

REPORT OF THE AUDITOR-GENERAL OF THE SOLOMON ISLANDS

AUDITS COMPLETED 2014 TO 2016



Parliament Paper No. 33 of 2016

December 2016

Table of Contents

Foreword from the Auditor-General	6
Executive Summary	8
Introduction	8
Lack of accountability by public officers	8
Timeliness of financial statement preparation and submission	10
Disclaimed and qualified audit certificates due to inadequate supporting systems of accounts and records	11
National Government and Ministries	11
Provincial Governments	14
State Owned Enterprises and Statutory Bodies	16
Performance Audits	20
Special Audits	20
Grant and Project Audits	21
Annual Report of the operations of the Office of the Auditor-General	21
Glossary and Acronyms	26
Glossary	26
Audit opinion definitions	27
Risk Ratings	28
Acronyms	29
Chapter 1 National Government and Ministries	31
1.1. Financial Statements of the Solomon Islands Government	32
1.1.1. Key statistics	33
1.1.2. Audit Findings	34
1.2. Accounts and records	38
1.2.1. Inadequate bank reconciliations lead to unreliable financial statements	39
1.2.2. Missing payment vouchers	40
1.2.3. Procurement/ expenditure	41
1.2.4. Imprests	41
1.2.5. Asset registers	43
1.2.6. Revenue	44
1.3. Ministry Specific Topics	45

1.3.1.	Ministry of Education and Human Resources Development	45
1.3.2.	Ministry of Environment, Conservation and Meteorology	47
1.3.3.	Ministry of Fisheries and Marine Resources.....	47
1.3.4.	Ministry of Foreign Affairs and External Trade	48
1.3.5.	Ministry of Forestry and Research	49
1.3.6.	Ministry of Mines, Energy and Rural Electrification	52
1.3.7.	Ministry of Police and National Security	52
1.3.8.	Ministry of Women, Youth and Children’s Affairs	52
1.4.	Special Funds.....	53
Chapter 2 Provincial Governments		56
2.1.	Provincial Government financial statement audit summary	56
2.2.	Provincial Government general discussion	58
2.2.1.	Investment companies.....	63
2.2.2.	Poor controls over Ward Development Grants	65
2.2.3.	Illegal and Usurious Loans.....	66
2.2.4.	Incomplete bank reconciliations.....	67
2.2.5.	Poor controls over collection, recording and banking of receipts.....	68
2.2.6.	Missing, unsupported and/or unauthorised payment vouchers	69
2.2.7.	Poor control over payroll	70
2.2.8.	Poor controls over imprests and advances.....	71
2.3.	Provincial Government specific matters	71
2.3.1.	Central Islands Province.....	71
2.3.2.	Choiseul Province.....	72
2.3.3.	Guadalcanal Province.....	73
2.3.4.	Isabel Province	75
2.3.5.	Makira-Ulawa Province	76
2.3.6.	Malaita Province	77
2.3.7.	Rennell and Bellona Province	78
2.3.8.	Temotu Province	79
2.3.9.	Western Province.....	81
Chapter 3 State Owned Enterprises and Statutory Bodies		83
3.1.	State Owned Enterprises and Statutory Body summary	83
3.2.	State Owned Enterprises and Statutory Body general discussion	86
3.3.	State Owned Enterprises and Statutory Body specific matters	91

3.3.1.	Central Bank of the Solomon Islands	91
3.3.2.	Commodities Export Marketing Authority.....	94
3.3.3.	Investment Corporation of Solomon Islands	99
3.3.4.	Solomon Islands Broadcasting Corporation.....	100
3.3.5.	Solomon Islands College of Higher Education	106
3.3.6.	Solomon Islands Electricity Authority	107
3.3.7.	Solomon Islands National Provident Fund.....	108
3.3.8.	Solomon Islands National University	109
3.3.9.	Solomon Islands Ports Authority.....	110
3.3.10.	Solomon Islands Postal Corporation	113
3.3.11.	Solomon Islands Visitors Bureau.....	117
3.3.12.	Solomon Islands Water Authority.....	121
3.3.13.	Solomon Airlines Limited	124
3.3.14.	Telecommunications Commission Solomon Islands	127
3.3.15.	Honiara City Council.....	127
Chapter 4 Performance Audits		129
Chapter 5 Special Audits		130
5.1.	Solomon Islands High Commission to Papua New Guinea	130
5.1.1.	Background	130
5.1.2.	Audit Objectives and Scope	130
5.1.3.	Conclusion.....	131
5.1.4.	Key Findings	131
5.1.5.	Overall Recommendations.....	134
5.2.	Solomon Islands High Commission to Fiji	136
5.2.1.	Background	136
5.2.2.	Audit Objectives and Scope	136
5.2.3.	Key Findings	136
5.2.4.	Recommendations	138
5.3.	Solomon Islands Games	139
5.3.1.	Background	139
5.3.2.	Audit Objectives and Scope	140
5.3.3.	Conclusion.....	140
5.3.4.	Key Findings	141
5.3.5.	Overall Recommendations.....	150

5.4.	Mekem Strong Fisheries Project Special Audit (NZ Aid Grant) 2014	151
5.4.1.	Background	151
5.4.2.	Audit Objectives and Scope	151
5.4.3.	Audit Approach	151
5.4.4.	General Conclusion	151
5.4.5.	Key Findings	152
5.4.6.	Overall Recommendations.....	153
5.5.	Malaita Chazon Development Authority	154
5.5.1.	Background	154
5.5.2.	Audit Objectives and Scope	154
5.5.3.	Process of the investigation	154
5.5.4.	Key findings	155
5.5.5.	Follow up Audit	159
5.5.6.	Recommendations	160
5.5.7.	Conclusion.....	160
5.6.	Revenue Collection of the National Judiciary	161
5.6.1.	Overview	161
5.6.2.	Background	161
5.6.3.	Scope and objective	161
5.6.4.	Key audit findings.....	162
5.7.	Honiara City Council.....	166
5.8.	Mining Sector Technical Assistance Project Phase 1 (World Bank Grant Audit)	186
5.8.1.	Background	186
5.8.2.	2011 Financial Statements:.....	186
5.8.3.	2012 Financial Statements:.....	187
5.8.4.	2013 Financial Statements.....	188
5.8.5.	2014 Financial Statements.....	188
	Chapter 6 Grants and Project Audit Reports	189
6.1.	Domestic Maritime Support (Sector) Project 2010	189
6.2.	Solomon Islands Road Improvement (Sector) Project (SIRIP)	189
6.3.	Solomon Islands Road Improvement (Sector) Project (SIRIP 2).....	189
6.4.	Rapid Employment Project	189
6.5.	Solomon Island Rural Development Program.....	189
6.6.	Solomon Islands Sustainable Energy Project	190

6.7.	Solomon Islands Emergency Assistance Project	190
6.8.	Telecommunications Commission of Solomon Islands.....	190
Chapter 7 Annual Report of the operations of the Office of the Auditor-General.....		191
7.1.	Fully Independent	192
7.1.1.	Progress of new Audit Bill	192
7.1.2.	Protected OAG Budget.....	192
7.1.3.	Scheme of Service managed by OAG	192
7.1.4.	Own Premises	192
7.1.5.	Active participation in international organisations particularly PASAI and INTOSAI..	192
7.2.	Effective reporting	193
7.2.1.	Public Accounts Committee – Budget Estimates Hearings	193
7.2.2.	Public Accounts Committee – Hearings into Reports of the Auditor-General	193
7.2.3.	Accountability and Transparency/ Anti-Fraud and Corruption Activities.....	193
7.3.	Compliance with ISSASIs	194
7.3.1.	Performance Measurement Framework Review	194
7.3.2.	TeamMate.....	194
7.3.3.	PASAI Sub-regional Audit Support	194
7.4.	Professional Staff	195
7.4.1.	Establishment and Staffing Levels	195
7.4.2.	Staff Movements.....	195
7.5.	Training and Development.....	195
7.6.	Effective Management Support.....	196
7.6.1.	Deputy Auditor-General.....	196
7.6.2.	Corporate Services	197

Foreword from the Auditor-General

I am pleased to present this Report to Parliament covering the results of audits performed during the 2014, 2015 and 2016 financial years. While preparing this report, it was identified that some audits completed in 2011 had not previously been included in an Auditor-General's Report to Parliament. The results of those audits have been included here for completeness of accountability and transparency.

The past three years have been very active ones for this Office. This Report includes summaries of the results of over 160 audits across all sectors and levels of government within the Solomon Islands. OAG has also continued to promote transparency and accountability of Solomon Island public sector entities whilst developing the capacity of our staff to meet international standards.

This 2106 Auditor-General's Report to Parliament details the operations of this Office, the results of financial statement audits conducted, as well as some of the higher risk issues identified in our audits, on the national government accounts, the nine provincial governments' accounts, and thirteen state owned enterprises and statutory authorities. I also summarise the results of eight Special Audits performed and reported to management during this period.

Performance Audits

The reports of Performance Audits will be presented to the Speaker progressively over the next few months. Possibly the most high profile of these is the report of the Constituency Development Fund audit. The management letter to the Ministry and Members of Parliament is being finalised. Once they have had the opportunity to provide me with their comments, I will finalise the Report to Parliament of this audit for presentation to the Speaker early in 2017.

Future reporting format

I will adopt a new reporting policy for future reports to Parliament in line with better practices of other Supreme Audit Institutions and issue more than one report each year. Future reports will be issued separately in the following categories:

- Solomon Islands Government Financial Statements and Ministry Audits
- Provincial Government Financial Statement Audits
- Audits of the Financial Statements of State Owned Enterprises and Statutory Authorities
- Annual Report of the Office of the Auditor-General
- Individual reports for Performance Audits and Special Audits

This will ensure more timely reporting to Parliament, as the report for each category may be released at the completion of the reporting cycle for each group of entities. The reports will also be able to contain more detail of the audit issues noted, as each report will contain the results of a smaller number of audits. It will also allow Parliament and the Public Accounts Committee to focus on a smaller set of issues within specific reports throughout the year.

Results of audits

I am concerned that the continued lack of entities to have their accounts and records in order results in continued disclaimer. As can be seen from the results of audits reported in below, there is a correlation between poor record keeping and financial performance and results.

Management of any organisation need regular reporting of operations and finances in order to monitor progress, identify opportunities and prevent or correct problems. An organisation cannot have strong governance without adequate internal information.

If accounts and records were prepared and maintained properly and consistently throughout the year, management would have information for better decision making and to direct the organisation, and the preparation of financial statements would be easier. The resulting financial statements would be more likely to be materially correct, with greater likelihood of being able to be certified by the Auditor-General without disclaimer or qualification.

Acknowledgements

I would like to acknowledge the great work done by Mr Robert Cohen, the former acting Auditor-General for the period from 2014 to my swearing in. Without his professionalism and guidance most of the work that was achieved would not have been possible.

I acknowledge the donor partners, especially the Department of Foreign Affairs and Trade (DFAT), PASAI and INTOSAI for their support to my office.

I also acknowledge and thank all of the officers of OAG for their great professional services that were rendered during this reporting period.



Peter Lokay

Auditor-General

Honiara

8 December 2016

Executive Summary

Introduction

The post of Auditor-General is established under section 108 of the *Constitution* which provides the mandate:

“The public accounts of Solomon Islands, of all Ministries, offices, courts and authorities of the Government, of the government of Honiara city and of all provincial governments, shall be audited and reported on annually by the Auditor-General, and for that purpose the Auditor-General or any person authorised by him in that behalf shall at all times be entitled to access to all books, records, returns and other documents relating to such accounts.”

The *Constitution* and the *Public Finance and Audit Act [Cap 120]* Part VI prescribe the duties and responsibilities of the Auditor-General.

The previous report to Parliament by the Auditor-General was in December 2014, which included summaries of audits completed in 2012 and 2013. Accordingly, this report to Parliament encompasses all audits finalised in 2014, 2015 and 2016, plus some from 2011 which had not been previously reported.

This report is structured in seven chapters:

- Chapter 1 National Government and Ministries
- Chapter 2 Provincial Governments
- Chapter 3 State Owned Enterprises and Statutory Bodies
- Chapter 4 Performance Audits
- Chapter 5 Special Audits
- Chapter 6 Grants and Project Audits
- Chapter 7 Annual report of the operations of the Office of the Auditor-General

Future reports to Parliament will be structured as separate reports for each of:

- National Government and Ministries
- Provincial Governments
- State Owned Enterprises and Statutory Bodies
- Annual report of the operations of the Office of the Auditor-General

The financial year end is different for each group of entities. By preparing and submitting four separate reports throughout the year, Parliament will receive timelier reporting. This will facilitate more effective and meaningful scrutiny by Parliament and the public, improving the accountability and transparency of all public sector entities.

A separate report will be prepared and submitted for each performance audit and special audit.

This practice is in accordance with the INTOSAI International Standards of Supreme Audit Institutions, and is also in line with better practice of many other SAI's, including some in the Pacific region.

Lack of accountability by public officers

I am concerned at the lack of accountability for the actions of decision makers and public officers who have acted inappropriately, negligently or dishonestly. There have been no dismissals, disciplinary actions or charges laid as a result of the management letters issued by this Office.

The *Public Finance and Audit Act [Cap 120]* and the *Public Financial Management Act 2013* provide for sanctions and surcharges for public officers. These provisions are in addition to actions that may be taken by the Leadership Code Commission the Public Service Commission and the Police.

The *Public Finance and Audit Act [Cap 120]* states:

“22.—(1) Subject to subsection (2), if it appears to the Minister that any person who is or was a public officer—

(a) has failed to collect any moneys owing to the Government, the collection of which he is or was responsible;

(b) is or was responsible for any improper payment of public moneys or for any payment of such moneys which is not duly vouched;

(c) is or was guilty of negligence or misconduct in relation to any deficiency in or for the destruction, damage or loss of any public moneys, stamps, securities, stores or other Government property; or

(d) is or was responsible for causing any financial loss to the Government through failure to obey any order or instructions properly given or issued to him,

shall be guilty of misconduct in office and further if, within a period of one month from the date of the notice under subsection (2), an explanation satisfactory to the Minister is not furnished to him by such person with regard to the failure to collect, the improper payment, the payment not duly vouched, the deficiency, destruction, damage or loss or the failure to obey the order or instructions, the Minister may surcharge such person a sum not exceeding the amount not collected, the amount improperly paid, the amount not duly vouched, the amount of deficiency or loss, the value of the property destroyed or lost, the cost of damage or the amount of the financial loss, as the case may be, and the Minister shall then notify such person of the surcharge.

(2) No person shall be surcharged under subsection (1) unless the Minister has notified the person of the conduct in respect of which the surcharge is intended to be made and the person has been requested to furnish an explanation with regard to the conduct.”

These provisions were replaced as of 1 January 2014 with the *Public Financial Management Act 2013*. The relevant section in this Act states:

“Misconduct in Office

84. (1) An accountable, accounting or public officer who, in return for any personal material or immaterial gain, or for that of any other person –

(a) fails to collect any monies owing to the Government, the collection of which he is or was responsible;

(b) is responsible for any improper payment of public monies or for any payment of public monies which is not duly vouched;

(c) is negligent in relation to, or responsible for any deficiency in, the destruction, damage or loss of any public monies, stamps, securities, public stores or other public property; or

(d) is responsible for any financial loss to the Government through failure to obey any order or instructions properly given to him,

is guilty of misconduct in office.

(2) An accountable, accounting or public officer who, in return for any personal material or immaterial gain, or for that of any other person –

(a) fails to carry out a duty set out in section 17;

(b) uses a government bank account or uses, keeps or pays public money contrary to section 39, 40 or 41;

(c) conducts a Government procurement activity contrary to section 72 or 73 or fails to comply with the prescribed procedures for Government procurement contrary to section 74; or

(d) fails to carry out his duties in respect of public resources or to comply with the prescribed procedures contrary to section 75 or to pursue recovery of a Government debt under section 79;

is guilty of misconduct in office.

Sanctions for misconduct in office

85. (1) *An accountable, accounting or public officer who is guilty of misconduct in office under section 84 is deemed to be guilty of an act of misconduct under Part III of the Leadership Code (Further Provisions) Act 1999 and Parts IV (Complaints and Investigation) and V (Proceedings in the High Court) of that Act apply in respect of such misconduct.*

(2) A public officer who is guilty of misconduct in office under section 84 is, in addition to any penalty to which he may be subject by virtue of subsection (1), subject to disciplinary sanctions under the Public Service Regulations 1998.

Surcharge and notification

86. (1) *If it appears to the Minister that any accountable, accounting or public officer has committed an act or omission that would constitute misconduct in office under section 84, the Minister shall send a written notice to the officer giving particulars respecting the act or omission and requesting an explanation.*

(2) If, within 30 days from the date of the notice, the officer has not provided an explanation satisfactory to the Minister with regard to the act or omission referred to in the notice, the Minister shall –

(a) assess a surcharge against the officer in an amount not exceeding –

(i) the amount not collected, improperly paid or not duly vouched;

(ii) the amount of deficiency or loss, the value of the property destroyed or lost, the cost of damage or the amount of the financial loss, resulting from the act or omission; and

(b) notify the officer of the surcharge.”

Timeliness of financial statement preparation and submission

Delays in preparing and submitting financial statements for audit continue to be a concern. Of the audits included in this report, most financial statements were submitted after the statutory deadline. 28 of 37 financial statements for State Owned Enterprises and Statutory Bodies, the SIG financial statements and three provincial government financial statements were submitted past their deadlines.

There is a correlation between financial performance and the timeliness and accuracy of the financial statements. Management need regular, accurate internal financial reports to guide the decisions made and strategies taken. Without this information provided on a regular, preferably monthly basis, management are not aware of many areas where problems are occurring and cannot take appropriate action in time to prevent problems becoming more serious, or to take advantage of

opportunities. Regular financial reporting is necessary for management to be able to perform their governance responsibilities.

If an entity has strong internal financial reporting processes, the preparation of annual financial reports becomes much easier, and the information contained in the financial statements is much more reliable.

Disclaimed and qualified audit certificates due to inadequate supporting systems of accounts and records

A large number of financial statements continue to be certified by the Auditor-General with modified audit opinions due to the lack of supporting documents and inadequate internal processes of the audited entity. These problems are so significant in many organisations that the Auditor-General was unable to form an opinion on the financial statements and issued a disclaimer of opinion.

This is a serious concern, not only because there is a lack of accountability and transparency of the financial affairs of government entities. Without accurate and timely financial reports, management of these organisations do not have key information needed to inform their decisions, to monitor progress, and identify problems and opportunities. The lack of reliable financial information indicates weak governance within the organisation.

Of the financial statement audits included in this report:

- Both years of SIG financial statements were subject to disclaimed audit opinions;
- 21 provincial government financial statements were subject to disclaimed audit opinions and 5 to qualified audit opinions. None were certified without qualification;
- 9 financial statements of State Owned Enterprises and Statutory Bodies were subject to disclaimed audit opinions and 6 to qualified audit opinions. Only 22 were certified without audit qualification.

National Government and Ministries

The mandate of the Auditor-General to audit the financial statements of the Solomon Islands Government (SIG) is provided under section 108 (3) of the *Constitution* which states:

“The public accounts of Solomon Islands, of all Ministries, offices, courts and authorities of the Government, of the government of Honiara city and of all provincial governments, shall be audited and reported on annually by the Auditor-General.”

The *Public Financial Management Act 2013* was enacted during 2013 with commencement From 1 January 2014. Most, but not all, of the *Public Finance and Audit Act [Cap 120]* was repealed. Sections that were not repealed included Part VI “The Auditor General”.

The Minister for Finance authorised replacement Financial Instructions, the *Interim Financial Instructions 2014* which also commenced from 1 January 2014.

The new legislation provides for more modern financial management practices for the government, and provides more specific requirements in many areas. The Interim Financial Instructions 2014 includes provision for several developments in public financial reporting, some of which are not to come into effect until a future date to be decreed by the Minister. Some of the provisions of the Interim Financial Instructions 2014 contradict or do not align with the provisions of the Public Financial Management Act 2013. There is some work to be done to fine tune the financial instructions for the future.

The Public Financial Management Act 2013 provides for a new financial reporting framework to replace that required under the old Act. The new financial reporting framework mandated under section 77 of the Act requires that the annual financial statements of SIG include:

- (a) a balance sheet showing the assets and liabilities of the Government;*
- (b) a statement of the source and application of funds for the Consolidated Fund showing' the revenues, expenditures and financing of the fund for the financial year;*
- (c) a statement of revenue and expenditure, being a summary of all the statements signed by accountable officers under subsection (2)(a) and (2)(c);*
- (d) a statement of the amounts outstanding at the end of the financial year in respect of the public debt;*
- (e) a statement of the amounts guaranteed by the Government at the end of the financial year in respect of bank overdrafts, loans, public loan issues and other contingent liabilities;*
- (f) a statement of the amount outstanding at the end of the financial year in respect of loans issued by the Government;*
- (g) a statement of arrears of revenue for each revenue head, being a summary of the statements of arrears of revenue signed by accountable officers under subsection (2)(d);*
- (h) a statement of commitments outstanding for the supply of goods and services for each head at the end of the financial year, being a summary of the amount included for such commitments in the statement signed by accountable officers under subsection (2)(b);*
- (i) a statement of public stores and other assets for each head, being a summary of the Statement of assets signed by the accountable officers under subsection (2)(e); and*
- (j) such other statements and in such form as the Minister may from time to time require."*

The Interim Financial Instructions 2014 require that the SIG financial statements be prepared under the Cash Basis IPSAS reporting framework. This is a cash based framework, but some of the requirements of the Public Financial Management Act 2013 describe accrual based statements.

The 2014 SIG financial statements were submitted to the Auditor-General in two separate sets of financial statements. One set was presented in accordance with most of the disclosures required under the Act (with some disclosures absent as the information was not available to MoFT to allow the disclosures to be prepared), and the second set was prepared under the Cash Basis IPSAS accounting standard. Neither set of financial statements complies with both the Public Financial Management Act 2013 and the Interim Financial Instructions 2014.

OAG has held meetings with Ministry of Finance and Treasury officers to explore whether the disclosures required under the Act may be able to be presented as additional disclosures, as permitted under the Cash Basis IPSAS accounting standards, as one set of financial statements.

The audit and report of the 2014 SIG financial statements was being finalised at the time of preparation of this report.

Financial Statements of the Solomon Islands Government

The *Public Finance and Audit Act [Cap 120]* requires the SIG financial statements to be prepared and submitted to the Auditor-General for audit annually. Section 38(1)(a) of the Act states:

“(1) Subject as hereinafter appearing, within a period of six months after the end of each financial year there shall be prepared and transmitted to the Auditor-General—

(a) by the Permanent Secretary, signed statements of account showing fully the financial position of Solomon Islands Government at the end of the financial year...”

During the period encompassed by this report, the Auditor-General received four financial statements of the Solomon Islands Government. The audits of the 2012 and 2013 financial statements have been completed. In each case the Auditor-General issued a disclaimer of opinion on the financial statements.

