\$420.00
		Stockyard construction – Patrick Sukumana	\$8,500.00	\$637.50
		Fence line construction & wire straining – Selwyn Boboli	\$2,500.00	\$187.50
		Fence line brushing & clearing – Aurther Manethagata	\$1,250.00	\$93.75
		Pasture maintenance – Jacob Sibia	\$4,000.00	\$300.00
		Fence line brushing at G. Bunga's farm	\$2,400.00	\$180.00

Ministry of Agriculture & Livestock Development

National Cattle Rehabilitation Project

3	Cattle Rehabilitation Project Standing Imprest Replenishment	Posts transportation – Hudson Sobia Clearing of opening ceremony site – Aurther Manethagata Construction of stockyard & fence lines – Daniel Nunuvia Labour charges on 3 small cattle holders – Jacob Simbia Labour charges on Jacob’s farm – Jacob Simbia Milling of rails for A. Manethagata’s farm – Kulagha Milling stockyard railings – Mark Paso Erection of boundary fence line – Duddley Maetia Transporting of timbers to stockyard – Ben Pilapaso	\$5,600.00 \$3,390.00 \$6,900.00 \$9,244.00 \$2,000.00 \$2,000.00 \$2,500.00 \$1,741.00 \$660.00	\$420.00 \$254.25 \$517.50 \$693.30 \$150.00 \$150.00 \$187.50 \$130.58 \$49.50
TOTAL:			<u>\$10,238.27</u>	

Appendix 4: No With-Holding Tax Deducted

2008	Payee Name	Purpose of Expenditure	Amount Paid	WithHolding Tax Forgone
1	Cattle Rehabilitation Project Standing Imprest Replenishment	Fence repair & clearing – Duddley Maetia	\$2,000.00	\$150.00
		Fence line clearing – Aurther Manethagata	\$800.00	\$60.00
		Fence line clearing – Paul Paula	\$800.00	\$60.00
		Stockyard construction – Patrick Sukumana	\$10,500.00	\$787.50
		Digging, standing & milling posts – Ata Manethagata	\$1,600.00	\$120.00
		Clearing fence line after bad weather & flooding – Ata Manethatagata	\$400.00	\$30.00
		Laneway clearing – Philip Iro	\$150.00	\$11.25
		Clearing & digging of fence – Duddley Maetia	\$200.00	\$15.00
		Supplying of stockyard posts – Ben Pilopaso	\$12,750.00	\$956.25
		Tractor hire for clearing ground breaking ceremony site – Ata Manethagata	\$2,400.00	\$180.00
		2	Cattle Rehabilitation Project Standing Imprest Replenishment	Tractor clearing of landing site – Daniel Nunuvia
Tractor slashing, carrying & distribution of laneway posts – Aurther Manethagata	\$4,000.00			\$300.00
Supply of running posts – Maclean Poghula	\$4,500.00			\$337.50
Labour charges on J. Sibia's farm	\$4,800.00			\$360.00
Clearing fence lines – Daniel Palua	\$3,928.00			\$294.60
Tree felling on paddock 8 & 12 – Aurther Manethagata	\$3,000.00			\$225.00
Tree felling on paddock 2 & 3 – Daniel Nunuvia	\$3,000.00			\$225.00
Tree felling on paddock 1 & 4 – Rex Ata	\$8,000.00			\$600.00
Tree felling on paddock 5, 6 & 7 – Eric Ata	\$8,000.00			\$600.00
Tree felling on paddock 9, 10 & 11 – Andrew Kuvu	\$8,000.00			\$600.00
Milling of posts – Thomas Garimane	\$3,060.00			\$229.50
Clearing laneway & chainsaw operation – James Nakisi	\$2,460.00			\$184.50
Barbed wire erection – Philip Iro	\$5,020.00			\$376.50
Clearing laneway – Philip Iro	\$960.00			\$72.00