Dates of signing and opinions of SIG Financial Statements

Financial Year	Date signed by Permanent Secretary and Accountant General	Date certified by Auditor-General	Opinion
2012	28/10/2013	10/4/2014	Disclaimer^
2013	31/10/2014	23/8/2016	Disclaimer^
2014	30/6/2015		
2015	30/6/2016		

^Refer to Glossary for meaning of audit opinion types.

The audit of the 2014 financial statements is being finalised at the time of preparation of this report.

Key audit issues

The main internal controls failures disclosed during the audit involved the:

- failure to manage standing and special imprests;
- lack of action for recovery of non-acquittals;
- Bank reconciliations of operational bank accounts not performed;
- line ministry cashbooks not properly maintained;
- lack of evidence of properly prepared or reviewed bank reconciliations;
- lack of records and documents;
- lack of proper filing system;
- lack of verification of daily revenue collection; and
- lack of segregation of duties in key institutional functions and controls.
- Revenue and Tax systems inputs does not interface
- Missing revenue vouchers
- Improper payment of payroll allowances

Provincial Governments

Status of Financial Statements

The status of all Provincial Government financial statements is provided in the table below.

Status of Audits at 30 September 2016 – Provincial Government

Province	Last statements issued	Date of signing by Province	Date of signing by Auditor-General
Central Islands	2014/15	29/12/2015	29/03/2016
Choiseul	2014/15	04/09/2015	04/04/2016
Guadalcanal	2014/15	15/12/2015	09/05/2016
Isabel	2014/15	04/05/2015	04/03/2016
Makira/Ulawa	2014/15	28/12/2015	12/04/2016
Malaita	2014/15	22/12/2015	04/04/2016
Rennell and Bellona	2013/14	09/03/2016	14/03/2016
Temotu	2014/15	28/12/2015	04/04/2016
Western	2014/15	04/12/2015	04/04/2016

The table below summarises the details of the financial statements certified by the Auditor-General during 2014-2015 and 2016:

	2012-2013			2013-2014			2014-2015		
Province	Received	Signed	Opinion	Received	Signed	Opinion	Received	Signed	Opinion
Central Islands	25/7/13	8/4/14	Disc	9/10/14	16/3/15	Disc	30/12/15	29/3/16	Disc
Choiseul	23/9/13	14/4/14	Qual	6/9/14	9/3/15	Qual	10/9/15	4/4/16	Disc
Guadalcanal	18/11/14	1/12/14	Disc	18/11/14	10/6/15	Disc	29/12/15	9/5/16	Disc
Isabel	12/9/13	24/3/14	Disc	27/6/14	9/2/15	Disc	5/5/15	4/3/16	Qual
Makira-Ulawa	31/12/13	12/6/14	Disc	30/12/14	22/4/15	Disc	28/12/15	12/4/16	Disc
Malaita	26/10/13	7/4/14	Disc	23/6/14	23/3/15	Disc	23/12/15	4/4/16	Disc
Rennell & Bellona	10/3/16	14/3/16	Disc	10/3/16	14/3/16	Disc	31/12/15	4/11/16	Disc
Temotu	17/3/14	28/3/14	Disc	26/9/14	9/3/15	Disc	29/12/15	4/4/16	Disc
Western	23/12/13	14/7/14	Qual	26/9/14	10/6/15	Qual	15/12/15	4/4/16	Disc

Disc – disclaimer of audit opinion

Qual – qualified audit opinion

Nil – audit opinion not issued at time of report preparation

Provincial Government general discussion

Most of the financial statements were submitted to the Auditor-General within the statutory time frame. However, the time allowed of nine months after the end of the financial year is much more generous than the three months allowed for state owned enterprises and statutory bodies, and six months for the SIG financial statements.

For almost all of the provincial government financial statements submitted for audit in the past 3 years, the Auditor-General was unable to express an opinion on the financial statements due to missing records and poor control over receipting and payment of moneys. This means that the information contained in the financial statements cannot be relied upon to be materially correct and a true and fair view of the operations of the provincial government. There were no financial statements that were able to be certified without a modified audit opinion, and only five where the audit opinion was qualified rather than disclaimed.

This is a serious concern, not only because there is a lack of accountability and transparency of the financial affairs of the provincial governments. Without accurate and timely financial reports, management within the provincial governments do not have key information need to inform decisions and to monitor progress, and identify problems and opportunities. This significantly weakens the governance of provincial government administration.

There were several areas of concern noted that all or most provincial governments had in common. These were:

- Lack of planning and monitoring of investment companies and businesses, and their financial statements not being consolidated in the provincial government financial statements
- Poor controls over Ward Development Grants

- Non-performance of or incomplete bank reconciliations
- Poor controls over the collection, recording and banking of receipts
- Missing, unsupported and/ or unauthorised payment vouchers
- Poor control over payroll
- Poor control over imprests and advances

OAG also noted instances of illegal and usurious loans being taken out by provincial governments.

State Owned Enterprises and Statutory Bodies

The following tables summarise the financial statements for state owned enterprises and statutory bodies which were certified by the Auditor-General since the date of the last Auditor-General's Report to Parliament.

Statutory Body	Year	Date Signed By Board	Date Certified by Auditor-General	Audit Opinion
Central Bank of Solomon Islands	2013	27/5/2014 ¹	27/5/2014	Qualified [^]
Central Bank of Solomon Islands	2014	29/4/2015	30/4/2015	Qualified [^]
Central Bank of Solomon Islands	2015	21/4/2016	28/4/2016	Unqualified
Solomon Islands National Provident Fund	2014	30/9/2014	30/9/2014	Unqualified [^]
Solomon Islands National Provident Fund	2015	8/9/2015	30/9/2015	Unqualified [^]
Solomon Islands National Provident Fund	2016	30/9/2016	30/9/2016	Unqualified [^]
Solomon Islands Visitors Bureau	2009	Not dated ¹	8/4/2014	Disclaimer [^]
Solomon Islands Visitors Bureau	2010	Not dated ¹	9/4/2014	Disclaimer [^]
Solomon Islands Visitors Bureau	2011	Not dated ¹	9/4/2014	Disclaimer [^]
Solomon Islands Visitors Bureau	2012	17/7/2015 ¹	18/8/2015	Unqualified [^]
Solomon Islands Visitors Bureau	2013	8/8/2016 ¹	9/8/2016	Unqualified [^]
Telecommunications Commission of Solomon Islands	2013	31/3/2014	29/10/2014	Unqualified [^]
Telecommunications Commission of Solomon Islands	2014	31/3/2015 ¹	14/12/2015	Unqualified [^]
Telecommunications Commission of Solomon Islands	2015	10/3/2016	10/8/2016	Unqualified [^]

¹ Financial statements were submitted after the date required by legislation

[^] refer to the Glossary for definitions of audit opinion types

State Owned Enterprise	Year	Date Signed By Board	Date Certified by Auditor-General	Audit Opinion
Commodities Export Marketing Authority	2012	2/4/2014¹	7/4/2014	Disclaimer [^]
Commodities Export Marketing Authority	2013	15/10/2014¹	16/10/2014	Qualified [^]
Commodities Export Marketing Authority	2014	31/3/2015	31/3/2015	Qualified [^]
Commodities Export Marketing Authority	2015	31/3/2016	31/3/2016	Unqualified [^]
Solomon Islands Broadcasting Corporation	2012	3/4/2014¹	22/4/2014	Disclaimer [^]
Solomon Islands Broadcasting Corporation	2013	5/11/2014¹	11/11/2014	Qualified [^]
Solomon Islands Broadcasting Corporation	2014	26/8/2015¹	28/8/2015	Disclaimer [^]
Solomon Islands Broadcasting Corporation	2015	31/3/2016	31/3/2016	Disclaimer [^]
Solomon Islands Electricity Authority	2013	28/3/2014	31/3/2014	Unqualified [^]
Solomon Islands Electricity Authority	2014	31/3/2015	31/3/2015	Unqualified [^]
Solomon Islands Electricity Authority	2015	23/3/2016	30/3/2016	Unqualified [^]
Solomon Islands Port Authority	2011	3/6/2016¹	13/6/2016	Unqualified [^]
Solomon Islands Port Authority	2012	5/8/2016¹	8/8/2016	Unqualified [^]
Solomon Islands Port Authority	2013	11/10/2016¹	20/10/2016	Unqualified [^]
Solomon Islands Postal Corporation	2012	24/4/2014¹	1/5/2014	Disclaimer [^]
Solomon Islands Postal Corporation	2013	11/11/2014¹	12/11/2014	Disclaimer [^]
Solomon Islands Postal Corporation	2014	3/8/2016¹	5/8/2016	Unqualified [^]
Solomon Islands Water Authority	2013	Not dated¹	26/6/2014	Unqualified [^]
Solomon Islands Water Authority	2014	1/4/2015¹	8/4/2015	Unqualified [^]
Solomon Islands Water Authority	2015	29/3/2016	30/3/2016	Unqualified [^]
Solomon Airlines	2013	31/7/2014¹	3/9/2014	Qualified [^]
Solomon Airlines	2014	1/5/2015¹	6/5/2015	Unqualified [^]
Solomon Airlines	2015	5/9/2016¹	5/9/2016	Unqualified [^]

¹ Financial statements were submitted after the date required by legislation

[^] refer to the Glossary for definitions of audit opinion types

The following table lists the status of financial statements for state owned enterprises and statutory bodies as at 30 November 2016:

Status of State Owned Enterprises and Statutory Body audits as at 30 November 2016

Auditee	Latest Financial Statements Received	Status
Central Bank of Solomon Islands	2015	Financial statements certified by AG
Commodities Export Marketing Authority	2015	Financial statements certified by AG
Investment Corporation of Solomon Islands	2009 - 2013	Audit being finalized after negotiations with management
Solomon Islands Broadcasting Corporation	2015	Financial statements certified by AG
Solomon Islands College of Higher Education	2012 - 2013	Audit being finalized after negotiations with management
Solomon Islands Electricity Authority	2015	Financial statements certified by AG
Solomon Islands National Provident Fund	2016	Financial statements certified by AG
Solomon Islands National University	nil	No financial statement prepared
Solomon Islands Postal Corporation	2014	Financial statements certified by AG
Solomon Islands Port Authority	2014 and 2015	Financial statements prepared and submitted late; audits being finalised
Solomon Islands Visitors Bureau	2013	Financial statements certified by AG
Solomon Islands Water Authority	2015	Financial statements certified by AG
Solomon Airlines Limited	2015	Financial statements certified by AG
Telecommunications Commission of Solomon Islands	2015	Financial statements certified by AG
Honiara City Council	2011 - 2015	Received September 2016. Audit being conducted.

The Auditor-General contracts the conduct of selected state Owned Enterprises and Statutory Bodies to private accounting firms. These audits are contracted out because OAG does not have the capacity in terms of both number of staff and skills and qualification of staff to perform the audits of these complex financial statements. The working papers and reports of the contracted firm are reviewed by OAG and the Auditor-General before the Auditor-General signs the Audit Certificate.

Lack of timeliness of financial statements reflects on governance, accountability and transparency

The majority of SOEs and Statutory Bodies have a 31 December year-end with the exception of SIPA which has a 30 September year-end and SINPF which has at 30 June year-end. The statutory deadline for audit certification of SOE financial statements is within three months of year end or 31 March. Different Statutory Bodies have different statutory dates for submitting their financial statements to the Auditor General for audit depending upon their enabling legislation

Of the 37 financial statements submitted to the Auditor-General during this period, 25 were submitted after the date required by legislation – only 12 were submitted within the legislated time frame. The delay in submission varied from weeks to years.

There is a correlation between financial performance and the timeliness and accuracy of the financial statements. Management need regular, accurate internal financial reports to guide the decisions made and strategies taken. Without this information provided on a regular, preferably monthly basis, management are not aware of many areas where problems are occurring and cannot take appropriate action in time to prevent problems becoming more serious, or to take advantage of opportunities. Regular financial reporting is necessary for management to be able to perform their governance responsibilities.

If an entity has strong internal financial reporting processes, the preparation of annual financial reports becomes much easier, and the information contained in the financial statements is much more reliable.

Number of Financial Statements subject to modified audit opinions

Of the 37 financial statements submitted to the Auditor-General during this period, only 22 were able to be certified with an unmodified or unqualified audit opinion. Of the remainder, 6 were subject to qualified audit opinions. For nine financial statements the circumstances of the financial statements and supporting accounts and records were such that the Auditor-General was not able to form an opinion, and issued a disclaimer of opinion.

The Auditor-General is also concerned at the number of entities which continue to receive disclaimed audit opinions due to lack of reliability of financial information, or in some case, lack of availability of information and records. Not only are the financial statements not reliable, but this is an indicator that the management of the entity are not receiving accurate and timely financial reports to monitor their organisation. This indicates there is a lack of basic governance within these organisations.

Performance Audits

The Auditor-General's reports of the results of performance audits will be issued as individual reports in accordance with INTOSAI Exposure Draft ISSAI 3200 Guidelines for the Performance Auditing Process paragraph 169 and in line with better practice of other Supreme Audit Institutions.

The following is a summary of the performance audits that have been conducted by OAG during the period 2014 to 2016, and the status of those audits at the time of preparation of this report.

Audit	Status
Distribution of Rural Constituency Development Fund	Finalising report to the Ministry
National Shipping Grant Initiatives	Finalising report to the Ministry
Climate Change Adaptation and Disaster Risk Reduction Management - Global Warming Food Security Measures	Finalising report to the Ministry
Tax Exemption	Finalising report to the Ministry
SIVB Marketing and Promotion Program	Finalising report to the Ministry

After management comments have been received on these reports, each will be finalised and presented to the Speaker of Parliament. It is anticipated that each of these reports will be presented to the Speaker late in 2016 and early 2017.

Special Audits

This report includes summaries of the audits of the following eight special audits:

- Solomon Islands High Commission to Papua New Guinea
- Solomon Islands High Commission to Fiji
- Solomon Islands Games
- Mekem Strong Fisheries Project 2014
- Malaita Chazon Development Authority
- Revenue Collection of the National Judiciary
- Mining Sector Technical Assistance Project Phase 1
- Honiara City Council

These audits revealed numerous weaknesses in application of prescribed procedures. Government funds have been mis-used, or suspected of mis-use, and wasted in excessive payments due to basic procedures not being followed and supporting documents either not being obtained by the auditee or lost.

The weaknesses identified in these audits are not unique to these entities. These reports serve to demonstrate the risks to public funds and property when management do not ensure that adequate records are maintained and that proper procedures are followed. In almost every instance, the problems identified could have been prevented if the Financial Instructions and other existing policies and procedures had been followed.

Grant and Project Audits

This report includes summaries of the audits of the following grants and projects:

- Domestic Maritime Support (Sector) Project 2010
- Solomon Islands Road Improvement (Sector) Project (SIRIP)
- Solomon Islands Road Improvement (Sector) Project (SIRIP 2)
- Rapid Employment Project
- Solomon Island Rural Development Program
- Solomon Islands Sustainable Energy Project
- Solomon Islands Emergency Assistance Project
- Telecommunications Commission of Solomon Islands

OAG ceased performing grants and project audits to provide assurance to donor agencies in 2012 due to the lack of audit resources and the workload of financial statement audits of public sector entities. The lack of audit staff continues to be a constraint on the activities of OAG.

Annual Report of the operations of the Office of the Auditor-General

The Auditor-General was sworn in on 15 February 2016. The contract of Robert Cohen, who had been acting Auditor-General since 2013, ceased on 30 June 2016. He had also been performing the role of Deputy Auditor-General in addition to his tasks as Principal Audit Advisor. Since that time there has been no Deputy Auditor-General in the Office of the Auditor-General. Also there has been no full-time audit advisor support.

The goals of OAG are described in the draft 2015 – 2020 Corporate Plan as:

- Fully independent
- Effective reporting
- Compliance with ISSAIs
- Professional Staff
- Efficient Management Support

The following is a summary of the activities and achievements of OAG during the years 2014 to 2016 written against the goals and objectives of the draft Corporate Plan 2015-2020.

Fully Independent

Progress of new Audit Bill

A Bill to replace the provisions of the *Public Finance and Audit Act [Cap 120]* to reflect modern audit practices and public financial management with regard to the role of the Auditor-General has been in planning and consultation since 2007. A draft Bill is ready for discussion with and vetting by the Attorney General's Chambers. It is proposed that the final stages of consultation will be completed in early 2017 so that the Bill may be tabled in Parliament in the second half of 2017.

Protected OAG Budget

OAG does not have independence in setting of its operational budget or staffing levels. Although the post of Auditor-General is mandated in the Constitution, the lack of independence of the budget allocation is a potential threat to the independence of the Auditor-General in that the Auditor-General is required to negotiate with the Ministry of Finance and Treasury for the annual budget

allocation, and with the Ministry of Public Service for approval to advertise, recruit and promote staff – two organisations which are subject to audit by the Auditor-General.

The lack of adequate funding and appropriate numbers of qualified and experienced audit staff, and the time taken to obtain approvals from the Ministry of Public Service and the Public Service Commission, hamper the efficiency and effectiveness of the operations of the Office of the Auditor-General and thus the fulfilment of the duties and responsibilities of the Auditor-General.

Scheme of Service managed by OAG

OAG needs a Scheme of Service for the audit staff to provide terms and conditions of employment that are more flexible than the general public sector. OAG continuously loses trained and experienced auditors to the private sector, which means that new graduate auditors need to be recruited and trained to replace them. A Scheme of Service would reduce the rate of turnover of professional audit staff in OAG, and improve efficiency and effectiveness of the audit operations and reporting.

Own Premises

OAG has been provided with its own premises in Mud Alley to replace the one used to be situated on the site that is now occupied by MoFT. OAG now has a permanent base and office which is being developed to provide the facilities required by a professional Office of the Auditor-General. Facilities developed to date include a dedicated training room and storage facilities.

The official residence of the Auditor-General is not habitable and not available for occupancy by this Constitutional post holder. Continuing reliance on the Public Service Rental Scheme for the Auditor-General diminishes the value of his remuneration and suggests that the government does not value the port of Auditor-General. This matter links into the issue of real and perceived independence of the Auditor-General, in that he is beholden to agencies for provision of his terms and conditions of service from agencies which he is required to audit.

Active participation in international organisations particularly PASAI and INTOSAI

The Auditor-General attended the 18th PASAI Congress in Vanuatu in October 2015. The Auditor-General was not able to attend PASAI and INTOSAI events during 2016 due to work commitments in Honiara.

A PASAI advocate conducted a workshop in Honiara for members of the Parliamentary Estimates Committee and the Public Accounts Committee on external scrutiny of audit reports in the Pacific context in September 2015.

The Auditor-General and officers of OAG continue to receive bulletins and updates from INTOSAI and PASAI. OAG has received support from PASAI for audit staff to attend workshops and participate in development activities which are described in the section Compliance with ISSAIs below.

Effective reporting

Public Accounts Committee – Budget Estimates Hearings

The Auditor-General is the Secretary to the Public Accounts Committee and the Office of the Auditor-General provides the secretariat support. This consumes considerable resources of OAG in attending hearings and preparing the reports of the Public Accounts Committee.

Public Accounts Committee – Hearings into Reports of the Auditor-General

The Public Accounts Committee undertook hearings into the 2014 Auditor-General's Report to Parliament and the 2014 National Transport Fund Report in July 2015.

Accountability and Transparency/ Anti-Fraud and Corruption Activities

The Auditor-General regularly attends the Integrity Group Forum meetings to share developments and intelligence with other Solomon Islands Government integrity organisations.

The Auditor-General attended the RSPIF High Level Anti-Corruption Meeting in August 2015 along with other key integrity representatives of Office of the Ombudsman Solomon Islands, Leadership Code Commission, Department of Public Prosecutions, Attorney General and the Public Service Commission. The purpose of the meeting was to devise a means of assessing the treatment of cases between disciplinary and criminal proceedings between responsible agencies. This activity has continued throughout 2016 but has been constrained by the demand on the officers involved.

The Auditor-General speaks at forums, meetings and in the media throughout the year to raise awareness of key stakeholders and the public of work being done to improve accountability and transparency within the Solomon Islands public sector.

Compliance with ISSAIs

Performance Measurement Framework Review

INTOSAI has developed a Performance Measurement Framework (PMF) for voluntary assessment by SAIs of their development against the International Standards of Supreme Audit Institutions, which include the International Auditing Standards, and other best practice measures. This is a very comprehensive model, and so PASAI developed a PMF-Lite for use by smaller SAIs. Solomon Islands OAG trialled the PMF-Lite during 2016, with the assistance of PASAI and the Cook Islands.

The initial review field work was undertaken in June 2016. The draft report was prepared during a workshop in Tonga in November 2016. The PMF final report is being finalised at the time of preparation of this report..

The results of the PMF-Lite review will be incorporated in OAG's Strategic Plan, with prioritised action plans developed as the basis for future capacity development and institutional strengthening.

TeamMate

OAG acquired the audit working paper documentation and management software TeamMate in 2014.

Use of the templates, checklists, questionnaires and test programs developed by OAG for TeamMate will enhance OAGs compliance with the International Standards of Supreme Audit Institutions (ISSAIs).

Use of TeamMate will also facilitate audit supervision and management. As more audits are completed in TeamMate, future audits will become more efficient as system documentation and specific audit programs for auditees can be rolled over into the next year's TeamMate file.

Auditor utilisation of TeamMate became stronger during 2016, and it will continue to be a focus of OAG in order to strengthen the quality of audit work performed.

PASAI Sub-regional Audit Support

OAG participated in Round 5 of the PASAI Sub-regional Audit Support program. Auditors from OAG shared knowledge and experience with PASAI facilitators and auditors from Tuvalu and Kiribati while conducting a financial statements audit and an interim audit.

Professional Staff

Establishment and Staffing Levels

There were three vacant positions within OAG at the time of preparation of this report:

- Deputy Auditor-General
- 1 Principal Auditor position
- 1 Senior Auditor Position

Recruitment activity has been undertaken to fill the position of Deputy Auditor-General. At the time of preparation of this report, the outcome of the recent recruitment activity had not been decided.

Staff Movements

During the period 2014 to 2016, four auditors left the Office to go to other positions. One auditor is on suspension.

Six auditors have recently been recruited. Four have commenced duty in the past few weeks, and another two will commence duty when they have served their period of notice with their current employers.

OAG still lacks sufficient audit staff, but is constrained by the budget and recruitment freeze imposed by SIG.

Training and Development

Of the 26 OAG auditors currently on staff, 14 are now degree qualified or higher. Of the remainder, 12 have substantially completed their degrees and are working towards finalising. OAG auditors have benefited from significant donor support to undertake tertiary studies both overseas and within the Solomon Islands in order to achieve this qualification rate.

OAG actively seeks out opportunities for training and development of all staff. Staff participate in internal on-the-job training and workshops, as well as having the opportunity to attend externally run workshops and courses.

OAG officers attended 14 workshops and courses during 2016. These were conducted both in Honiara and overseas. Most of these were sponsored by PASAI or donor partners.

Effective Management Support

Deputy Auditor-General

As stated above, the key position of Deputy Auditor-General has been vacant since Robert Cohen's contract ended at the end of June 2016. However, before the current Auditor-General commenced Office, while Robert Cohen was acting Auditor-General, there was no replacement for the role of Deputy Auditor-General. This has seriously constrained the day to day management and operations of OAG.

The position of Deputy Auditor-General was advertised earlier this year and interviews have been conducted. The selection panel is still deliberating at the time of preparation of this report.

The Auditor-General has made it a priority to fill this position as it essential to the effective management and operation of OAG. However, it is likely that candidates from within the Solomon Islands will not have the level of skills and experience necessary to undertake the full scope of responsibilities of this position. If this transpires, the Auditor-General will be seeking assistance from donor partners to develop the capacity of the successful candidate, in addition to in-house training and development.

Corporate Services

The administration staffing complement of OAG is now complete, with the appointment of an experienced and qualified Corporate Services Manager earlier in 2016 and the recent recruitment of Senior Administration Officer, Executive Personal Secretary and a Security Officer.

Glossary and Acronyms

Glossary

The **International Organisation of Supreme Audit Institutions (INTOSAI)** *“operates as an umbrella organisation for the external government audit community... it has provided an institutionalised framework for supreme audit institutions to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries”*.¹ OAG is a member of INTOSAI.

The **Pacific Association of Supreme Audit Institutions (PASAI)** is a regional organisation that aims to strengthen Supreme Audit Institutions in the Pacific region to improve the quality of public sector auditing to comply with International Standards of Supreme Audit Institutions (ISSAIs). The Solomon Islands Office of the Auditor-General is a member of PASAI.

The **International Standards of Supreme Audit Institutions (ISSAIs)** include the International Standards of Auditing plus additional professional standards specific to the operations and activities of public sector audit institutions and auditing.

The **International Public Sector Accounting Standards (IPSAS)** are the internationally recognised accounting standards for public sector entities. These follow closely to the **International Standards of Accounting (ISA)** and **International Financial Reporting Standards (IFRS)**. However, IPSAS takes into account the essential differences and accounting and disclosure needs between public sector entities and privately owned commercial enterprises.

The term **IPSAS** generally refers to the full set of accounting standards, most of which apply to entities preparing financial statements on the **accrual basis**.

The term **Cash Basis IPSAS** is generally used to refer to the specific set of accounting standards which apply to public sector entities which perform accounting and prepare financial statements on the cash basis.

Cash accounting is used by entities which account for income and outgoings as funds are received or paid. Other than cash at bank, assets and liabilities are not recorded and are not disclosed in the financial statements.

Accrual accounting is used by entities which recognise revenue when it is earned and expenditure when the goods or services have been received. There is often a difference in the timing between when revenue is earned and when cash payment for the earnings is received, and when the benefits of goods and services have been received and when they are paid for. Entities which perform accounting on the accrual basis record assets and liabilities in their accounting records and financial statements.

¹ INTOSAI website www.intosai.org/about-us.html accessed 7 December 2016

Audit opinion definitions

When providing an audit opinion over a set of financial statements, the Auditor-General is required to comply with international auditing standards.

These standards define the type of audit opinion that should be issued depending upon the nature of the errors, internal control weaknesses and other matters identified during the audit. The table below provides details of the different types of modified audit opinions that the Auditor-General may issue when certifying a set of financial statements.

Nature of matter giving rise to the modification	Auditor's Judgement about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified audit opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified audit opinion	Disclaimer of opinion

The best type of audit opinion to receive is an **unqualified audit opinion**. Ultimately, it should be a key objective for all auditees to achieve an unqualified audit opinion.

The Auditor-General is also required to report on other legal and regulatory requirements. This forms the second part of the Auditor General's audit opinion and details any significant breaches of other legal or regulatory requirements identified in relation to reporting requirements under the applicable Act.

Emphasis of Matter paragraphs

In some of the Auditor-General's audit opinions, international auditing standards require him to issue an emphasis of matter paragraph. This is not the same as a qualification but the Auditor-General is required to alert readers of the financial statements to any matters which may not result in modification to the financial statements but are important issues that the Auditor-General wishes to bring to the readers' attention

Risk Ratings

The table below lists the risk ratings that have been assigned to each audit finding to help identify which audit observations should be given priority:

Risk Rating	Description
High	<ul style="list-style-type: none">• Matters which may pose a significant business or financial risk to the entity; and / or• Matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity; and / or• Moderate risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Moderate	<ul style="list-style-type: none">• Matters of a systemic nature that pose a moderate business or financial risk; and / or• Matters that may escalate to high risk if not addressed promptly; and / or• Low risk matters which have been reported to management in the past but have not been addressed.
Low	<ul style="list-style-type: none">• Matters that are isolated, non- systemic or procedural in nature; and / or• Matters that reflect relatively minor administrative shortcomings and require action in order to improve the entity's overall control environment

Acronyms

CAATs	Computer Assisted Audit Techniques
CBSI	Central Bank of the Solomon Islands
CEMA	Commodities Export Marketing Authority
HCC	Honiara City Council
ICSI	Investment Corporation of Solomon Islands
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
MALD	Ministry of Agriculture and Livestock Development
MCIE	Ministry of Commerce, Industry and Employment
MCCA	Ministry of Communication and Aviation
MCT	Ministry of Culture and Tourism
MDPAC	Ministry of Development Planning and Aid Coordination
MEHRD	Ministry of Education and Human Resources Development
MECM	Ministry of Environment, Conservation and Meteorology
MoFT	Ministry of Finance and Treasury
MFMR	Ministry of Fisheries and Marine Resources
MFAET	Ministry of Foreign Affairs and External Trade
MFR	Ministry of Forestry and Research
MHMS	Ministry of Health and Medical Services
MHA	Ministry of Home Affairs
MID	Ministry of Infrastructure Development
MJLA	Ministry of Justice and Legal Affairs
MLH	Ministry of Lands and Housing
MMERE	Ministry of Mines, Energy and Rural Electrification
MNURP	Ministry for National Unity, Reconciliation and Peace
MP	Member of Parliament
MPA	Member of Provincial Assembly
MPNS	Ministry of Police and National Security
MPGIS	Ministry of Provincial Government and Institutional Strengthening
MPS	Ministry of Public Service

MRD	Ministry of Rural Development
MWYC	Ministry of Women, Youth and Children's Affairs
NJ	National Judiciary
NP	National Parliament
OAG	Office of the Auditor-General
OGG	Office of the Governor-General
OPMC	Office of the Prime Minister and Cabinet
OPMC	Office of the Prime Minister and Cabinet
PASAI	Pacific Association of Supreme Audit Institutions
SAI	Supreme Audit Institution
SAL	Solomon Airlines Limited
SIBC	Solomon Islands Broadcasting Corporation
SICHE	Solomon Islands Colleague of Higher Education
SIEA	Solomon Islands Electricity Authority
SINPF	Solomon Islands National Provident Fund
SINU	Solomon Islands National University
SIPA	Solomon Islands Ports Authority
SIPC	Solomon Islands Postal Corporation
SIVB	Solomon Islands Visitors Bureau
SIWA	Solomon Islands Water Authority
SOE	State Owned Enterprise
WDG	Ward Development Grants

Chapter 1 National Government and Ministries

The mandate of the Auditor-General to audit the financial statements of the Solomon Islands Government (SIG) is provided under section 108 (3) of the *Constitution* which states:

“The public accounts of Solomon Islands, of all Ministries, offices, courts and authorities of the Government, of the government of Honiara city and of all provincial governments, shall be audited and reported on annually by the Auditor-General.”

The *Public Financial Management Act 2013* was enacted during 2013 with commencement from 1 January 2014. Most, but not all, of the *Public Finance and Audit Act [Cap 120]* was repealed. Sections that were not repealed included Part VI The Auditor General.

The Minister for Finance also authorised replacement Financial Instructions, the *Interim Financial Instructions 2014* which also commenced from 1 January 2014.

The new legislation provides for more modern financial management practices for the government, and provides more specific requirements in many areas. The Interim Financial Instructions 2014 includes provision for several developments in public financial reporting, some of which are not to come into effect until a future date to be decreed by the Minister. Some of the provisions of the Interim Financial Instructions 2014 contradict or do not align with the provisions of the Public Financial Management Act 2013. There is some work to be done to fine tune the financial instructions for the future.

The Public Financial Management Act 2013 provides for a new financial reporting framework to replace that required under the old Act. The new financial reporting framework mandated under section 77 of the Act requires that the annual financial statements of SIG include:

- ‘(a) a balance sheet showing the assets and liabilities of the Government;*
- (b) a statement of the source and application of funds for the Consolidated Fund showing' the revenues, expenditures and financing of the fund for the financial year;*
- (c) a statement of revenue and expenditure, being a summary of all the statements signed by accountable officers under subsection (2)(a) and (2)(c);*
- (d) a statement of the amounts outstanding at the end of the financial year in respect of the public debt;*
- (e) a statement of the amounts guaranteed by the Government at the end of the financial year in respect of bank overdrafts, loans, public loan issues and other contingent liabilities;*
- (f) a statement of the amount outstanding at the end of the financial year in respect of loans issued by the Government;*
- (g) a statement of arrears of revenue for each revenue head, being a summary of the statements of arrears of revenue signed by accountable officers under subsection (2)(d);*
- (h) a statement of commitments outstanding for the supply of goods and services for each head at the end of the financial year, being a summary of the amount included for such commitments in the statement signed by accountable officers under subsection (2)(b);*
- (i) a statement of public stores and other assets for each head, being a summary of the Statement of assets signed by the accountable officers under subsection (2)(e); and*
- (j) such other statements and in such form as the Minister may from time to time require.”*

The Interim Financial Instructions 2014 require that the SIG financial statements be prepared under the Cash Basis IPSAS reporting framework. This is a cash based framework, but some of the requirements of the Public Financial Management Act 2013 describe accrual based statements.

The 2014 SIG financial statements were submitted to the Auditor-General in two separate sets of financial statements. One set was presented in accordance with most of the disclosures required under the Act (with some disclosures absent as the information was not available to MoFT to allow the disclosures to be prepared), and the second set was prepared under the Cash Basis IPSAS accounting standard. Neither set of financial statements complies with both the Public Financial Management Act 2013 and the Interim Financial Instructions 2014.

OAG has held meetings with Ministry of Finance and Treasury officers to explore whether the disclosures required under the Act may be able to be presented as additional disclosures, as permitted under the Cash Basis IPSAS accounting standards, as one set of financial statements.

The audit and report of the 2014 SIG financial statements was being finalised at the time of preparation of this report.

1.1. Financial Statements of the Solomon Islands Government

The *Public Finance and Audit Act [Cap 120]* requires the SIG financial statements to be prepared and submitted to the Auditor-General for audit annually. Section 38(1)(a) of the Act states:

“(1) Subject as hereinafter appearing, within a period of six months after the end of each financial year there shall be prepared and transmitted to the Auditor-General—

(a) by the Permanent Secretary, signed statements of account showing fully the financial position of Solomon Islands Government at the end of the financial year...”

During the period encompassed by this report, the Auditor-General received four financial statements of the Solomon Islands Government. The audits of the 2012 and 2013 financial statements have been completed. In each case the Auditor-General issued a disclaimer of opinion on the financial statements.

Dates of signing and opinions of SIG Financial Statements

Financial Year	Date signed by Permanent Secretary and Accountant General	Date certified by Auditor-General	Opinion
2012	28/10/2013	10/4/2014	Disclaimer [^]
2013	31/10/2014	23/8/2016	Disclaimer [^]
2014	30/6/2015		
2015	30/6/2016		

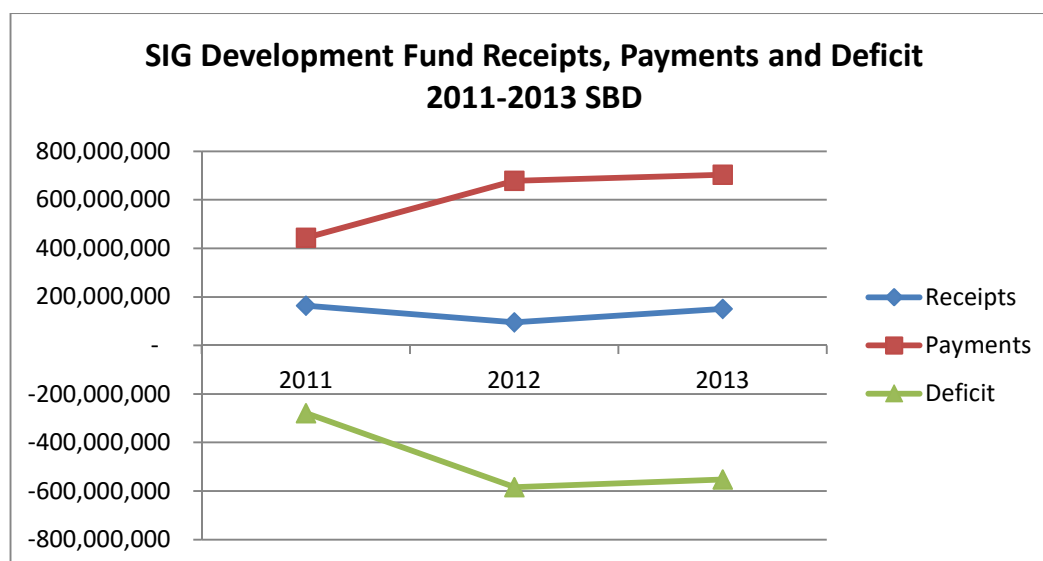
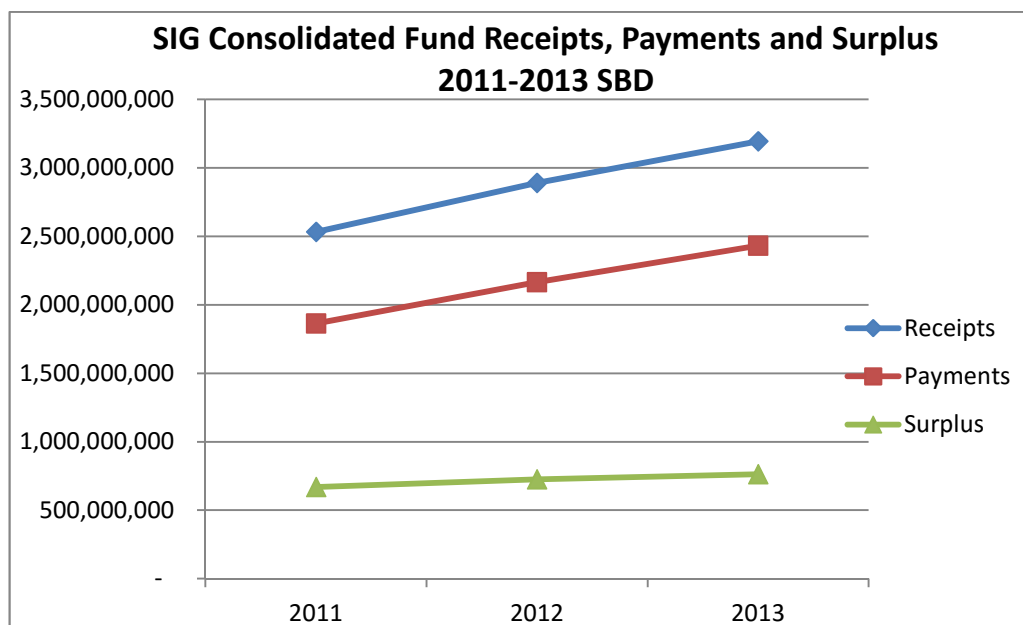
[^]Refer to Glossary for meaning of audit opinion types.

The audit of the 2014 financial statements is being finalised at the time of preparation of this report.

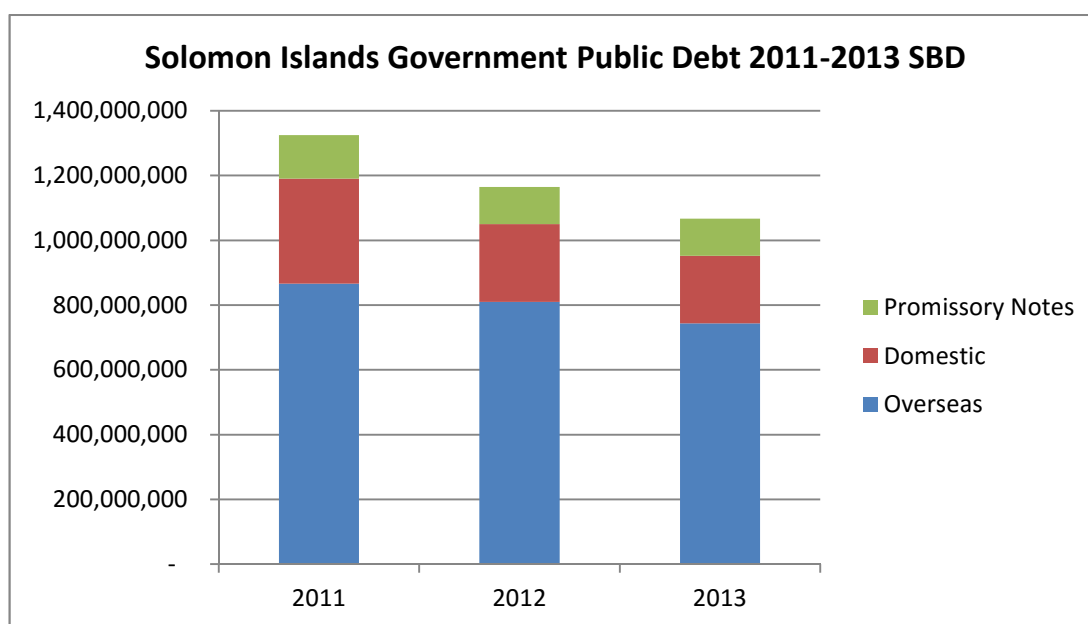
The 2012 and 2013 SIG financial statements were each submitted almost four months later than the time required under the *Public Finance and Audit Act [Cap 120]*. The audit of the accounts and records and thus of the financial statements was delayed due to difficulties in officers of OAG obtaining access to the AX general ledger computer system and AURION payroll computer system.

1.1.1.Key statistics

The following charts illustrate the receipts, payments and surplus/ deficit for each of the Consolidated Fund and the Development Fund for the years 2011 to 2013.



The above two charts show significant differences in trends between the Consolidated Fund and the Development Fund during this period. These also demonstrate that in 2012 and 2013 the Development Fund deficits were significant. Although the government funds were still in net surplus in these two years, the net surplus was much lower in both 2012 and 2013 than in 2011.



The chart above illustrates the trend of reduction of public debt in all categories across this time period.

1.1.2. Audit Findings

The following is a summary of the Auditor-General's management letter to the Ministry of Finance and Treasury on the audit of the 2013 financial statements. This repeats similar matters to those reported for the audit of the 2012 financial statements.

Solomon Islands Government 2013 Financial Statements

All accounting documents, such as General Payment Vouchers, Requisitions etc, are created by the line Ministry incurring the expenditure, but are ultimately processed and entered into the national AX General Ledger Accounting system (national accounting system) and paid by MoFT. MoFT also provides the final review of transactions documentation which is critical in ensuring the legislation and regulations have been complied with. Once the transactions have been processed and paid MoFT also files the original documentation. This documentation is used as the basis for audit certification work.

Checking compliance with relevant statutory and administrative requirements

The MoFT payment processing system incorporates a range of controls which ensure that payments are only made if payment documentation meets the requirements of the Solomon Islands Government Financial Instructions. These controls do not ensure that payments are valid and correct, but they do ensure that there is an audit trail which may be followed. The controls are intended to ensure a proposed payment without proper documentation does not get paid.

For 2013, the documentation storage and retrieval systems at MoFT have much improved. However, OAG was once again unable to find documentation for some payments after improvements had been implemented in this area in 2012.

In requiring appropriate supporting documentation to support payments, MoFT appears to have been effective in raising the level of accountability across line Ministries. Neither MoFT nor OAG, however, is in a position to know whether the decisions behind an apparently properly documented transaction have been made in the best interests of the country. A fully documented and authorised

payment for an expense that should not have been incurred is still a waste of Government resources, but neither MoFT nor OAG will be in a position to know this without much more extensive investigation than is possible in a high-volume processing regime or through a financial statement audit.

Nevertheless, OAG has been given access to the MOFT AX General Ledger Accounting system, SIG Info and Aurion Payroll Management system and the audit conducted on the 2013 National Accounts was able to interrogate the accounting information more comprehensively than in the past, as well as undertaken more sophisticated diagnostic testing.

Nevertheless, it is up to the internal control systems operating within line Ministries to ensure probity and validity of transactions, and one action which will assist achieving this is a robust and effective internal audit function. This function continues to be developed across line Ministries.

Preparation of the financial statements

Statutory responsibility

In accordance with Section 38 of the *Public Finance and Audit Act [Cap 120]* (the Act) the Permanent Secretary MoFT is responsible for preparing the Solomon Island Government financial statements each year and providing them to the Auditor-General for audit and certification within 6 months after the end of the financial year. The most significant of these statements are a statement of assets and liabilities and a statement of receipts and payments, but the Act specifies a number of subsidiary financial reports which are also required to be prepared and presented for audit.

Notwithstanding the implementation of the new AX General Ledger Accounting system from the beginning of 2012, the financial statements for the 2013 fiscal year were not signed by Ministry of Finance and Treasury until 31 October 2014, over four months after the due date of 30 June 2014 as prescribed under the requirements of the Act.

Financial reporting framework

2013 was the last year that the National Accounts were prepared in accordance with the requirements of s.38 of the *Public Finance and Audit Act [Cap 120]*. From one January 2014, the National Accounts will be prepared in accordance with the new *Public Financial Management Act 2013*.

The *Public Finance and Audit Act [Cap 120]* required that at least the following statements were to be prepared:

- 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 [discontinued]
- a statement of losses, abandoned claims and ex gratia payments

MoFT provides additional statements to account for revenue and expenditure made through the Development Fund as against the Recurrent Fund, both of which make up the Consolidated Fund.

For 2013, in addition to providing financial statements in accordance with the requirements under the Act, the Permanent Secretary presented the National Accounts in accordance with International Public Sector Accounting Standards Board *Financial Reporting under the Cash Basis of Accounting* [IPSAS – Cash Basis]. This is pleasing to note, though the Auditor-General did not take them into account for the purposes of issuing an audit opinion, given the significant deficiencies in the accounts that were identified by the audit.

The format of the presentation of the accounts under IPSAS – Cash Basis was satisfactory and, once the amounts displayed in the statements become more reliable, OAG will extend its audit testing to include the statements.

Bases for issuing an Audit Opinion

An audit opinion confirms that the figures reported in a set of financial statements reflect the transactions that have been processed by the entity and have been reported in accordance with a valid accounting framework. The range of possible reporting options for any particular account balance is quite wide and if the balance is not reported in accordance with a recognised framework, the results reported cannot be relied upon for decision-making purposes. As stated previously above, MoFT is moving toward the IPSAS – Cash Basis reporting framework as an interim measure to an eventual move to the full accrual Public Sector Accounting Standard.