TOTAL:**\$6,984.60**

AUDIT ACTION PLAN

Audit Rec #	Audit Finding	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
1	<p>Recommendation 1</p> <p>OAG recommended that the Ministry:</p> <ul style="list-style-type: none"> • Perform the bank reconciliation for 2007 immediately; and • 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. 			
2	<p>Recommendation 2</p> <p>OAG recommended that:</p> <ul style="list-style-type: none"> • The Ministry to locate the missing documents and submit to OAG for audit; • The Ministry to request the MP for East Kwaio to provide receipts of expenditure for OAG to audit; • Request Agriculture Officer in Auki to provide a report on the status of cattle farms in East Kwaio for OAG to audit; • Strictly adhere to the work plan in the allocation of funds. 			
3	<p>Recommendation 3</p> <p>OAG recommended that the Ministry:</p> <ul style="list-style-type: none"> • Locate the documentation that is missing for the payments noted above and produce these to OAG for audit; and • Comply with Government Record Management Policy and ensure all documents and records are readily available and filed. 			
4	<p>Recommendation 4</p> <p>OAG recommended that the Ministry of Agriculture and Livestock Development:</p> <ul style="list-style-type: none"> • Strictly comply with the Financial Instructions; and • Refer these transactions to appropriate authorities such as the Police and Leadership Code Commission for further investigation and appropriate action. 			

Audit Rec #	Audit Finding	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
5	<p>Recommendation 5</p> <p>OAG recommended that the Ministry:</p> <ul style="list-style-type: none"> • Strictly comply with the Financial Instructions and relevant legislation; • Attach a copy of the tender award approval to the payment voucher for payment; and • Refer the matter to appropriate authorities such as the Leadership Code Commission for further investigation and consideration of disciplinary action. 			
6	<p>Recommendation 6</p> <p>OAG recommended that the Ministry:</p> <ul style="list-style-type: none"> • Provide the documents to OAG if they are available; and • Ensure delivery dockets are received and attached to the Payment Voucher for payment of goods. 			
7	<p>Recommendation 7</p> <p>OAG recommended that the Ministry:</p> <ul style="list-style-type: none"> • Comply with the requirements for payment in advance; and • Refer the matter to the Leadership Code Commission for further investigation and consideration of disciplinary action. 			
8	<p>Recommendation 8</p> <p>OAG recommended that the Ministry strictly comply with the Financial Instructions.</p>			
9	<p>Recommendation 9</p> <p>OAG recommended that the Ministry of Agriculture and Livestock Development always obtain contractual agreements and attach a copy of the contract agreement with the requisition and payment voucher for the payment.</p>			
10	<p>Recommendation 10</p> <p>OAG recommended that the Ministry:</p> <ul style="list-style-type: none"> • Recover the money from the contractors and remit to IRD; and 			

Audit Rec #	Audit Finding	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> Comply with the Financial Instructions for deduction of tax from contractors. 			
11	<p>Recommendation 11</p> <p>OAG recommended that the Ministry of Agriculture and Livestock Development always comply with the work plan budget of the project when incurring expenditure.</p>			
12	<p>Recommendation 12</p> <p>OAG recommended that the Ministry:</p> <ul style="list-style-type: none"> 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. 			
13	<p>Recommendation 13</p> <p>OAG recommended that the Ministry of Agriculture & Livestock Development use the Commitment Card as required by the Financial Instructions to keep accurate data from all General Payment Vouchers and requisitions processed to enable management to monitor commitments against budget.</p>			
14	<p>Recommendation 14</p> <p>the Ministry of Agriculture & Livestock Development:</p> <ul style="list-style-type: none"> Locate and provide the cancelled cheque to OAG for audit; and Ensure that cancelled cheques are attached to the cheque butts or payment vouchers for availability to OAG when audits are undertaken. 			

Audit Rec #	Audit Finding	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
15	<p>Recommendation 15</p> <p>OAG recommended that the Ministry of Agriculture & Livestock Development locate and provide this cheque book to OAG for audit.</p>			
16	<p>Recommendation 16</p> <p>the Ministry of Agriculture & Livestock Development:</p> <ul style="list-style-type: none"> • Liaise with Ministry of Finance & Treasury to sort out the difference; and • Undertake continuous monitoring of records from the Ministry of Finance & Treasury of the project and ensure adjustments are made where differences occur. 			
17	<p>Recommendation 17</p> <p>OAG recommended that the Ministry of Agriculture and Livestock Development comply with the directive of the Permanent Secretary of Finance & Treasury for the purpose of the standing imprest.</p>			
18	<p>Recommendation 18</p> <p>OAG recommended that the Ministry of Agriculture & Livestock should:</p> <ul style="list-style-type: none"> • should Always check all documents for accuracy, validity and completeness; and • liaise with the Ministry of Finance and Treasury to update the record of uncommitted funds. 			
19	<p>Recommendation 19</p> <p>OAG recommended that:</p> <ul style="list-style-type: none"> • The Ministry of Agriculture and Livestock Development to always ensure segregation of duties in the process of making payments through the standing imprest; and • The matter is referred to appropriate authorities such as the Leadership Code Commission for further investigation and disciplinary action. 			