The figures presented in the financial statements are, in some places, based on accrual principles but are not in accordance with a recognised standard and the Auditor-General was not able to provide an audit opinion on these accounts, although the revenue and expenditure amounts for the various Ministries do reflect the amounts processed through the MoFT ledger for those Ministries.

In recent years MoFT has continued to significantly improve its ability to process and aggregate transactions, and is to be both congratulated on its achievements and encouraged to continue developing financial reporting at a national level.

OAG conducted an audit of the statements and the transactions which comprise them, to identify those areas which require improvement to provide adequate internal control over the collection and expenditure of public monies. Until such time as the national government accounting system has robust internal controls, OAG is constrained from conducting tests on the account balances in the statements to verify their completeness and validity.

Actions being progressively taken by MoFT and the line Ministries to address the problems identified in this and in earlier reports will increase the likelihood that the Auditor-General will be able to provide an unqualified opinion on future financial statements.

Audit Objectives and Scope

Given the limitations imposed on the audit with regard to the reporting framework adopted by MoFT in presenting its National Accounts, the objective of the audit was to provide assurance on the existence, accuracy and completeness in recording transactions through the accounting cycles in the Ministry of Finance and Treasury (MoFT) which cover revenue, bank accounts, imprests, payroll and procurement and expenditure.

The audit served two purposes – to check whether the internal controls over revenue, expenditure, assets and liabilities were working properly to ensure the transaction amounts are reliable, correctly classified and complete; and to check that the figures in the financial statements match the underlying ledgers in the accounts. The audit reviewed a sample of transactions from various line Ministries processed through the national accounting system as well as transactions initiated within MoFT itself.

Results of audit

Normally, the results of those audits would inform the Auditor-General as to an appropriate form of audit opinion to issue on the National Accounts. However, given the matter of an appropriate financial reporting framework described earlier above, the audit focus was on the reliability of the figures presented in the statements.

As has been the case to date for some years now, and notwithstanding the continual improvements being made by MoFT and line Ministries, the poor performance of the internal controls in all line Ministries, combined with the difficulty in locating supporting documents in MoFT, continued to render the National Accounts financial statements too unreliable for the Auditor-General to be able to form an opinion on their veracity or accuracy.

The main internal controls failures disclosed during the audit involved the:

- failure to manage standing and special imprests;
- lack of action for recovery of non-acquittals;
- Bank reconciliations of operational bank accounts not performed;
- line ministry cashbooks not properly maintained;
- lack of evidence of properly prepared or reviewed bank reconciliations;
- lack of records and documents;
- lack of proper filing system;
- lack of verification of daily revenue collection; and
- lack of segregation of duties in key institutional functions and controls.
- Revenue and Tax systems inputs does not interface
- Missing revenue vouchers
- Improper payment of payroll allowances

Conclusion

Because of the matter of the financial reporting framework, and due to the pervasiveness of the internal control weaknesses which continue to impact on the integrity of the figures presented in the National Accounts financial statements, it was not possible for the Auditor-General to form an opinion on the financial statements of the Solomon Islands Government for 2013.

1.2. Accounts and records

OAG conducts the interim audit or audit of the accounts and records of the SIG financial statements in conjunction with audits of the Ministries and Offices. Not all ministries and offices are subject to specific audit review each year. Some ministries are selected for cyclical review on the basis of materiality and risk. The following table shows which ministries were subject to audit in each year.

Years for which each Ministry was subject to audit review

Ministry/ Office	2012	2013	2014
Ministry of Agriculture and Livestock Development	✓	✓	
Ministry of Commerce, Industry, Labour and Immigration		✓	✓
Ministry of Communication and Aviation	✓		✓
Ministry of Culture and Tourism	✓	✓	
Ministry of Development Planning and Aid Coordination	✓	✓	✓
Ministry of Education and Human Resources Development	✓	✓	✓
Ministry of Environment, Conservation and Meteorology			✓
Ministry of Finance and Treasury	✓	✓	✓
Ministry of Fisheries and Marine Resources	✓	✓	✓
Ministry of Foreign Affairs and External Trade	✓	✓	
Ministry of Forestry and Research	✓	✓	
Ministry of Health and Medical Services	✓	✓	✓
Ministry of Home Affairs			
Ministry of Infrastructure Development	✓	✓	✓
Ministry of Justice and Legal Affairs		✓	
Ministry of Lands, Housing and Survey	✓	✓	✓
Ministry of Mines , Energy and Rural Electrification	✓	✓	✓
Ministry for National Unity, Reconciliation and Peace	✓	✓	✓
Ministry of Police and National Security			✓

Ministry of Provincial Government and Institutional Strengthening	✓	✓	✓
Ministry of Public Service		✓	✓
Ministry of Rural Development	✓	✓	✓
Ministry of Women, Youth and Children's Affairs		✓	
National Judiciary		✓	✓
National Parliament			✓
Office of the Governor-General			
Office of the Prime Minister and Cabinet	✓	✓	

1.2.1. Inadequate bank reconciliations lead to unreliable financial statements

Bank reconciliations are one of the most basic accounting controls. The accuracy and completeness of all receipts and payments in the financial systems depend upon bank reconciliations being performed accurately and completely. They need to be performed regularly on every bank account to ensure that:

- All deposits and withdrawals/ cheques are entered in the accounting system
- The deposits and withdrawals/cheques recorded in the accounting system agree to the bank records
- Bank balances in the accounting systems are recorded accurately
- Unauthorised bank transactions are detected

When bank reconciliations are performed, all transactions which do not match between the bank statements and the accounting system must be investigated and corrected. Usually unmatched transactions indicate an error in the accounting system. Sometimes the error may be in the bank statement and in other occasions the unmatched transaction maybe due to unauthorised transactions such as fraud.

Until the unmatched transactions have been corrected in the accounting system, the bank reconciliation is incomplete. The unmatched transactions in the reconciliation documentation represent errors in either the accounting system the bank records or unauthorised transactions.

Bank reconciliations should be documented and signed by both the preparer and a second independent person who checks the bank reconciliation. This process is needed to provide assurance to management that:

- The bank reconciliation has been performed
- The bank reconciliation has been performed accurately
- No unauthorised transactions have occurred and not been reported.

Auditor-General unable to express an opinion on the SIG financial statements

The failure of the Ministry of Finance and Treasury and all other ministries to apply this basic accounting procedure correctly is one of the reasons the Auditor-General has expressed a disclaimer of audit opinion of the SIG financial statements since at least 1998.

Significant unmatched transactions in MoFT bank reconciliations

There is evidence that work has been performed towards bank reconciliations within MoFT for the bank accounts which link to the AX ledger system. However, many of these bank reconciliations document accumulating unmatched transactions. The quantum of these unmatched transactions is in the hundreds of millions of dollars.

Financial statements and budget reports may be materially incorrect

As stated above, these represent either errors in the accounting system, errors in the bank statements or unauthorised transactions. Some of the unmatched transactions may eventually be found to match off. However, until these entries are fully investigated and corrected, it is unknown what the financial effect would be on the general ledger and the financial statements.

The financial statements may be materially incorrect.

The reports of receipts and expenditure against appropriation are inaccurate. Some heads of expenditure may have exceeded the appropriation. The reported surplus or deficit may be materially incorrect.

Ministry bank accounts not reconciled or not independently checked

OAG identified that 28 of the bank accounts controlled by line ministries had not been reconciled at all during the audit periods. Of the remaining bank accounts, most of these bank reconciliations had not been documented correctly and independently checked.

Ministry bank accounts not included in SIG financial statements

OAG identified that almost all of the bank accounts controlled by line ministries have not been included in the SIG financial statements. The cash at bank balance is understated and there are some deposits that have not been recorded in the AX system as revenue. While most of the bank accounts are for imprests and should be brought to a nil balance at 31 December each year, this is not the case with all bank accounts.

Bank accounts not authorised and not known by MoFT

OAG continues to identify bank accounts which have been opened by line ministries without authorisation by MoFT, and are therefore unknown to MoFT.

OAG recommends that the Ministry of Finance and Treasury undertake a project to fully reconcile and adjust all bank account transactions as a matter of urgency. OAG further recommends that the Ministry establish a function to regularly monitor and control ministry bank accounts.

1.2.2. Missing payment vouchers

OAG was unable to verify a significant proportion of expenditure due to payment vouchers not being able to be located at the Ministry of Finance and Treasury. As OAG could not see these documents, OAG was unable to determine whether payments were:

- Properly authorised
- Classified to the correct heads of expenditure and account codes
- For the correct amounts
- For valid purposes
- For reasonable costs
- Incurred after proper procurement processes.

The extent of missing documentation was so pervasive that this was one of the reasons that the Auditor-General was unable to express an opinion on the SIG financial statements.

The table below summarises the extent of missing payment vouchers from the sample of payments selected for testing during the audits of the 2012 and 2013 accounts and records.

Payment Vouchers		
Year	No	Value
2012	278	\$ 127,880,094.08
2013	168	\$ 144,510,917.17

Source: OAG audit working papers

While it is noted that the proportion of missing documentation has reduced slightly from prior years, the proportion is still too significant to be acceptable for either management or audit purposes.

OAG was advised that MoFT has recently begun investigating the potential for scanning supporting documentation into the AX accounting system. OAG encourages MoFT to continue this study thoroughly, as it has the potential to resolve the problem of supporting documentation not being kept in the proper places. While there would be a cost of staff to perform the scanning, this needs to be weighed up against the cost of staff that would otherwise be retrieving and refiling paper documents to safeguard supporting documentation.

1.2.3. Procurement/ expenditure

Where payment vouchers were able to be located, OAG noted many instances of lack of compliance with the Financial Instructions. These included:

- Inadequate supporting receipts or invoices
- Lack of progress reports and certificates of completion for progress claims
- Withholding tax not being deducted
- Suppliers not registered at Company Haus
- Inconsistent and wide ranging rates of vehicle hire
- Lack of evidence of procurement procedures being followed – quotations and tenders

These matters lead to the risk of lack of value for public money, contractors being paid for work not completed, and kick-backs or conflicts of interest. There is a lack of transparency and accountability in the use of public funds.

These matters have also been identified in the special audits reported in Chapter 5 of this report.

1.2.4. Imprests

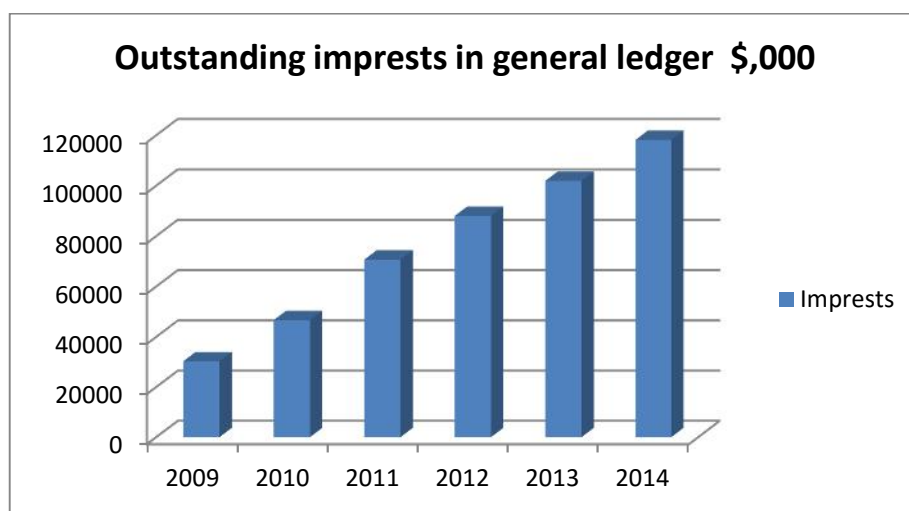
OAG has reported each year since 2006 that a significant proportion of imprests are not being retired, either in a timely manner or not at all. Although MoFT commenced salary deductions from officers with long unretired imprests, the balance of outstanding imprests has continued to increase over the years. OAG understands there is a lack of records to allow MoFT to take recovery action against holders of older outstanding imprests.

Accumulating outstanding imprest balances

The following table illustrates the growing balance of unretired imprests over the years. It should be noted that due to the other concerns reported with the accounting processes within SIG, these figures are not reliable and are indicative only.

Year	\$'000
2009	30,316
2010	46,713
2011	70,691
2012	88,054
2013	101,955
2014	118,206

Source: AX General ledger



Source: AX General ledger

The following table is the number and value of special imprests that had been issued but not retired during each of 2012 and 2013, from the sample testing conducted by OAG. These are not the full number and values not retired each year:

Year	Special Imprests	
	No	Value
2012	385	\$ 9,751,344.52
2013	441	\$ 19,340,860.47

Source: OAG audit working papers

OAG noted that while salary deductions have commenced, these are not always enforced.

Expenditure understated – budget reports not accurate

Payments from special imprests are not expensed until the imprest is retired. This means that the unretired imprest balances remain in an asset account in the general ledger and in the financial statements and other financial reports. The funds spent have not been reported against budget, so that there may be several heads of expenditure for which the budget was exceeded. The payments for the unretired imprests have not been included as expenditure in determining the annual surplus or deficit for SIG.

Special imprest expenditure is more poorly controlled than normal payment system

OAG also noted that imprests are given in some occasions when the normal SIG accounting processes could be used instead. Special imprests are being drawn to fund major projects. Officers are drawing imprests of the project budget amount, rather than simply applying the normal, and better controlled, payments processes through MoFT.

OAG testing of retired imprests noted:

- Lack of receipts to support claimed payments
- Lack of application of procurement processes – quotes and tenders
- Use of unreliable receipts
- Officer generated receipts
- Payments that are to family or colleagues – a conflict of interest
- Attached receipts dated for after the project period

OAG also noted a high incidence of missing imprest documentation, similar to that for payment vouchers.

OAG recommends that the use of standing and special imprests be reduced to the minimum that is operationally required. The fewer imprests issued, and the less money distributed by imprest, the lower the risk of poor control.

OAG also recommends that MoFT undertake a project to determine what imprest balances in the ledger are recoverable, take action to recover those, and obtain proper approvals to write off the remaining balance to expenditure. The write-off will need to be disclosed in the financial statements with an explanatory Note. MoFT then needs to maintain more frequent control over outstanding imprests, particularly towards year end.

1.2.5.Asset registers

OAG noted that, while Ministries are required to have and maintain Asset Registers and identify and control assets, that none do this effectively. SIG management do not know what assets they control and have to utilise to deliver public services. Funds are being wasted on replacing or repurchasing items that were not properly managed or controlled.

Hundreds of millions of dollars are expended each year on CAPEX items, either through the SIG accounting system or directly from donors. SIG could create and add to asset registers from the payment system information as payments for CAPEX items are processed. If SIG were to consistently do this in a defined format, SIG would have one significant element of accrual accounting ready for when the government decides to advance from cash to accrual accounting.

SIG owns and controls billions of dollars of assets, which are not being managed and maintained adequately, partly because they are not identified and reviewed periodically by executive management. The table at Chapter 3 shows the values of assets recoded in the financial statements of the state owned enterprise and statutory bodies which disclose assets and liabilities in their financial statements. The total of these is over \$2 billion (excluding CBSI's financial investments).

As SIG's revenue is more than double that of the total of all the statutory bodies and state owned enterprises, it may be expected that the value of SIG assets is double that of the total of these entities, or approximately \$4 billion. Until the assets are properly listed and valued, this information is unknown. The level of emphasis SIG should be placing on managing these assets is not readily apparent because of the lack of reporting on public assets.

1.2.6.Revenue

OAG identified lack of control over revenue which increases the risk of under collection.

Fishing Licences and Fees

The Ministry of Fisheries and Marine Resources (MFMR) main revenue collections are from the fishing licence fees, permit fees, access fees and the fishing levy fees for each boat. The payment of these various fees were via Telegraphic transfers (TT) through the Central Bank of Solomon Islands (CBSI). The Ministry (MOFT) does not reconcile which fees were paid, from which country and for how many boats. This increases the risk of understating the expected revenue to be collected from each boat and company.

Inland Revenue Division – Reconciliation of RMS and TMS Systems

IRD processes its revenue daily collections electronically using RMS. These were later summarized and sent to MoFT Central Revenue Collection (CRC) for uploading to the AX general ledger system. IRD also maintained its internal administration reconciling RMS receipts and AX ledger reports. OAG noted that the two systems did not reconcile. The AX general ledger reported a total of \$178 million revenue for 2012, whilst the RMS recorded a total of \$170 million; this is a significant difference of \$8 million. OAG also noted that IRD and Treasury Division continued to address this issue and had reduced the difference to \$0.9 million at the time of the audit.

The total amount of revenue collected through the RMS and TMS was manually uploaded into the AX system (general ledger). The manual re-entry of data into AX system is liable to input error and there is a risk for fraud.

With regard to Customs and Excise, OAG selected a sample of 9 entries totalling \$52,244,427 to check for import duty and found that there were no supporting documents attached to the entry forms. It was not possible to verify 7 entries to source documents which totalled \$38,955,017.

During the system documentation process OAG noted that company tax and PAYE were self-assessed with no spot check verifications. For PAYE there is no record of receipts by employee.

For Customs and Excise revenue collected on behalf of IRD, we found a significant number of missing revenue vouchers. OAG noted that 46% of the total sample selected was missing which totalled to \$5,824,854.81. Refer to the table below:

Revenue vouchers missing

Total sample	37
Total amount	\$ 12,555,696.29
Total number missing	17
Total missing	\$ 5,824,854.81

Departure Tax

The Ministry of Civil Aviation had yet to collect total departure tax due in 2011 and 2012 from Solomon Airlines. Furthermore, Financial Instruction P3 2.1 and P5 14.2 require the Accountable Officers (AO) to submit arrears of revenue report and keep a revenue charts or collection statistics for each collector or point of revenue collection. OAG noted that the Ministry did not comply with P3 2.1 and P5 14.2. This is important to monitor how much revenue was due but has not been collected at year end and to monitor revenue collection in each revenue collection point.

According to Solomon Airlines records \$2,146,200 was yet to be paid to Solomon Islands Government through the Ministry. These arrears included \$43,449 in 2011 and \$2,146,200 in 2012. OAG noted that reporting of arrears of revenue should be forwarded to the Permanent Secretary Ministry of Finance and Treasury.

Forestry Licences and Fees

Refer to Ministry of Forestry and Research below for a full discussion.

1.3. Ministry Specific Topics

In addition to the concerns described above, OAG identified the following high risk matters which relate to specific ministries.

1.3.1. Ministry of Education and Human Resources Development

Constituency Scholarship Award Grants

Members of Parliament are being given funds for constituency scholarship awards. The purpose of the fund is to meet the cost of school fees for both secondary and tertiary education in the constituencies of each Members of Parliament. This funding was approved by Cabinet. OAG noted a number of issues regarding the Constituency Scholarship Award Grants.

Lack of proper guidelines on the use of Constituency Scholarship Award Grants

Risk Rating – Moderate

OAG found that there are no guidelines on the use of the constituency scholarship grants in place at the Ministry. OAG sighted a copy of the Cabinet paper that approved the establishment of the grant funding in 2011, but noted there are no clear guidelines on how to administer the grant. Section

35(1)(f) of the *Public Finance and Audit Act [Cap 120]* requires adequate regulations and instructions for the guidance of accounting officers in ensuring public funds are administered properly. The Ministry has been using the Financial Instructions 2010 as general guidance for the administration of the funds in the absence of proper guidelines. Lack of proper guidelines increases the risk of misappropriation of funds, poor program implementation and the intended program outcomes not being achieved.

Constituency Scholarship Award Grant not fully utilised

Risk Rating – High

OAG noted that 8% (4/50) of the Members of Parliament (MP) did not fully utilise their 2013 constituency scholarship award grants. Four MPs were only paid \$67,000 each for 2013 and OAG was unable to determine the reasons they were not paid the full allocation. In addition, it was noted that one MP did not receive any payment in 2013 as he did not acquit his 2011 and 2012 grants. Inconsistent payment of the grants increases the risk of not achieving the intended program outcomes.

Lack of acquittals

Risk Rating – High

OAG could not locate acquittal documents for 51% (25/49) of the Constituency Scholarship Award Grants. Furthermore, no explanation was provided for the lack of acquittal documents. This deficiency increases the risk of misuse, misappropriation, conflict of interest, misconduct in office and the intended program outcomes not being achieved.

Discrepancies in the acquittals

Risk Rating – High

OAG noted that 26% (6/23) of the 2013 acquittals have discrepancies such as receipts for 2014 used in the acquittal listing, no proper letter from the secondary school authority and no receipts attached. These discrepancies increase the risk of misappropriation of funds, conflict of interest, fraudulent activities occurring, budget over-run and the intended program outcomes not being achieved.

Funds used for purposes other than the intended purpose

Risk Rating – High

OAG noted a payment of \$42,795.00 (AUD\$5,706.00) by the Constituency Development Officer to the Member of Parliament for South Choiseul on 2 February 2014 was to purchase computers for education in Brisbane, Australia. However, only \$14,872.50 (AUD\$1,983.00) was used to procure three laptops and the remaining \$27,922.50 (AUD\$3,723.00) was used for unrelated items. The use of funds for unrelated items increases the risk of conflict of interest, misconduct in office, abuse of office, budget over-run, and the intended program outcomes not being achieved.

Other Matter Noted

It was noted that for one payment voucher with a value of \$1,399,782.00 for World Vision International Solomon Islands there was no signed memorandum of understanding between the supplier and the Ministry attached. Consequently, OAG was unable to determine the genuineness and existence of the contract. The lack of signed MOUs or contracts increases the risk of false claims for payment, inappropriate expenditure and lack of monitoring of projects or contracts.

Refer also to the contracted special audit of “Assurance over New Zealand Aid Programme Support to Solomon Islands Education Sector” in Chapter 5 of this report.

1.3.2. Ministry of Environment, Conservation and Meteorology

It was noted that the Ministry of Environment, Conservation and Meteorology (MECM) paid \$1,000,000 to Gaena Alu Movement for cultural heritage activities. This was to record history on cultures, traditions and customary land boundaries and their clans and maintaining the Gaena Alu areas to generate tourism. The payment was a cheque payment to Gaena Alu. According to MECM there was no monitoring done by the Ministry therefore no certification of work progress was attached to the payment voucher. There was no documentation available to determine whether project funds had been spent for intended purposes and in accordance with an agreement with the Gaena Alu Movement Association. Furthermore, Ministry did not have any control over the project.

Lack of monitoring increases the risk of misappropriation and inappropriate utilisation of funds. There is an increased risk that the project was not completed in accordance with the project terms.

1.3.3. Ministry of Fisheries and Marine Resources

Inadequate Records for MFMR Receipts

Risk Rating: High

OAG noted that the MFMR Observer account has no cash book maintained as required by Financial Instruction P5 72.1. Receipts and payments from the account could not be traced and verified. Bank reconciliations cannot be performed without a cash book.

Financial Instruction P5 72.1 states that *“the authorising officer operating a SIG bank account must make sure that all sums paid into the account are promptly and accurately recorded in the cash books and any other records kept by the officer”*.

OAG noted that the Ministry has not reconciled the revenues received through telegraphic transfers (TT). These revenues are paid by foreign fishing companies. The fees include permit fees, access fees, licence fees and the fishing levy fees. These fees are charged on each boat licenced to fish in Solomon Islands waters by the Ministry. A foreign fishing company may operate more than one boat. The fees paid through TT or direct deposits do not indicate which boat and what fees have been paid and how much is outstanding. The Ministry needs to reconcile these deposits with the foreign fishing companies licence register to identify which boat and the type of fees has been paid.

Implication

Lack of reconciliation of TT's increases the risk of foreign fishing companies not paying the right amount of fees for respective boats, and of under collection of government revenue.

No financial records maintained or filed for Observer account

Risk Rating - High

Financial records for the Ministry Observer account were not filed properly. OAG was informed that all the original documents were forwarded to MOFT for retirement. Audit cannot confirm this as records with MoFT are either missing or misplaced.

Conflict of interest in purchasing

Risk Rating - High

OAG noted that an award of supply by the Ministry was in conflict of interest. The Ministry awarded the supply of catering services to family and staff members of the Ministry. The total cost expended on the three catering services provided was \$58,248.

Financial Instruction defined conflict of interest as *“any situation where an officer’s decisions are influenced by opportunities for personal financial gain or other personal advantage”*.

The award of catering service to family and staff members is clearly a personal advantage for financial gain of the Ministry staff concerned.

1.3.4. Ministry of Foreign Affairs and External Trade

During the audit of the 2013 accounts and records of the Ministry of Foreign Affairs and External Trade, the following audit issue was raised in the management letter. The lack of monitoring and control over accounting for funds by overseas missions creates a high risk of misallocation of funds, fraud and corruption.

OAG noted that there was no quarterly report done in relation to the quarterly payments to support or safe guard the usage of the grant payments sent to Solomon Islands embassies around the world,. The Ministry raised a requisition only once for the total amount due for the year and the Missions were paid quarterly during the year with different invoice numbers. There was no requirement to submit quarterly reports and acquittals before further payments would be made. The lack of monitoring of use of funds increases the risk of inefficient and inappropriate use of public funds, theft and fraud.

OAG recommended that the Ministry:

- Obtain annual budgets from each embassy for their annual operation.
- Ensure quarterly financial reports on the spending of the grant are obtained by the ministry from the embassies to monitor the usage of SIG money.
- Ensure reports have been reviewed and approved from no more than two quarters earlier before further quarterly payments can be processed to the embassy.

The Ministry acknowledged the recommendation and stated they will ensure that Solomon Islands Missions overseas are accountable for their grants. Currently grants are paid quarterly and missions are sending in their quarterly acquittals, although it takes some time to send in their reports. This is due to manpower problems that all Solomon Islands missions overseas are facing.

OAG conducted special audits of two Solomon Islands High Commissions. The results of these audits are reported in Chapter 5 of this report.

1.3.5. Ministry of Forestry and Research

Risk of under collection of forestry revenue

Risk Rating: High

All receipts for logging and milling licences are processed centrally at the Ministry of Finance and Treasury cashier. OAG noted that from the licence data register obtained from the Ministry of Forestry and Research, 11 receipts totalling \$ 33,000.00 (which represent 20% of the Form 1 fees for 2013) were not sighted. OAG was advised that some customers misplaced their receipts and did not present it to the Licence Section when the Register is updated.

There is a risk that MFMR is under-collecting licence revenue.

Inadequate checking of Log Inspection Reports

Risk Rating - High

The Log Inspection Report is a very important document that forestry operation officers produce which contains the number of round logs, their sizes, and the type of species a logging company ships out from a logging site. The report helps the Commissioner of Forestry by providing informed and accurate information on how many round log cubic have been shipped out from each logging site. OAG noted that from all Log Inspection Reports obtained, none of the reports were fully completed by the forestry officers on site. The forestry officers on site only check a sample of the total Log exported. That is, from the total round log to be export, field officers select 60% of the total log. Out of the 60% selected, the field officers select a random sample of 10%. On all reports that's the only sample field officer completed on the report as evidence except for alienated lands log operators.

The Commissioner of Forestry explained that most field officers are unable to do 100% checks due to lack of funds available for special duty allowances or over-time.

With only 10% of the 60% selected from the total logs to be export checked to the records provided to the Commissioner, there is a high risk of logging companies exporting more logs but recording less in their consignment certificate provided to the Commissioner for approval of Market Price certificate.

With a lack of proper checking on the log species being exported, there is high risk of logging companies recording low value log species against high value log species, which would result in Solomon Islands Government losing large sums of revenue.

OAG recommended that the Ministry:

- Ensure that 100% checking be done by Forestry Operation Officers when logs are loaded in a vessel for shipment.
- Ensure that Forestry Operation Officers reconcile log inspection reports with customs officers' records.
- Reconcile the log inspection report with the vessel's captain manifesto for accuracy.
- Ensure that after completion of the report, forestry officers and relevant authorities sign with date written for completeness and accuracy of the report.
- Liaise with Ministry Public Service for appropriate allowances to be provided to field officers.

Inadequate monitoring of sawn timber operations and export

Risk Rating - High

Sawn timber export for 2013 amounted to \$176,504,444.52. OAG understands that the Utilization Department within the Ministry oversees the operation of sawn timber (milling) in the country. OAG noted that there was a large quantity of sawn timber exported by local and foreign companies in Honiara and Noro ports. However, there was no evidence of inspection reports done or regular checks done by Utilization Officers to check the licence holder and export companies and whether they comply with the Forestry Regulations and Acts. From the inspection report, the Commissioner of Forestry should know how many cubic metres and type of timber products are exported during the year. This information will help the Commissioner to make accurate and correct decisions considering the operation and export of the sawn timber.

Also when export companies load sawn timber into intermodal containers ready for export, no Utilization Officer is present to check the accuracy and existence on the quantity, quality and the type of timber species that has been loaded in the intermodal container for export. This creates a loophole where opportunist export companies might take advantage by falsifying the export documents as customs officers will be unable to verify which timber species have been exported.

With no regular monitoring done by forestry officer, there is high risk of mill licence holders not complying with the Act.

Lack of proper checking done by Utilization officers when companies export sawn timber increases the risk of Government under-collecting significant values of revenue as exporters might falsify the export documents.

OAG recommended that the Ministry:

- Ensure that Utilization officers are present at the loading site to check if the correct timber species are recorded.
- Utilization officers should seal the intermodal containers after loading at the loading site.
- Ensure Forestry officers are present at the port when intermodal containers containing the sawn timber are checked by Customs officers.
- Ensure all inspection records are properly signed-off, organised and kept in the safe storage for review purposes.

Lack of guide or regulated milling price

Risk Rating - High

OAG checked with the Economic Reform Unit at the MoFT and noted that no regulated standard milling pricing is in existence to control or guide the export companies from increasing or reducing its price for different timber species sold to international markets. As with the current system of exporting sawn timbers, the Commissioner of Forestry was not provided with the regulated standard price to check and compare whether the selling price of sawn timber export products provided by the exporter was close or accurate to the regulated standard market price.

For instance, for logging companies operating in the country, the Commissioner of Forestry has a copy of Log Standard prices which are provided by the Economic Reform Unit quarterly to check against the log consignment detail provided by logging companies to check the species, size class, no.

of logs, volume (cubic metre) and FOB price (USD/cubic metre) provided in the Consignment with the regulated Standard Market Price.

The regulated standard pricing, allows the Commissioner of Forestry to identify export companies that intentionally lower their selling price on the export permit to pay less custom duty to the Government.

There is a high risk of exporters of sawn timber understating the market price for different sawn timber species, and thus of the government under-collecting revenue.

OAG recommended that the Ministry: ensure Ministry of Forestry and Research liaises with the Economic Reform Unit at the Ministry of Finance and Treasury to work on Standard pricing for Sawn timber.

Missing Market Price Certificates

Risk Rating - High

From the 36 samples selected to be tested, OAG was unable to locate 28 Market Price Certificates (MPCs), or 78%. The MPC is a document provided by a logging company that is ready to ship out logs from the Log Pond. This document contains Consignment details, Sales Contracts and Shipment details. With this information available, Commissioner of Forestry (CF) is able to approve/ not approve the application for export of round Logs.

OAG also noted during testing that two MPC applications obtained from the soft copy were cancelled. However, when checking the hard copies, there were no cancellations written on the application but instead the Commissioner of Forestry recommended issuing an MPC to the logging companies.

OAG noted that an application given by a Logging company had a different Licence number in the record from the Licence number written on the application. However, still the application was recommended to be issued for export.

Lack of MPCs being available for review and audit is a limitation of scope which will result in disclaimer opinion given by audit.

With cancelled MPCs still issued recommendation for export and using of different licence number showed there is a break-down in controls from the relevant authority.

OAG recommended that the Ministry:

- Ensure proper filing of MPC application for review and audit purposes.
- Ensure to comply with section M3 (8) 8.1 of the Financial Instructions.
- Check properly to avoid issuing different Licence number.
- All cancelled MPC applications be written on the first page as "CANCELLED".

Contract awarded before tender process

During the audit of 2013 accounts and records of the Ministry, OAG noted that for a contract entered between the Ministry and Bako Construction, the agreement specified that work commence on 23 February, 2013. However, the tender applications closed on 10th April, 2013 at 2pm, two months after work commenced. A meeting was held on 16 April, 2013 by Ministry Tender Board

(MTB) to discuss and award of contracts to suitable applicants. On 23 April, 2013 Bako received the award of contract to build the extension of the reforestation office building which was almost three months since the work commenced. Therefore, with the available evidence, OAG concluded that the Ministry had already chosen the contractor prior to the tender application process and evaluation by the Technical Evaluation Committee and MTB.

There is lack of transparency in the tender process which increases the risk of corruption.

1.3.6.Ministry of Mines, Energy and Rural Electrification

Lack of financial records maintained or filed for Gold Ridge project account

Risk Rating - High

Financial records for the Ministry Gold Ridge project account were not maintained. OAG was informed that there was no hand over notes from the previous terminated financial controller on the status of this bank account. Audit cannot confirm this as records with the Ministry are either missing or deliberately misplaced.

1.3.7.Ministry of Police and National Security

Lack of supporting documentation, pre-payment and delayed delivery

Risk Rating - High

OAG noted that the procurement of police uniforms from one supplier lacks supporting documentation. According to records sighted by audit a total of \$10,872,349 was paid and most of these payments were made on December 28, 2012. OAG made a physical verification and noted that only five cartoons of uniforms were received five months after the payments were made. OAG further noted that most of the items indicated in the procurement were anti-riot equipment, but according to the officer in charge this equipment has yet to arrive.

Lack of supporting documentation increases the risk of misappropriation and fraud. The pre-payment of goods immediately before the end of the financial year and the significant delay in receiving the goods is poor financial management.

1.3.8.Ministry of Women, Youth and Children's Affairs

Lack of screening committee to approve non fixed grants

Risk Rating – High

One of the ministry's main activities is to provide assistance to groups and organisations through non fixed grants. The Ministry did not have a committee to do the screening of the project proposals. The screening and approval was done by one individual which increases the risk of misappropriation of public money and conflict of interest.

OAG recommended that the Ministry:

- Ensure that the ministry formulate a screening committee to evaluate the project applications received from individuals to avoid conflict of interest.
- Ensure that the ministry formulate a Policy to govern the administration and the process of both fixed and non-fixed grants.

No guidelines for fixed and non-fixed grants

Risk Rating –High

The Ministry and the Cabinet approval did not provide any guideline or policy to properly administer the constituency centres program – women, youth and children grants received by Members of Parliament from the Ministry. Section 35(1) (f) of the *Public Finance and Audit Act [Cap 120]* “requires that adequate Regulations and Instructions exist for the guidance of accounting officers” in ensuring public funds are properly administered. This increases the risk of public funds being inappropriately spent, conflict of interest and of program objectives not being achieved.

OAG recommended that the Ministry develop guidelines for the constituency centres program.

Lack of Ministerial Tender Board

Risk Rating - High

OAG noted that the ministry did not have a Ministerial Tender Board for the purpose of managing the tender processes of the Ministry. Financial Instructions P7 19.1 states that the ministerial tender board in each ministry with a membership as set out in P7 20, for the purpose of managing the tender process of Ministry specific goods and or services must be established. In the absence of Ministerial Tender Board, there is a risk of tender processes not being managed properly and lack of transparency.

OAG recommended that the Ministry establish a Ministerial Tenders Board each year.

1.4. Special Funds

The following special funds exist under the legislation of the Solomon Islands government:

- ✓ Civil Aviation Special Fund
- ✓ Correctional Special Fund
- ✓ Education Rehabilitation Fund – Tsunami
- ✓ National Disaster Special Fund
- ✓ National Transport Fund
- ✓ Noro Fuel Depot Sinking Fund
- ✓ Telecommunications Special Fund
- ✓ Universal Access Special Fund

Other than a summary of receipts and payments included in the SIG financial statements, the Telecommunications Special Fund, the financial statements for the Special Funds have not been prepared and submitted to the Auditor General for audit during the period of this report.

Special Funds and enabling legislation

Special Fund	Legislation
Civil Aviation Special Fund	Civil Aviation (Amendment) Act 2009
Correctional Special Fund	Correctional Services Act 2007
Education Rehabilitation Fund - Tsunami	
National Disaster Special Fund	
National Transport Fund	National Transport Fund Act 2009
Noro Fuel Depot Sinking Fund	
Telecommunication Special Fund	Telecommunication Commission Act 2009
Universal Access Special Fund	Telecommunication Commission Act 2009

Chapter 2 Provincial Governments

2.1. Provincial Government financial statement audit summary

2010 Financial Statements

During 2011 OAG conducted the interim and final audits of most provincial governments. The results of these audits are summarised below for each Province.

2013 Financial Statements

In early 2014, OAG issued audit opinions for year ended 31 March 2013 for the provinces except for Rennell and Bellona Province as they had not submitted their signed financial statements. The audit certificates issued on provincial government financial statements for the provinces were disclaimers of opinion apart from Choiseul and Western Province which were qualified opinions.

2014 Financial Statements

OAG continued to visit each province twice a year in 2014. The aim was to provide more timely management letters intended to strengthen the internal controls and record-keeping in each of the provinces.

The first visits took place in April, May and June 2014, and included the eight provinces apart from Guadalcanal Province which does not have a functioning MYOB system. During those visits OAG audited the transactions from April to September 2013 and issued management letters on its findings.

The second visits were made in October and November 2014. Their purpose was to do the interim testing of transactions for October 2013 to March 2014 and to complete the audits of the financial statements for the year ended 31 March 2014 for the eight provinces except for Guadalcanal where the interim testing covered the 12 month period. Management letters were again issued on audit findings. The key control deficiencies reported are summarised in Table 2 below.

During the second quarter of 2015, Auditor-General finally issued the audit opinions of the financial statements for the year ended 31 March 2014 for the eight provinces excluding Rennell and Bellona Province due to non-submission of financial statement. The audit reports on the financial statements to those provinces were disclaimers of opinion except for Choiseul and Western Province that were qualified opinion.

2015 Financial Statements

In 2015 OAG only did one visit to each of the provinces which was in July and August to do interim audit of the transactions from April 2014 to March 2015 except for Rennell and Bellona Province. All the provinces submitted their signed financial statements for the year ending 31 March 2015 before or on the due date which was 31 December 2015.

In the second quarter of 2016, OAG completed the audit of the financial statements for the year ending 31 March 2015 for the provinces except for Rennell and Bellona Province as their financial transactions were audited in March 2016 and they are yet to respond to the management letter when this report was compiled.

2016 Financial Statements

OAG visited the provinces in July and August 2016 to conduct interim testing of the transactions for April 2015 to March 2016. Management letters on the findings are being prepared as at the time of

writing this report. OAG expects to receive the signed financial statements for the year ended 31 March 2016 from all provinces by 31 December 2016.

Cash Basis IPSAS Reporting Framework

During the period 2014 to 2016 the Ministry of Provincial Government & Institutional Strengthening in collaboration with OAG have assisted the provincial governments to build the capacity of the provincial staff to understand and properly prepare their financial statements according to the International Public Sector Accounting Standard (IPSAS-Cash) reporting framework.

Status of Financial Statements

The status of all Provincial Government financial statements is provided in the table below.

Status of Audits at 30 September 2016 – Provincial Government

Province	Last statements issued	Date of signing by Province	Date of signing by Auditor-General
Central Islands	2014/15	29/12/2015	29/03/2016
Choiseul	2014/15	04/09/2015	04/04/2016
Guadalcanal	2014/15	15/12/2015	09/05/2016
Isabel	2014/15	04/05/2015	04/03/2016
Makira/Ulawa	2014/15	28/12/2015	12/04/2016
Malaita	2014/15	22/12/2015	04/04/2016
Rennell and Bellona	2013/14	09/03/2016	14/03/2016
Temotu	2014/15	28/12/2015	04/04/2016
Western	2014/15	04/12/2015	04/04/2016

Summary of financial statements for 2013 to 15 financial years

	2012-2013			2013-2014			2014-2015		
Province	Received	Signed	Opinion	Received	Signed	Opinion	Received	Signed	Opinion
Central Islands	25/7/13	8/4/14	Disc	9/10/14	16/3/15	Disc	30/12/15	29/3/16	Disc
Choiseul	23/9/13	14/4/14	Qual	6/9/14	9/3/15	Qual	10/9/15	4/4/16	Disc
Guadalcanal	18/11/14	1/12/14	Disc	18/11/14	10/6/15	Disc	29/12/15	9/5/16	Disc
Isabel	12/9/13	24/3/14	Disc	27/6/14	9/2/15	Disc	5/5/15	4/3/16	Qual
Makira-Ulawa	31/12/13	12/6/14	Disc	30/12/14	22/4/15	Disc	28/12/15	12/4/16	Disc
Malaita	26/10/13	7/4/14	Disc	23/6/14	23/3/15	Disc	23/12/15	4/4/16	Disc
Rennell & Bellona	10/3/16	14/3/16	Disc	10/3/16	14/3/16	Disc	31/12/15	4/11/16	Disc
Temotu	17/3/14	28/3/14	Disc	26/9/14	9/3/15	Disc	29/12/15	4/4/16	Disc
Western	23/12/13	14/7/14	Qual	26/9/14	10/6/15	Qual	15/12/15	4/4/16	Disc

Disc – disclaimer of audit opinion

Qual – qualified audit opinion

Nil – audit opinion not issued at time of report preparation

2.2. Provincial Government general discussion

Most of the financial statements were submitted to the Auditor-General within the statutory time frame. However, the time allowed of nine months after the end of the financial year is much more generous than the three months allowed for state owned enterprises and statutory bodies, and six months for the SIG financial statements.

For almost all of the provincial government financial statements submitted for audit in the past 3 years, the Auditor-General was unable to express an opinion on the financial statements due to missing records and poor control over receipting and payment of moneys. This means that the information contained in the financial statements cannot be relied upon to be materially correct and a true and fair view of the operations of the provincial government. There were no financial statements that were able to be certified without a modified audit opinion, and only five where the audit opinion was qualified rather than disclaimed.

This is a serious concern, not only because there is a lack of accountability and transparency of the financial affairs of the provincial governments. Without accurate and timely financial reports, management within the provincial governments do not have key information need to inform decisions and to monitor progress, and identify problems and opportunities. This significantly weakens the governance of provincial government administration.

There were several areas of concern noted that all or most provincial governments had in common. These were:

- Lack of planning and monitoring of investment companies and businesses, and their financial statements not being consolidated in the provincial government financial statements
- Poor controls over Ward Development Grants
- Non-performance of or incomplete bank reconciliations

- Poor controls over the collection, recording and banking of receipts
- Missing, unsupported and/ or unauthorised payment vouchers
- Poor control over payroll
- Poor control over imprests and advances

OAG also noted instances of illegal and usurious loans being taken out by provincial governments.

The following table summarises the control deficiencies identified in each provincial government.

Table 2: Control Deficiencies Found in Provincial Systems

Issue	Central	Choiseul	Guadal- canal	Isabel	Makira Ulawa	Malaita	Rennell Bellona	Temotu	Western
Executive Minutes									
Incomplete/missing executive minutes	X			X	X	X	X	X	
Revenue									
Poor controls over collection, recording and banking of monies (e.g., delays in banking, use of generic receipt books, lack of bank reconciliations)	X	X	X	X	X	X	X	X	X
Payments									
Missing, unsupported and/or unauthorised payment vouchers	X	X	X	X	X	X	X	X	X
Payroll									
Poor control over employee attendance	X								X
Poor control over payroll (e.g., increases in salary not in accordance with procedures, no reconciliation between payroll and ledger, incomplete personnel files)	X	X	X	X	X	X	X	X	X

Issue	Central	Choiseul	Guadal- canal	Isabel	Makira Ulawa	Malaita	Rennell Bellona	Temotu	Western
Ward Development Grants									
Poor controls over ward development grants (e.g., inadequate or missing documentation, lack of follow-up, inadequate authorisation)	X	X	X	X	X	X	X	X	X
Imprest and Advances									
Poor controls over imprest and advance registers (e.g., missing signatures, late acquittal, no acquittal, missing supporting documentation)	X	X	X	X	X	X	X	X	X
Bank Accounts									
Incomplete bank reconciliations	X	X	X	X	X	X	X	X	X
Trade Receivables									
General ledger not up to date and poor controls (e.g., often there was no receivables register or listing of amounts outstanding)	X	X	X	X	X	X	X	X	X

Issue	Central	Choiseul	Guadal- canal	Isabel	Makira Ulawa	Malaita	Rennell Bellona	Temotu	Western
Property Plant and Equipment									
Poor management of property, plant and equipment (e.g., no asset management policy, missing or incomplete asset register, missing assets)	X	X	X	X	X	X	X	X	X
Trade Payables									
Poor control over trade payables (e.g., no payables register, delayed NPF and PAYE remittances)	X		X	X	X	X	X	X	X
PAYE and NPF contribution and remittance delayed							X	X	
Investment									
Limited management oversight of investment arm	X	X	X	X	X	X	X	X	X
Financial Reporting									
Delayed in submitting of financial statements to Auditor-General			X				X	X	

The following is a summary of the more serious concerns in regard to provincial government administration.

2.2.1. Investment companies

OAG noted in general that there is a lack of governance, accountability and transparency of provincial business and investment companies.

OAG found that provincial governments were not consolidating the financial activities of their controlled entities. In many cases this was because there were no financial statements for these entities.

The following are some issues that were noted during the interim audits of provincial governments:

Central Islands Province

The operation of the Central Islands Province Development Authority (CPDA) is still not up and running as expected as there is no General Manager and Board members appointed. OAG noted that the property of CPDA has been leased to an investor but the money has been deposited into the Provincial Government's account as CPDA does not have any bank account at present. As a result, CPDA is unable to produce any financial reports to provide to the Executive.

Also it was noted that there is no strategic plan for the economic development for the Province. However, OAG noted that their investment ordinance was passed by the full Provincial Assembly. The manner in which the operation of CPDA is limited increases the risk of mismanagement, abuse of funds, conflict of interest, missed investment opportunities and unreliable reporting.

Choiseul Province

A new ordinance provides for profit sharing between Choiseul Province and the Laurus Shipping Ltd which operates in the province. Audit was unable to examine any revenue or receipting records during the audit visit. Management also expressed concern that expected revenues may not be collected.

OAG sighted the un-audited financial statements but could not establish if it was profit oriented, because of the fact that there are no dividends declared by the Board of Management.

Guadalcanal Province

Guadalcanal Province is supplementing the operations of the shipping company. No reporting to facilitate monitoring by Provincial Government and Legislative Assembly.

OAG noted that the Guadalcanal Development Authority did not prepare any financial statements that should be provided to the Guadalcanal Provincial Government as required under the Financial Management Ordinance 2008 for consolidation of investment balances in the financial statement of the province. There was no feedback from GDA to inform the Executive on its operation and financial performance.

OAG noted the provincial government has poor control over its investments like Guadalcanal Development Authority and Guadalcanal Province Shipping. Those two entities are owned and controlled by the provincial government, but there is lack of feedback from these entities on how they are operating in terms of financial reports to the Executive so that better and business-like decisions are made for the sustainability of these operations for the future. Furthermore, the provincial government is assisting Guadalcanal Province Shipping with the maintenance of its

shipping fleets and salaries of its workers which is draining the funds that should be used for other services to the rural people.

Lack of strong control over investments increases the risk of wastage of funds, mismanagement, insubordination, misappropriation, conflict of interest, fraud, budget over-run and misstatement of the financial statements.

Isabel Province

The Isabel Provincial Government has made a capital investment of 500,000 shares in the Isabel Investment Corporation (IIC), which took over from the Isabel Development Authority as the investment arm of the province. However there were no supporting documents available during the audit. There were two major operations under the IIC which are Binaboli Rest House and Copra production.

It is essential that the Isabel Provincial Government and the IIC have a well-developed investment strategy and an effective and transparent set of operating procedures to safe guard the province's interest. However, during the audit there was no document available for audit to confirm whether this investment is beneficial to the people of Isabel Province.

OAG acknowledged the efforts made by the Provincial Government to engage an Accounting firm to prepare Isabel Investment Corporation's (IIC) financial statement and an auditor to audit it. However, OAG noted that IIC's financial statement is not consolidated into the Provincial Government's financial statements which were received in May 2015 and OAG will continue to raise this issue until it is addressed. Lack of consolidation of IIC's financial statements increases the risk of the provincial government paying funds into the operation of the investment which is not profitable, mismanagement, conflict of interest and misstatement of the financial statements.

OAG was advised by officers of the Provincial Government that they expected a dividend from IIC for 2014/15 financial year but the dividend is yet to be received. The non-payment of dividends causes financial stress to the provincial government.

Makira Ulawa

It was revealed that MUPIC never collected any revenue from its rented house in Honiara and butchery building in Kirakira. The rented house in Honiara was occupied by someone but no rental was forthcoming to MUPIC and the butchery building was not operational in the 2013/14 financial year. The weak control over commercial activities increases the risk of loss of revenue, revenue budget not met, unauthorised person collecting rental, incompetency and goals/objectives of MUPIC not achieved.

During the audit, it was noted that no financial report were presented before the provincial assembly to scrutinise MUPIC operation in the 2013/14 financial year. The 2012/13 financial report was produced and presented before the board of directors but not the provincial assembly. This deficiency increases the risk of abuse, mismanagement, fraud and unethical conduct in the operation of MUPIC.

Malaita Province

The investment activities of the Provincial Government were managed by the Malaita Chazon Development Authority (MCDA). However, it was noted that recently MCDA is not operating viably as anticipated so the assembly has proposed to suspend the management and move the administration of MCDA to the Provincial Government. It was discovered that prior to the assembly's

decision, MCDA was producing its own financial statement that was not consolidated with the Provincial Government's financial statement. There is a need for MCDA's financial statement to be consolidated in the financial statement of the Province.

The Acting General Manager of MCDA lacks adequate skills in MYOB which leads to no financial statements presented before Board and Executive. Furthermore, MCDA is not using MYOB system to record its transactions so the Acting General Manager is using Excel to do simple bookkeeping to monitor the cash flow for the operation of the entity.

2.2.2. Poor controls over Ward Development Grants

Ward Development Grants are paid to Members of the Provincial Assembly within each province for the purpose of assisting local residents with projects to improve the quality of life and sustainability of communal services. As reported in the Auditor-General's Report to Parliament submitted to the Speaker in December 2014, provincial government spend a significant proportion of their available funds each year on Ward Development Grants.

There is a lack of control over this expenditure, in that:

- There is a lack of guidelines for Ward Development Grants to guide the provincial governments what are appropriate uses for these funds and in the planning, monitoring and distribution of such funds;
- Ward Development Grant application forms not properly authorised prior to payment;
- Lack of acquittal of Ward Development Grant funds, or lack of appropriate supporting documentation for acquittals such that there is no evidence to support what the funds were used for;
- Unequal distribution of grants to MPAs in some provinces.

The following is a selection of issues noted during the interim audits of provincial governments:

Ward Development Grant (WDG) application forms were not signed by the Premier prior to payment, and no WDG form and invoice attached with the payment vouchers. This deficiency increases the risk of loss of provincial funds, ghost suppliers, abuse and poor developments in wards.

OAG noted from its testing the following results which are summarised as follows.

- There is insufficient documentation to verify whether the WDG was used for its intended purpose or not. Furthermore, from the records it was noted that most of the disbursement of the funds was for personal needs of the constituents rather than development.
- There is no acquittal date mentioned on the WDG forms to give to the MPAs the date that they should retire their WDGs before they can receive the next instalment.
- There was no project guideline provided to OAG during the audit which made it difficult to determine whether the WDG was disbursed for development and official purposes or not.

The Provincial Government continues to have inadequate internal control over ward development grants such as insufficient documentation, no acquittal date mentioned in the WDG forms, funds used for constituents' personal needs rather than development and no proper guideline on the use of WDGs

27% of the sample for Ward Development Grants lacked legitimate supporting documents in the MPAs' acquittal of the funds. It was noted that falsified receipts were attached with the acquittals. In addition, certain MPAs used proforma invoices as receipts to the acquittals.

There is unequal distribution of the ward development grants to each Member of Provincial Assembly (MPA) for the 2013/14 financial year whereby \$50,000 was to be allocated to each MPA. It

was noted that seven (7) MPAs received less than \$50,000 while four (4) MPAs received more than \$50,000. No meaningful explanation was provided for the unequal distribution of WDG. This may lead to conflict of interest, misappropriation, abuse of power, under spending of budget and lack of developments in the wards.

It was found that 73% of the sample were not acquitted by the MPAs as required under the WDG guidelines. In addition, 13% were only partially acquitted for the audited period. Lack of acquittal increases the risk of poor accountability, no transparency, misappropriation, misuse and loss of provincial funds and inaccurate reporting.

2.2.3. Illegal and Usurious Loans

OAG discovered during the audit of Malaita Province that there were loans entered into without legal agreements which is a clear breach of section 66 (3) of the *Public Financial Management Act 2013* and section 40 (2) of the *Provincial Government Act 1997*.

Section 66(3) of the *Public Financial Management Act 2013* states:

“(3) Provincial governments, state owned enterprises and the Honiara City Council shall require the consent of the Minister before undertaking Government borrowing.”

In this Act “the Minister” refers to the Minister for Finance.

Section 40 (2) of the *Provincial Government Act 1997* states:

“40.(1) A Provincial Government may not borrow money except in accordance with this section.

(2) A Provincial Executive may borrow temporarily (either by way of overdraft or otherwise) from a Government lender or an authorised lender such sums as may appear to the Executive to be required-

(a) for the purpose of meeting a temporary excess of funds paid out of the Provincial fund over sums paid into the Fund; or

(b) for the purpose of providing a working balance in the Fund.

(3) In addition to the purposes stated in subsection (2), a Provincial Executive may borrow for the purposes of devolved functions –

(a) if the borrowing is in respect of recurrent expenditure, from a Government lender;

(b) in any other case, from a government lender or an authorised lender.

(4) The aggregate outstanding in respect of the principal of sums borrowed by a Provincial Executive shall not exceed such sum as may from time to time be fixed for the Executive by order of the Minister.

(5) Unless as order of the Minister directs otherwise, sums required for the repayment of, or the payment of interest on, sums borrowed under this section shall be charged on the Provincial Fund.

(6) In this section-

“Government lender” means the minister and any Government fund the purpose of which include the lending of money to Provincial Executives; and “authorised lender” means any person authorised by the Minister for the purposes of this section.”

In this Act, “the Minister” refers to the Minister for Provincial Government.

There is no evidence that either Minister approved borrowings by the provincial executive. The lenders were not Government lenders or authorised lenders. Therefore the loans are unlawful and ultra vires.

Also OAG was unable to obtain evidence to show that the lenders doing business with the Provincial Government are registered in the province and comply with section 40 (6) of the *Provincial Government Act 1997*. Lack of proper legal documentation increases the risk of opportunist taking advantage of the province's limited financial resources, conflict of interest, fraud and abuse.

OAG noted that in 2015, the Malaita Provincial Government has entertained usurious loan rates from unauthorised lenders to meet its operational costs and thereby breached section 88 and 89 of the Financial Management Ordinance 2008. The interest rate charged by the lenders was usually 20% each fortnight with a possibility of interest accumulating if borrowed money is not settled. The practice of accepting usurious borrowing rates increases the risk of loss of provincial funds, poor service delivery to rural people as the funds are derived to service the loans, conflict of interest, provincial workers are not paid on timely basis, abuse of power, misconduct and unethical behaviour.

The above sections of legislation were enacted to prevent these types of loans from being taken out by provincial governments.

2.2.4. Incomplete bank reconciliations

Bank reconciliations are an essential part of the financial accounting process to ensure that all bank account transactions have been recorded in the entity's accounting system. This process also helps to identify transactions which may have been entered into the accounting system which did not occur. Bank reconciliations need to be performed by an officer independent of the receipting and payment processes to ensure that errors or fraud may be detected. Provincial governments either did not perform bank reconciliations, did not complete the accounting corrections needed or lacked evidence of independent check of bank reconciliations. The weakness in bank reconciliations is a significant contributing factor to the lack of reliable financial reports of provincial governments.

The following is a selection of issues noted from the interim audits of provincial governments:

The provincial government has been performing monthly bank reconciliations for two bank accounts it maintained but not for the other three bank accounts. Furthermore, it was noted that there is no signing off of the monthly bank reconciliations for the two bank accounts. This deficiency increases the risk of errors not detected early, manipulation of figures, cash flow constraints, and misstatement of the financial statements

A proper cashbook was not used for the PCDF for the full year which made it hard to verify the amounts in the cashbook to general ledger. It was noted that a proper cashbook was used but only up to 30 August 2013 before they used a cashbook from the detail of general ledger which is not proper for reconciliation purposes. Also it was revealed that there were no monthly bank reconciliations after March 2014 so OAG was unable to determine when the unrepresented cheques were cleared. Lack of proper cashbook increases the risk of manipulation of figures, errors not detected on timely basis, conflict of interest, negligence and misstatement of the financial statements.

There is a difference in the balance of the cashbook for the main account as at 31 March 2014 for the electronic cashbook provided and the cashbook used for the bank reconciliation. The electronic cashbook has a balance of \$59,557.47 while the cashbook balance used for the bank reconciliation is \$38,474.37 which indicates a difference of \$21,083.10. OAG is unable to determine where the balance of \$38,474.37 was taken from as the Provincial Treasurer was on suspension when the audit was conducted. This increases the risk of inaccurate recording, negligence, incompetency and misstatement of the financial statements

OAG was unable to examine any bank statement from ANZ for the PCDF project as at 31 March 2014. The Provincial Government never made attempts to get the bank statements from ANZ in order to perform monthly bank reconciliations. The non-availability of bank statements increases the risk of unauthorised withdrawal of funds, cash flow constraints and budget over-run.

In some cases there was a lack of listing of unpresented cheques and/ or outstanding deposits to support bank reconciliations that were performed.

Stale cheques were noted in some bank reconciliations which should have been written back.

In some cases there were no monthly ledger accounts and bank reconciliations that were signed off and dated by the Provincial Treasurer or his Deputy before being filed in a secured location.

The provincial government operated four bank accounts during the audited period. However, OAG discovered that no monthly bank reconciliations were performed for two accounts which were inactive but not closed off. Also no bank statements were available for those two bank accounts. The lack of bank reconciliation increases the risk of errors not detected early, manipulation of figures, cash flow constraints, fraud and misstatement of the financial statements

Provincial Government have been performing monthly bank reconciliations for all its bank accounts, however it was noted that the bank reconciliations were not signed off and dated by the preparer and reviewer

Variances were due to the fact that the cashbook has not been up dated regularly to reflect the general ledger balance in the reconciliation for both accounts. The Provincial Government have been using the bank register in the MYOB to do monthly bank reconciliations, but the bank register lacks payment voucher numbers and/or cheque numbers which are found in the cashbook thus there is still variances in the cash balances for the two accounts.

2.2.5. Poor controls over collection, recording and banking of receipts

The following is a selection of issues noted from the interim audits of provincial governments:

No list of businesses operating in the province without fully paying their business license and therefore is unable to confirm how much is owed to the province due to poor recording and monitoring. Furthermore, the revenue register is not updated regularly to know which businesses are operating in the province and how much is expected in revenue collection for the financial year.

The Provincial Government has entered into an agreement with Solomon Airlines as their agent thereby receiving commission from them from freighting, luggage handling and ticketing. However, OAG is unable to sight the current agreement to determine whether the rate for the commissions received by the Provincial Government is accurate or not. Non-availability of the current agreement increases the risk of loss of revenue.

The cashbook for main account with Westpac Bank was not properly updated with information like received from and particular since 24 February to 31 March 2014. The failure to update the cashbook increases the risk of errors not detected early, manipulation of figures, conflict of interest and misstatement of the financial statements

The Revenue Officer collected \$7,850.00 and used it as imprest for revenue collection expenses without banking the money first as required in the Financial Management Ordinance 2008. The manner of using the revenue collected as imprest increases the risk of misappropriation, abuse, conflict of interest and reduced revenue collection for the province

Six receipt books issued to the revenue centres during the audited period were not returned to the Provincial Treasurer to be stored for audit.

It was found that three SIG grants were not receipted in the official receipt book and recorded in the cashbook as required in the Financial Management Ordinance 2008. OAG is unable to determine the accuracy and completeness of the transactions. Lack of regular updating of cashbook increases the risk of embezzlement, misappropriation, fraud, poor cash management and misreporting of financial position.

The general ledger provided for the main account with Westpac was not complete so OAG is not able to verify the balance against the bank reconciliation's balance. Lack of complete general ledger increases the risk of manipulation of figures, fraud, abuse, conflict of interest, negligence, budget over-run and misstatement of the financial statements

All of the Cashier's receipt books and two receipt books from Revenue Officer were missing or not produced upon request for review. Explanation given was that the receipt books were surrendered to the former Provincial Treasurer for safe keeping but was unaccounted for

It was observed that an amount of approximately \$1.5M has been calculated as yet to be collected from all types of licences and the Provincial Government was not able to explain why the amount was not collected as forecasted.

It was revealed that new orders of receipt books were not accounted for, except when they were issued.

Audit was not able to confirm the total number of receipt books ordered and the number of used and unused books due to insufficient records and the use of multiple receipt books.

There was no evidence to show that reconciliations were done on the number of manual receipt books against the register.

A reasonableness procedure was carried out on the license and fees database and it was noted that \$3,059,371.20 was the actual figure received and recorded in the license and fees database, however only \$1,785,875 was disclosed in the financial statement.

Malaita Provincial Government has less revenue collection of \$1,321,025.88 in 2014/15 financial year. In addition, business licenses from taxis, buses and pickups were not collected even though there are many vehicles in Auki.

2.2.6.Missing, unsupported and/or unauthorised payment vouchers

The following is a selection of issues noted from the interim audits of provincial governments:

The Guadalcanal Provincial Government spent \$1,205,348.02 on extraordinary travelling expenses for a delegation trip to Spain. OAG was unable to ascertain the purpose for the trip, justification that such trip was worth it and whether it has been budgeted for in the 2013/14 financial year. The manner of the extraordinary traveling expenses increases the risk of not receiving value for money, misappropriation, budget over-run and misstatement of the financial statements.

During the audit, OAG selected 30 samples totalling to \$1,611,857.13 for testing and noted that 5 samples were missing while seven 7 samples of payment vouchers were not properly supported with three quotations. This is serious breach of Financial Management Ordinance where the expending of provincial funds must be supported with appropriate documents and authorization.

OAG noted weak control over the payment process for PCDF where some payments were made from photocopied invoices, no contracts, no certification of completion and no invoice attached with the payment vouchers. This increases the risk of loss of provincial funds, conflict of interest, procurement of low quality goods, ghost suppliers and budget over-run

OAG noted two payment vouchers totalling \$111,000.00 were without sufficient supporting documents and these payments were for outstanding bills from Solomon Games.

There was poor management over fuel that the province took on credit from the suppliers. It was discovered that no proper control is in place over who is authorised to approve the credit purchase of fuel before staff can collect fuel from the suppliers.

There was no reference number written on the payment vouchers and lack of proper monitoring of PCDF projects

Payment vouchers totalling \$734,711.20 (16.7% of the audit sample) could not be located for testing and payment vouchers totalling \$1,293,998.99 (25.7% of the audit sample) are with inadequate documents to support the payments.

Payment vouchers of \$80,748.60 were missing during the audit and payments of \$790,665.00 were not provided with sufficient documentation to support the payments.

Several payments totalling \$340,519.00 were made to one supplier for providing timbers to the Provincial Government for the audited period, but OAG was unable to sight the documentation to show that tender bidding process was complied with in awarding the supplier to supply timbers to the Provincial Government. In addition, the company has register does not have the name of the supplier which implies that the business is not a registered business in the country

Account payables balance of \$6,962,776.09 was still outstanding as at 31 march 2014 for various suppliers. It is important that the Provincial Government controls its account payables in order to meet its obligation on a timely basis.

Six payments totalling \$219,472.50 that were paid to the contractors did not have the progressive reports attached with the payment vouchers. The lack of progressive reports increases the risk that the provincial government will pay for incomplete construction, conflict of interest, loss of provincial funds and budget over-run.

28% of selected sample with a value of \$726,775.60 were recorded in the general ledger but the source documents were unable to be located and examined to verify the authorisation, accuracy and completeness.

2.2.7. Poor control over payroll

The following is a selection of issues noted from the interim audits of provincial governments:

OAG was unable to sight the employment contract in order to verify his fortnightly pay. OAG has requested for a copy of the contract but nothing was forthcoming. The non-availability of employment contracts increases the risk of overpayment of salaries, loss of provincial funds, officers working without proper contracts in place and fraudulent activities happening

OAG noted poor control over payroll especially in the calculation of NPF and availability of timesheets. It was noted that there are errors in the deductions of NPF for two officers while there is no timesheet available for one officer. This deficiency increases the risk of manipulation of figures, conflict of interest, overspending of approved budget, low performance outputs, low investment of NPF for the staff and loss of provincial funds.

The Provincial Government has poor control over payroll where there is lack of electronic copies of payroll summary as a result of MYOB system break down and payment voucher of \$31,461.80 for second salary of March 2015 was unsighted.

2.2.8. Poor controls over imprests and advances

The following is a selection of issues noted from the interim audits of provincial governments:

The Provincial Government is still not able to regularly update its special imprests and advances register. As a result, some names of officers are not recorded in the registers but only in the general ledger. Furthermore, one seconded officer with outstanding imprest has left the province and there is no recovery action taken against him. This deficiency increases the risk of conflict of interest, loss of provincial monies, misappropriation, inaccurate reporting and misstatement of the financial statements

30% of selected samples of special imprests were not retired in a timely basis as required in the Financial Management Ordinance 2008. Also no reminders were sighted to indicate that follow up has been made with the imprest holders with outstanding imprests. This increases the risk of misuse and loss of provincial funds.

OAG found deficiencies such as multiple imprests issued to same officer(s), unretired imprests, no cheque numbers recorded in the register and lack of proper filing of imprest acquittals

The Central Islands Provincial Government is still not able to regularly update its special imprests and advances register as required in the Financial Management Ordinance 2008. As a consequence, OAG is not able to confirm to whom and how much imprests and advances are outstanding at the end of the financial year that can be disclosed in the financial statements.

From the records obtained during the audit, it was revealed that un-acquitted imprests for the three classes of holders are as follows:

- Members of Provincial Assembly (MBAs) - \$584,615.00
- Seconded Officers - \$0.00
- Direct Employees - \$995,320.00

Imprest holders were issued with new imprests even though they still have not retired their outstanding imprests.

2.3. Provincial Government specific matters

The following is a summary of the audit work performed and the audit certificates issued for each province for the financial years 2010, 2013, 2014 and 2015.

2.3.1. Central Islands Province

For the Year Ended 31 March 2013

The Auditor-General received signed financial statements on 25 July 2013 for Central Province 2013 accounts and issued a disclaimer of opinion thereon. He also issued management letters to the Premier and Provincial Secretary summarising the issues that arose during the audit and it was acknowledged by the Provincial Executive.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2014

OAG audited the financial transactions for the year ending 31 March 2014 and issued two management letters on the findings. Central Provincial Government did not respond to the first letter but did so for the second management letter.

The Auditor-General received signed financial statements on 9 October 2014 on the 2014 accounts and issued a disclaimer of opinion thereon.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2015

OAG audited the financial transactions for the year ending 31 March 2015 and issued a management letter on the findings which the Provincial Executive responded to.

The Auditor-General received the signed financial statements on 30 December 2015 and issued a disclaimer of opinion thereon.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

Overall Conclusion

Overall, the Central Province has made some improvement during the years where the number of issues identified and the severity of the issues were somewhat less and they are applying the IPSAS Cash Basis Reporting Framework.

2.3.2.Choiseul Province

For the Year Ended 31 March 2013

The Auditor-General received signed financial statements from Choiseul Province 2013 on 23 September 2013 and issued a qualified opinion thereon. He also issued a management letter to the Premier and Provincial Secretary summarising the issues that arose during the audit and the basis for the qualified opinion.

For the Year Ended 31 March 2014

The OAG audited the financial transactions for the year ending 31 March 2014 and issued two management letters on the findings. Choiseul Provincial Government did not respond to the first

letter but did so for the second letter. Executive responses included the actions the Provincial Government had taken and planned to take in relation to the recommendations.

The Auditor-General received signed financial statements on 2014 accounts on 6 September 2014 and issued a qualified opinion thereon.

For the Year Ended 31 March 2015

The financial transactions for the year ending 31 March 2015 were audited by OAG and a management letter was issued to the Premier and Provincial Secretary which was responded to accordingly.

The Auditor-General received signed financial statements on 2015 accounts on 10 September 2015 and issued a disclaimer of opinion thereon. He also issued a one page report stating the reason for the disclaimer of opinion.

Overall Conclusion

Overall, Choiseul Provincial Government has made improvements during the years where the number of issues identified and the severity of the issues were noticeably less. Also they have applied the IPSAS Cash Basis Reporting Framework as required by the Ministry of Provincial Government and Institutional Strengthening.

2.3.3. Guadalcanal Province

For the Year Ended 31 March 2010

The Auditor-General audited the 2010 financial statements of Guadalcanal Province and issued a disclaimer of opinion thereon on 17 September 2011. He also issued management letters to the Premier and Provincial Secretary summarising the issues that arose during the audit.

The disclaimer of opinion was attributed to the following factors:

- The financial statements were not prepared in accordance with an applicable financial reporting framework such as International Public Sector Accounting Standards.
- Continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. I was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2013

OAG audited the financial transactions for the year ending 31 March 2013 and issued two management letters on the findings. The Guadalcanal Provincial Government did not respond to the first letter.

The Auditor-General did not receive signed financial statements on Guadalcanal Province 2013 accounts until 18 November 2014. He issued a disclaimer of opinion on 1 December 2014. He also issued a one page report to the Premier explaining the reason for disclaimer of opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2014

OAG audited the financial transactions for the year ending 31 March 2014 and issued a management letter on the findings. The Guadalcanal Provincial Government responded to the letter.

The Auditor-General received signed financial statements on the 2014 accounts on 18 November 2014 and issued a disclaimer of opinion. He also issued a one page report to explain the reason for giving the disclaimer of opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2015

The financial transactions for the year ending 31 March 2015 were audited by OAG and a management letter was issued on the findings to the Premier and Provincial Secretary. The Guadalcanal Provincial Government did not respond to the letter.

The Auditor-General received the signed financial statements on the 2015 accounts on 29 December 2015 and issued a disclaimer of opinion. He also issued a one page report to explain the grounds for the disclaimer of opinion.

Overall Conclusion

Overall, the Guadalcanal Provincial Government has not made much improvement during these years. Most of the matters identified in previous years are still recurring, and there has not been a noticeable reduction in the severity of those matters. However, they are now applying the IPSAS Cash Basis Reporting Framework.

2.3.4.Isabel Province

For the Year Ended 31 March 2013

OAG audited the financial transactions for the year ending 31 March 2013 and two management letters with the findings were issued to the Premier and Provincial Secretary. The Isabel Provincial Government did not respond to the first letter.

The Auditor-General received signed financial statements on Isabel Province 2013 accounts on 12 September 2013 and issued a disclaimer of opinion thereon. The Auditor-General also issued a one page report to the Premier providing the reason for disclaimer of opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2014

The OAG audited the financial transactions for the year ending 31 March 2014 and issued two management letters on the findings. The Isabel Provincial Government responded to the letters with their action plan.

The Auditor-General received signed financial statements on the 2014 accounts on 27 June 2014 and issued a disclaimer of opinion thereon. A one page report to Premier was issued with explanation for the disclaimer of opinion.

For the Year Ended 31 March 2015

The financial transactions for the year ending 31 March 2015 were audited by OAG and a management letter on the findings was issued to the Premier and Provincial Secretary. Isabel Provincial Government responded to it with their action plan.

The signed financial statements on the 2015 accounts was received by the Auditor-General on 5 May 2015 and issued a qualified opinion thereon. He also issued a one page report to Premier to outline the ground for the qualified opinion.

Overall Conclusion

Overall, the Isabel Provincial Government has made improvements during these years which resulted in a reduction in the number of issues identified and the severity of the issues. They have also applied the IPSAS Cash Basis Reporting Framework as required by Ministry of Provincial Government and Institutional Strengthening.

2.3.5. Makira-Ulawa Province

For the Year Ended 31 March 2010

The Auditor-General audited the 2010 financial statements of Makira-Ulawa Province and issued a disclaimer of opinion thereon on 6 April 2011. He also issued management letters to the Premier and Provincial Secretary summarising the issues that arose during the audit.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2013

OAG audited the financial transactions for the year ending 31 March 2013 and issued two management letters on the findings to the Premier and Provincial Secretary. The Makira-Ulawa Provincial Government did not respond to either letter.

The Auditor-General received the signed financial statements on the Makira-Ulawa 2013 accounts on 31 December 2013 and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier explaining the reason for disclaimer of opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2014

OAG audited the financial transactions for the year ending 31 March 2014 and issued two management letters on the findings. The Makira-Ulawa Provincial Government did not respond to the first letter.

The Auditor-General received the signed financial statements for the 2014 accounts on 30 December 2014 and issued a disclaimer of opinion thereon. A one page report was issued to the Premier providing the grounds for the disclaimer of opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2015

The financial transactions for the year ending 31 March 2015 were audited by OAG and a management letter on the findings was issued to the Premier. The Makira-Ulawa Provincial Government responded to the letter with their action plan.

The signed financial statements for the 2015 accounts was received by the Auditor-General on 28 December 2015 and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier on the reasons for the disclaimer of opinion.

Overall Conclusion

Overall, the Makira-Ulawa Provincial Government has made improvements during these years where the number of issues identified and the severity of the issues were noticeably less. It was noted that they have applied the IPSAS Cash Basis Reporting Framework.

2.3.6. Malaita Province

For the Year Ended 31 March 2010

The Auditor-General audited the 2010 financial statements of Malaita Province and issued a disclaimer of opinion thereon on 17 September 2011. He also issued management letters to the Premier and Provincial Secretary summarising the issues that arose during the audit.

The disclaimer of opinion was attributed to the following factors:

- The financial statements were not prepared in accordance with an applicable financial reporting framework such as International Public Sector Accounting Standards.
- Continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. I was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2013

The OAG audited the financial transactions for the year ended 31 March 2013 and issued two management letters on the findings. The Malaita Provincial Government responded to the letters with their action plans.

The Auditor-General received signed financial statements on the 2013 accounts on 26 October 2013 and issued a disclaimer of opinion thereon. The Auditor-General issued a one page report to the Premier explaining the reasons for the audit opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2014

OAG audited the financial transactions for the year ended 31 March 2014. OAG issued a management letter on the findings. Malaita Provincial Government responded to the management letter with an action plan.

The Auditor-General received signed financial statements on Malaita 2014 accounts on 23 June 2014 and issued a disclaimer of opinion thereon. The Auditor-General issued a one page report to the Premier outlining the reasons for the audit opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

For the Year Ended 31 March 2015

The financial transactions for the year ended 31 March 2015 were audited by OAG and a management letter on the findings was issued to the Premier and Provincial Secretary. Malaita Provincial Government did not respond to the letter.

The Auditor-General received the signed financial statements on the 2015 accounts on 23 December 2015 and issued a disclaimer of opinion thereon. The Auditor-General issued a one page report to the Premier giving the reasons for the audit opinion.

Overall Conclusion

Overall, the Malaita Provincial Government has not made much improvement during these years with many of the matters identified in previous years still recurring. There has not been a noticeable reduction in the severity of those matters. However, they are applying the IPSAS Cash Basis Reporting Framework.

2.3.7. Rennell and Bellona Province

For the Year Ended 31 March 2010

The Auditor-General audited the 2010 financial statements of Rennell and Bellona Province and issued a disclaimer of opinion thereon on 8 March 2011. He also issued management letters to the Premier and Provincial Secretary summarising the issues that arose during the audit.

The disclaimer of opinion was attributed to the following factors:

- The financial statements were not prepared in accordance with an applicable financial reporting framework such as International Public Sector Accounting Standards.
- Continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. I was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2013

OAG audited the financial transactions for the year ending 31 March 2013 and issued two management letters on the findings to Premier and Provincial Secretary. The Rennell & Bellona Provincial Government did not respond to either letter.

The Auditor-General did not receive the signed financial statements on the Rennell & Bellona's 2013 accounts until 10 March 2016 and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier explaining the grounds for the audit opinion.

For the Year Ended 31 March 2014

OAG audited the financial transactions for the year ending 31 March 2014 and issued two management letters on the findings to Premier and Provincial Secretary. Rennell & Bellona Provincial Government did not respond to the letters.

The Auditor-General did not receive signed financial statements on the 2014 accounts until 10 March 2016 and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier stating the grounds for the audit opinion.

For the Year Ended 31 March 2015

The financial transactions for the year ended 31 March 2015 was audited by OAG and issued a management letter on the findings to Premier and Provincial Secretary. OAG received a response from the Rennell & Bellona Provincial Government in October 2016.

The Auditor-General received the signed financial statements on the Rennell and Bellona's 2015 accounts on 31 December 2015 and issued a disclaimer of opinion in November 2016.

Overall Conclusion

Overall, the Rennell & Bellona Provincial Government has not made improvement during these years as the number of issues identified and the severity of the issues were the same as before. However, they are applying the IPSAS Cash Basis Reporting Framework.

2.3.8. Temotu Province

For the Year Ended 31 March 2010

The Auditor-General audited the 2010 financial statements of Temotu Province and issued a disclaimer of opinion thereon on 10 August 2011. He also issued management letters to the Premier and Provincial Secretary summarising the issues that arose during the audit.

The disclaimer of opinion was attributed to the following factors:

- The financial statements were not prepared in accordance with an applicable financial reporting framework such as International Public Sector Accounting Standards.

- Continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. I was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2013

OAG audited the financial transactions for the year ended 31 March 2013 and issued two management letters on the findings to Premier and Provincial Secretary. The Temotu Provincial Government did not respond to the first letter.

The Auditor-General did not receive signed financial statements on the Temotu Province 2013 accounts until 17 March 2014 and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier providing the reasons for the audit opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2014

The financial transactions for the year ending 31 March 2014 was audited by OAG and OAG issued two management letters on the findings. Temotu Provincial Government responded to the letters explaining the actions the Provincial Government had taken and planned to take regarding the recommendations.

The Auditor-General received the signed financial statements for the 2014 accounts on 26 September 2014 and issued a disclaimer of opinion. He also issued a one page report to the Premier stating the grounds for the audit opinion.

The disclaimer of opinion was attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

For the Year Ended 31 March 2015

OAG audited the transactions for the year ended 31 March 2015 and issued a management letter on the findings to Premier and Provincial Secretary. Temotu Provincial Government responded to the letter with their action plan.

The Auditor-General received the signed financial statements for the 2015 accounts on 29 December 2015 and issued a disclaimer of opinion. He also issued a one page report to Premier explaining the reasons for the audit opinion.

The disclaimer of opinion was attributed to the continued failure in the system of properly reconciling the cash opening and closing balances between financial years which resulted in discrepancies of \$2,828,299 between the 2013/14 and 2014/15 financial statements for which there is no explanation. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

As a result of these matters the Auditor-General could not determine whether any adjustments might have been found necessary in respect to the receipts, disbursements, assets and liabilities in the financial statements.

Overall Conclusion

Overall, the Temotu Provincial Government has made some improvement during these years where the number of issues identified and the severity of the issues were reducing. Also Temotu Provincial Government is applying the IPSAS Cash Basis Reporting Framework.

2.3.9. Western Province

For the Year Ended 31 March 2013

OAG audited the financial transactions for the year ending 31 March 2013 and issued two management letters on the findings to the Premier and Provincial Secretary. Western Provincial Government did not respond to the first letter.

The Auditor-General received signed financial statements for the Western Province 2013 accounts on 23 December 2013. He issued a qualified opinion thereon. He also issued a one page report to the Premier stating the grounds for the audit opinion.

For the Year Ended 31 March 2014

The financial transactions for the year ending 31 March 2014 was audited by OAG and issued two management letters on the findings. Western Provincial Government did not respond to the first letter.

The Auditor-General received signed financial statements on the 2014 accounts on 26 September 2014 and issued a qualified opinion thereon. Also a one page report from Auditor-General to Premier was issued outlining the basis for the audit opinion.

For the Year Ended 31 March 2015

OAG audited the financial transactions for year ended 31 March 2015 and issued a management letter on the findings to Premier and Provincial Secretary. The Western Provincial Government responded to it with an action plan.

The Auditor-General received signed financial statements on the 2015 accounts on 15 December 2015 and issued a disclaimer of opinion thereon. He also issued a one page report to Premier stating the basis of the audit opinion.

The audit of the financial statements disclosed a variance between the cash balances in the 2014 financial statements and the comparative figure in the 2015 financial statements of \$275,966 for which there is no explanation. The Auditor-General therefore could not determine the accuracy of the opening balance as at 1 April 2014, and the effect of any misstatements therein on the Statement of Cash Receipts and Payments and Explanatory Notes for the year ended 31 March 2015. As a result, the Auditor-General was unable to determine whether any adjustments may have been necessary to this statement.

Overall Conclusion

Overall, Western Provincial Government has made some improvement during these years as the number of issues identified and the severity of the issues were reducing. Western Provincial Government has applied the IPSAS Cash Basis Reporting Framework.

Chapter 3 State Owned Enterprises and Statutory Bodies

3.1. State Owned Enterprises and Statutory Body summary

The following tables summarise the financial statements for state owned enterprises and statutory bodies which were certified by the Auditor-General since the date of the last Auditor-General's Report to Parliament.

Statutory Body	Year	Date Signed By Board	Date Certified by Auditor-General	Audit Opinion
Central Bank of Solomon Islands	2013	27/5/2014¹	27/5/2014	Qualified [^]
Central Bank of Solomon Islands	2014	29/4/2015	30/4/2015	Qualified [^]
Central Bank of Solomon Islands	2015	21/4/2016	28/4/2016	Unqualified
Solomon Islands National Provident Fund	2014	30/9/2014	30/9/2014	Unqualified [^]
Solomon Islands National Provident Fund	2015	8/9/2015	30/9/2015	Unqualified [^]
Solomon Islands National Provident Fund	2016	30/9/2016	30/9/2016	Unqualified [^]
Solomon Islands Visitors Bureau	2009	Not dated¹	8/4/2014	Disclaimer [^]
Solomon Islands Visitors Bureau	2010	Not dated¹	9/4/2014	Disclaimer [^]
Solomon Islands Visitors Bureau	2011	Not dated¹	9/4/2014	Disclaimer [^]
Solomon Islands Visitors Bureau	2012	17/7/2015¹	18/8/2015	Unqualified [^]
Solomon Islands Visitors Bureau	2013	8/8/2016¹	9/8/2016	Unqualified [^]
Telecommunications Commission of Solomon Islands	2013	31/3/2014	29/10/2014	Unqualified [^]
Telecommunications Commission of Solomon Islands	2014	31/3/2015¹	14/12/2015	Unqualified [^]
Telecommunications Commission of Solomon Islands	2015	10/3/2016	10/8/2016	Unqualified [^]

¹ Financial statements were submitted after the date required by legislation

[^] refer to the Glossary for definitions of audit opinion types

State Owned Enterprise	Year	Date Signed By Board	Date Certified by Auditor-General	Audit Opinion
Commodities Export Marketing Authority	2012	2/4/2014¹	7/4/2014	Disclaimer [^]
Commodities Export Marketing Authority	2013	15/10/2014¹	16/10/2014	Qualified [^]
Commodities Export Marketing Authority	2014	31/3/2015	31/3/2015	Qualified [^]
Commodities Export Marketing Authority	2015	31/3/2016	31/3/2016	Unqualified [^]

Solomon Islands Broadcasting Corporation	2012	3/4/2014¹	22/4/2014	Disclaimer [^]
Solomon Islands Broadcasting Corporation	2013	5/11/2014¹	11/11/2014	Qualified [^]
Solomon Islands Broadcasting Corporation	2014	26/8/2015¹	28/8/2015	Disclaimer [^]
Solomon Islands Broadcasting Corporation	2015	31/3/2016	31/3/2016	Disclaimer [^]
Solomon Islands Electricity Authority	2013	28/3/2014	31/3/2014	Unqualified [^]
Solomon Islands Electricity Authority	2014	31/3/2015	31/3/2015	Unqualified [^]
Solomon Islands Electricity Authority	2015	23/3/2016	30/3/2016	Unqualified [^]
Solomon Islands Port Authority	2011	3/6/2016¹	13/6/2016	Unqualified [^]
Solomon Islands Port Authority	2012	5/8/2016¹	8/8/2016	Unqualified [^]
Solomon Islands Port Authority	2013	11/10/2016¹	20/10/2016	Unqualified [^]
Solomon Islands Postal Corporation	2012	24/4/2014¹	1/5/2014	Disclaimer [^]
Solomon Islands Postal Corporation	2013	11/11/2014¹	12/11/2014	Disclaimer [^]
Solomon Islands Postal Corporation	2014	3/8/2016¹	5/8/2016	Unqualified [^]
Solomon Islands Water Authority	2013	Not dated¹	26/6/2014	Unqualified [^]
Solomon Islands Water Authority	2014	1/4/2015¹	8/4/2015	Unqualified [^]
Solomon Islands Water Authority	2015	29/3/2016	30/3/2016	Unqualified [^]
Solomon Airlines	2013	31/7/2014¹	3/9/2014	Qualified [^]
Solomon Airlines	2014	1/5/2015¹	6/5/2015	Unqualified [^]
Solomon Airlines	2015	5/9/2016¹	5/9/2016	Unqualified [^]

¹ Financial statements were submitted after the date required by legislation

[^] refer to the Glossary for definitions of audit opinion types

The following table lists the status of financial statements for state owned enterprises and statutory bodies as at 30 November 2016:

Status of State Owned Enterprises and Statutory Body audits as at 30 November 2016

Auditee	Latest Financial Statements Received	Status
Central Bank of Solomon Islands	2015	Financial statements certified by AG
Commodities Export Marketing Authority	2015	Financial statements certified by AG
Investment Corporation of Solomon Islands	2009 - 2013	Audit being finalized after negotiations with management
Solomon Islands Broadcasting Corporation	2015	Financial statements certified by AG
Solomon Islands College of Higher Education	2012 - 2013	Audit being finalized after negotiations with management
Solomon Islands Electricity Authority	2015	Financial statements certified by AG
Solomon Islands National Provident Fund	2016	Financial statements certified by AG
Solomon Islands National University	nil	No financial statement prepared
Solomon Islands Postal Corporation	2014	Financial statements certified by AG
Solomon Islands Port Authority	2014 and 2015	Financial statements prepared and submitted late; audits being finalised
Solomon Islands Visitors Bureau	2013	Financial statements certified by AG
Solomon Islands Water Authority	2015	Financial statements certified by AG
Solomon Airlines Limited	2015	Financial statements certified by AG
Telecommunications Commission of Solomon Islands	2015	Financial statements certified by AG
Honiara City Council	2011 - 2015	Received September 2016. Audit being conducted.

The Auditor-General contracts the conduct of selected state Owned Enterprises and Statutory Bodies to private accounting firms. These audits are contracted out because OAG does not have the capacity in terms of both number of staff and skills and qualification of staff to perform the audits of these complex financial statements. The working papers and reports of the contracted firm are reviewed by OAG and the Auditor-General before the Auditor-General signs the Audit Certificate.

The following table details the contracted audit arrangements for the 2014 to 2016 years.

Auditee	Year	Contracted Firm
Central Bank of Solomon Islands	2013	KPMG
	2014	KPMG
	2015	KPMG
Solomon Islands Electricity Authority	2013	Ernst & Young (Fiji)
	2014	Ernst & Young (Fiji)
	2015	Ernst & Young (Fiji)
Solomon Islands Water Authority	2013	Ernst & Young (Fiji)
	2014	Ernst & Young (Fiji)
	2015	Ernst & Young (Fiji)
Solomon Islands National Provident Fund	2014	KPMG
	2015	KPMG
	2016	KPMG
Solomon Islands Port Authority	2011	Morris & Sojnocki
	2012	Morris & Sojnocki
	2013	Morris & Sojnocki
	2014	Morris & Sojnocki
	2015	KPMG
Solomon Airlines Limited	2013	KPMG
	2014	KPMG
	2015	KPMG

3.2. State Owned Enterprises and Statutory Body general discussion

Lack of timeliness of financial statements reflects on governance, accountability and transparency

The majority of SOEs and Statutory Bodies have a 31 December year-end with the exception of SIPA which has a 30 September year-end and SINPF which has at 30 June year-end. The statutory deadline for audit certification of SOE financial statements is within three months of year end or 31 March. Different Statutory Bodies have different statutory dates for submitting their financial statements to the Auditor General for audit depending upon their enabling legislation

Of the 37 financial statements submitted to the Auditor-General during this period, 25 were submitted after the date required by legislation – only 12 were submitted within the legislated time frame. The delay in submission varied from weeks to years.

There is a correlation between financial performance and the timeliness and accuracy of the financial statements. Management need regular, accurate internal financial reports to guide the decisions made and strategies taken. Without this information provided on a regular, preferably monthly basis, management are not aware of many areas where problems are occurring and cannot

take appropriate action in time to prevent problems becoming more serious, or to take advantage of opportunities. Regular financial reporting is necessary for management to be able to perform their governance responsibilities.

If an entity has strong internal financial reporting processes, the preparation of annual financial reports becomes much easier, and the information contained in the financial statements is much more reliable.

Number of Financial Statements subject to modified audit opinions

Of the 37 financial statements submitted to the Auditor-General during this period, only 22 were able to be certified with an unmodified or unqualified audit opinion. Of the remainder, 6 were subject to qualified audit opinions. For nine financial statements the circumstances of the financial statements and supporting accounts and records were such that the Auditor-General was not able to form an opinion, and issued a disclaimer of opinion.

The Auditor-General is also concerned at the number of entities which continue to receive disclaimed audit opinions due to lack of reliability of financial information, or in some case, lack of availability of information and records. Not only are the financial statements not reliable, but this is an indicator that the management of the entity are not receiving accurate and timely financial reports to monitor their organisation. This indicates there is a lack of basic governance within these organisations.

The following table and charts summarise the financial performance, timeliness of financial statements and audit opinions of the state owned enterprises and statutory bodies. This information illustrates the concerns of the Auditor-General.

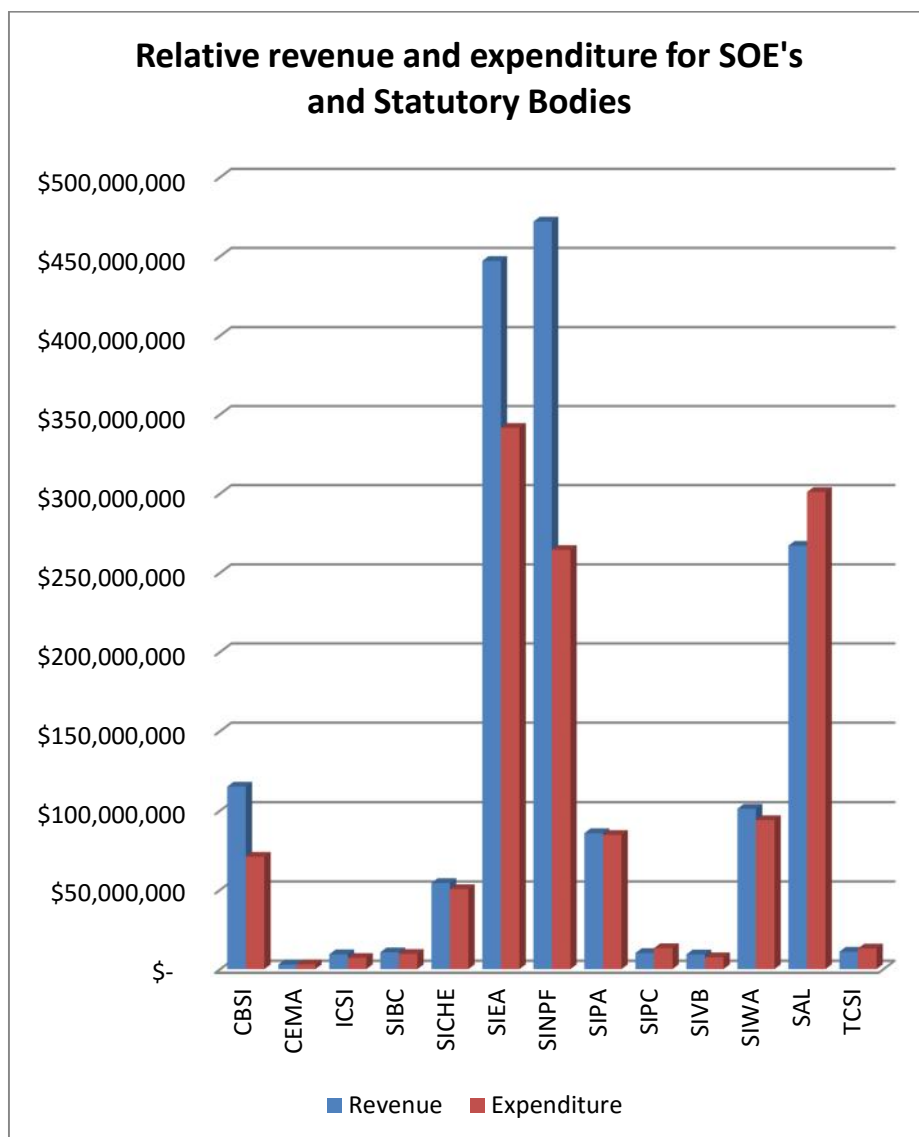
Table of key financial data for state owned enterprises and statutory bodies

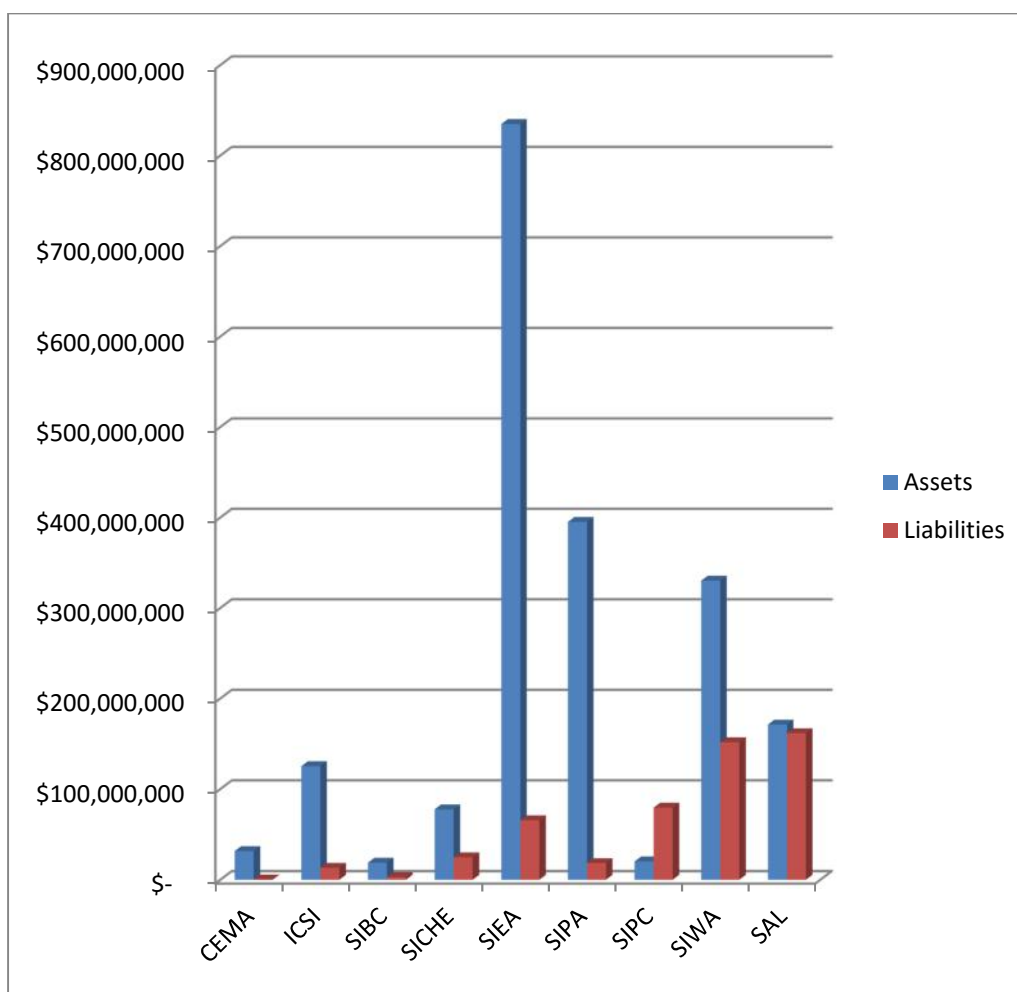
Entity	CBSI	CEMA	ICSI	SIBC	SICHE	SIEA	SINPF	SIPA	SIPC	SIVB	SIWA	SAL	TCSI
Year	2015	2015	2008	2015	2011	2015	2016	2013	2013	2013	2015	2015	2015
Opinion	Unqualified	Qualified	Disclaimer	Disclaimer	Disclaimer	Unqualified	Unqualified	Unqualified	Disclaimer	Unqualified	Unqualified	Unqualified	Unqualified
Revenue	\$115,138,000	\$2,898,810	\$9,343,874 ^	\$10,607,246	\$54,207,819	\$ 447,132,402	\$ 471,901,564	\$ 85,721,892	\$ 10,154,790	\$ 9,299,470	\$ 101,126,543	\$ 267,064,449	\$ 10,991,928
Expenditure	\$70,830,000	\$3,047,519	\$7,088,569	\$9,598,517	\$50,369,522	\$ 341,502,239	\$ 264,423,467	\$ 84,561,314	\$ 13,213,444	\$ 7,439,414	\$ 93,950,391	\$ 300,920,482	\$ 12,994,950
Surplus/ (Deficit)	\$44,308,000	-\$148,709	\$2,255,305	\$1,008,729	\$3,838,297	\$ 105,630,163	\$ 207,478,097	\$ 1,160,578	-\$ 3,058,654	\$ 1,860,056	\$ 7,176,152	-\$ 33,856,033	-\$ 2,003,022
Assets	\$4,512,124,000	\$31,623,241	\$125,175,786	\$18,865,041	\$77,626,436	\$ 834,750,651		\$ 395,099,426	\$ 20,190,359		\$ 330,255,110	\$ 171,181,720	
Liabilities	\$4,498,881,000	\$315,328	\$13,262,460	\$2,960,468	\$24,679,207	\$ 65,479,606		\$ 18,403,272	\$ 79,458,176		\$ 151,562,202	\$ 161,601,324	
Current Assets		\$345,111	\$7,886,134	\$2,682,475	\$46,549,601	\$ 279,050,528		\$ 51,264,383	\$ 5,783,194		\$ 56,332,880	\$ 31,736,970	
Current Liabilities		\$274,542	\$13,262,460	\$883,309	\$24,679,207	\$ 36,159,910		\$ 12,887,936	\$ 79,427,959		\$ 26,403,804	\$ 130,117,881	
Current Liabilities Exceed Current Assets		\$70,569	-\$5,376,326	\$1,799,166	\$21,870,394	\$ 242,890,618	\$ -	\$ 38,376,447	-\$ 73,644,765		\$ 29,929,076	-\$ 98,380,911	

^ICSI received grants from SIG of \$6,722,382 which are included in revenue.

The financial data has been taken from the most recent certified financial statements of each entity. The year of the financial statements used is shown in the second row of the table.

The following charts illustrate the relative size of operations and turnover of the various state owned enterprises and statutory bodies, based on the figures in the table above.





This chart excludes CBSI - because its assets of \$4 billion distort the visibility of the assets of the other entities in the chart - and the SOE's which prepare their financial statements on a cash basis, and therefore do not report all assets and liabilities.

The table and charts illustrate the degree of variability in the level of turnover and assets and liabilities of the various entities. The table also shows the degree of variability in the financial performance of these entities.

The entities of greatest concern with regard to financial performance are:

- Commodities Export Marketing Authority (CEMA) which made a deficit for the year. The financial statements for CEMA were subject to a qualified audit opinion by the Auditor-General.
- Investment Corporation of Solomon Islands (ICSI) which both made a loss, when the grants received from SIG are excluded from revenue, and has current liabilities exceeding current assets. Of even greater concern is the failure of ICSI to produce financial statements which are able to be audited and certified by the Auditor-General since the 2008 financial year. These financial statements were subject to a disclaimer of opinion by the Auditor-General.
- Solomon Islands Postal Corporation (SIPC) which both made a loss and has current liabilities exceeding current assets. SIPC has also delayed preparation of financial statements for submission for audit. The 2013 financial statements were subject to disclaimer of opinion by the Auditor-General.
- Solomon Airlines Limited which recorded both a loss and current liabilities which exceed current assets.
- Telecommunications Commission of Solomon Islands which recorded a net deficit.

3.3.State Owned Enterprises and Statutory Body specific matters

The following sections contain summaries of the results of audits of the state owned enterprises and statutory bodies undertaken and reported during 2014, 2015 and 2016.

3.3.1.Central Bank of the Solomon Islands

Entity	CBSI
Year	2015
Opinion	Unqualified
Revenue	\$ 115,138,000
Expenditure	\$ 70,830,000
Surplus/ (Deficit)	\$ 44,308,000
Assets	\$ 4,512,124,000
Liabilities	\$ 4,498,881,000

The Central Bank of Solomon Islands is established under the *Central Bank of Solomon Islands Act 2012*. The objectives of the Bank are defined as:

“8. (1) The primary objective of the Central Bank shall be to achieve and to maintain domestic price stability.

(2) An additional objective of the Central Bank, which shall be subordinated to the primary objective, shall be to foster and to maintain a stable financial system.

(3) Without prejudice to attainment of these two objectives, the Central Bank shall support the general economic policies of the Government.”

Section 56 of the Act states:

“56. In the event that in the audited annual financial statements of the Bank, the value of its assets falls below the sum of its monetary liabilities and its unimpaired authorised capital, then –

(a) the Board, with the advice of the external auditor of the Central Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;

(b) if the Board approves the report under paragraph (a), the Central Bank shall request the Minister for Finance for a capital contribution to be made by the Government to remedy the deficit; and

(c) upon receipt of this request the Government shall, within a period of no more than 30 calendar days, transfer to the Central Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Solomon Islands.”

In each of the three years since the Act commenced, the Bank’s assets have fallen below the defined threshold. On each occasion, the CBSI Board has written to the Minister to advise him of the circumstances. The Board requested a capital contribution, but the Minister declined the request.

2013 Financial Statements

The 2013 financial statements were certified by the Auditor-General on 27 May 2014 with the following qualified audit opinion:

“Basis for Qualified Opinion

Currency in circulation

As at 31 December 2013, currency in circulation is recorded in the financial statements at \$617.57m.

I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and accuracy of this balance at year end as the movements of this account cannot be reconciled to the closing balance as at 31 December 2013. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

Currency Inventory

Prior to 1 January 2013 currency inventory comprising notes and coins that were purchased and not yet circulated were expensed to profit and loss when purchased or received in accordance with the Bank’s accounting policy. Section 57(3) of the Central Bank of Solomon Islands Act, 2012 which became effective 1 January 2013, now requires that all notes and coins purchased and not circulated be accounted for as inventory and expensed to profit or loss when it is issued into circulation.

I could not obtain sufficient appropriate audit evidence over the existence and accuracy of the restated currency inventory as at 31 December 2012 following the change in the Bank’s accounting policy and given that the balance of currency in circulation cannot be substantiated as at 31 December 2013, I am unable to apply alternative audit procedures to verify the balance of currency inventory as at 1 January 2013.

Qualified Opinion

In my opinion, except for the effect if any, of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

As at 31 December 2013, the Bank’s total assets amounted to \$4.30 billion. This was less than the sum of the Bank’s total monetary liabilities and its unimpaired capital which totalled \$4.34 billion.

Under Section 56 of the Central Bank of Solomon Islands Act 2012, the Bank will be required to inform the Minister for Finance within 30 days of this report of the reasons for this shortfall and request a capital contribution to remedy the shortfall.

Report on Other Legal and Regulatory Requirements

International auditing standards require the auditor to report on certain other matters which may arise in relation to compliance with legal and regulatory requirements applicable to the Central Bank of Solomon Islands.

I draw attention to the fact that the Bank has not complied with Section 58 of the Central Bank of Solomon Islands Act 2012 which requires audited financial statements and the auditor’s report thereon to be presented to the Minister for Finance within four months of the end of the financial year. The management signed financial statements were not presented to me until today. The Bank did inform the Minister for Finance prior to the due date that it expected the audited statements to be delayed.”

2014 Financial Statements

The 2014 financial statements were certified by the Auditor-General on 30 April 2015 with the following qualified audit opinion:

“Basis of qualification

Currency in circulation

As at 31 December 2014, currency in circulation is recorded in the financial statements at \$694.34m.

I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and accuracy of this balance at year end as I could not satisfy myself as to the completeness, existence and accuracy of the currency in circulation balance as at 1 January 2014. I am unable to apply alternative audit procedures to verify the balance of currency in circulation as at 1 January 2014. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

Qualified opinion

In my opinion, except for the effect if any, of the matters referred to in the qualification paragraphs above, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014 and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying my opinion, the Bank had a deficiency in net assets of \$18.8 million as at 31 December, 2014. The Bank's total assets of \$4.20 billion was less than the sum of the Bank's total monetary liabilities and its unimpaired capital of \$4.27 billion. These conditions have arisen from the Bank's large open position in foreign currency which is subject to foreign exchange rate movements.

Under section 56 of the Central Bank of Solomon Islands Act 2012, the Bank will be required to inform the Minister for Finance within 30 days of this report of the reasons for this shortfall and request a capital contribution to remedy the shortfall.

These conditions may cast doubt on the ability of the Bank to continue as a going concern except for the Bank's ability to access Solomon Island Government financial support should that become necessary. “

2015 Financial Statements

The 2015 financial statements were certified by the Auditor-General on 28 April 2016 unqualified with the following emphasis of matter:

“Emphasis of matter

Without modifying my opinion, the Bank had a deficiency in net assets of \$18.8 million as at 31 December, 2014. The Bank's total assets of \$4.20 billion were less than the sum of the Bank's total monetary liabilities and its unimpaired capital of \$4.27 billion. These conditions have arisen from the Bank's large open position in foreign currency which is subject to foreign exchange rate movements.

Under section 56 of the Central Bank of Solomon Islands Act 2012, the Bank will be required to inform the Minister for Finance within 30 days of this report of the reasons for this shortfall and request a capital contribution to remedy the shortfall.”

3.3.2.Commodities Export Marketing Authority

Entity	CEMA
Year	2015
Opinion	Qualified
Revenue	\$ 2,898,810
Expenditure	\$ 3,047,519
Surplus/ (Deficit)	-\$ 148,709
Assets	\$ 31,623,241
Liabilities	\$ 315,328
Current Assets	\$ 345,111
Current Liabilities	\$ 274,542
Current Assets Exceed Current Liabilities	\$ 70,569

The Commodities Export Marketing Authority is established under the *Commodities Export Marketing Authority Act 1984*. The functions of the Authority are defined as:

6. (1) *For the purpose of promoting the export of commodities, the Authority shall be responsible for the development of their production, and for securing their efficient and regulated marketing . .*

(2) *In particular, and without prejudice to the generality of the foregoing provision, the functions of the Authority shall be –*

(a) *to promote, assist and develop commodities industries, whether by way of implementing any national plan prepared by it and approved by the Minister in this behalf, or otherwise, in such manner as it may think fit;*

(b) *with a view to securing efficient marketing in commodities for the purpose of their export to –*

(i) *collect, collate or prepare information or estimates with respect to-*

(A) *prices of, and supply, demand and other market conditions relating to, the commodities;*

(B) *publication or dissemination of such information or estimates to persons engaged in any prescribed activity in any commodity;*

(ii) *specify appropriate standards with respect to the quality, weight, ingredients, use and other particulars of the commodities, for the purpose of designation of their grades to indicate their suitability for export, and for the rejection of the commodities for export for failure to comply with such standards;*

(iii) *require the marking of the commodities with such standards;*

(iv) *fix by order published in the Gazette, the prices of commodities, for their buying or selling having regard to the cost of any prescribed activity in a commodity, the margin of profit expected by a producer from the export of the commodity, prevailing price of similar products in the local market in Solomon Islands, and other relevant considerations, and stabilise such prices, as far as possible, by*

taking such measures as it may consider necessary, notwithstanding fluctuations in the prices of the commodities overseas; .

(v) advertise such prices in such other manner as it may think fit; (vi) engage in buying or selling of commodities at such prices as it has fixed or to engage in any other prescribed activity for the promotion of, or for the protection of persons engaged in, the export of commodities; and·

(vii) secure the availability of the commodities for the purpose of export by taking appropriate measures for the prevention of their hoarding and unhealthy competition between persons engaged in their production;

(c) to make such grants and loans, provide such guarantee and to secure such other credit facilities on such conditions, as may be approved by the Minister, in consultation with the Minister of Finance to persons engaged in carrying on any prescribed activity, with a view to promoting export of any commodity;

(d) to undertake studies, surveys, investigations and research into any matter affecting any prescribed activity in any commodity, and to provide appropriate facilities for the training and education of, and consultancy services to, persons engaged in any prescribed activity;

(e) to monitor the implementation of the provisions of this Act by making such enquiries and investigations as it may think fit;

(f) to initiate, invite and induce investments into, or to receive contributions or any form of assistance, financial or otherwise, from any source for the purpose of development or the production of any commodity;

(g) to co-operate with other persons, whether citizens or foreign nationals, in any such joint scheme or project , of the promotion of export of a commodity, as may be approved by the Minister; and

(h) to carry out such other functions as are conferred on the authority under this Act, or any other law.

(3) In performing its functions, the Authority shall ensure, by negotiations with the owners of customary land, or otherwise, that their interests are safeguarded and that they get, as far as possible under the provisions of this Act, best returns for any commodity produced on their land, or from the carrying on of any other prescribed activity with respect to that commodity.

2012 Financial Statements

The 2012 financial statements were certified by the Auditor-General on 7 April 2014 with the following disclaimer of opinion:

“Because of the matters described within the Basis for Disclaimer of the Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Revenue

I was unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of revenue totalling \$72,240 as a result of missing receipt books. Accordingly I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the loss for the year reported in the Profit and Loss Statement and Statement of Changes in Equity and the net cash flows from operating activities reported in the Statement of Cash Flows.

Expenditure

I was not able to verify the completeness, occurrence and accuracy of operational expenditure totalling \$457,886.35 due to the absence of sufficient appropriate supporting documentation. Further, payroll transaction reports were not able to be located for employee expenditure totalling \$199,955.70.

As a result I am unable to confirm or verify by alternative means the carrying amount of expenses included in the financial statements as at 31 December 2012 and determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Opening Balances

A disclaimer of opinion was issued on the 2011 financial statements. I therefore could not determine the accuracy of the opening balances as at 1 January 2012, and the effect of any misstatements therein on the Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows for the year ended 31 December 2012.

As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the Profit and Loss Statement and Statement of Changes in Equity and the net cash flows from operating activities reported in the Statement of Cash Flows.

Property Plant and Equipment

The last independent valuation of land and buildings was undertaken in 2003. I was therefore unable to satisfy myself as to the carrying value of land and buildings at 31 December 2012 and determine whether any adjustments might be necessary to the amounts disclosed in the financial statements, to ensure land and buildings were recognised at fair value and the asset revaluation reserve was fairly stated as at balance date. Consequently, I was also unable to rely on the balance reported for depreciation expenses. Finally, the Accounts Payable ledger was not reconciled to General ledger at 31 December 2012.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence on the profit and loss statement, statement of financial position, statement of change in equity and statement of cash flow. As a result I am unable to express an opinion on the profit and loss statement, statement of financial position, statement of changes in equity and cash flow statement for the year ended 31 December 2012.

Emphasis of matter

Going concern

Without qualifying my opinion, I draw your attention to note 1(c) to the financial statements and that the Authority's continuation as a going concern is dependent on its ability to obtain appropriate financing and on the ongoing support of the Solomon Islands Government in order to meet its obligations. Current liabilities are exceeding Current assets resulting in a working capital loss of \$423,429. The directors believe that the going concern basis is appropriate as the Authority is a state owned enterprise and the single provider who help to maximise resource owners in the Solomon Islands.

Report on Other legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act

The Authority has not complied with the requirements of the *Public Finance and Audit Act [Cap 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements

to be submitted to the responsible Minister before 31 March of the following year to which the financial statements relate. “

2013 Financial Statements

The 2013 financial statements were certified by the Auditor-General on 16 October 2014 with the following qualified audit opinion:

“Basis for Qualified Opinion

Receivable

I was unable to obtain sufficient appropriate audit evidence regarding the accuracy of the receivable balances as at 31 December 2013 financial year. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements.

Investment Property

Audit identified that total rent received for the year from all properties amounted to \$1,190,948. Under IAS 40, when properties earn rentals they should be accounted for and disclosed as investment property in the Financial Statements. I was therefore unable to satisfy myself regarding the accuracy of rentals received by CEMA as at 31 December 2013 financial year. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements.

Property, plant and equipment

The last independent valuation of land and buildings was undertaken in 2003. I was therefore unable to satisfy myself as to the carrying value of land and buildings at 31 December 2013 and determine whether any adjustments might be necessary to the amounts disclosed in the financial statements, to ensure land and buildings were recognised at fair value and the asset revaluation reserve was fairly stated as at balance date. I was also unable to rely on the balance reported for depreciation expenses. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements.

Qualified Opinion

In my opinion, except for the effect if any, of the matters described in the Basis for Qualified paragraphs above, the financial statements give a true and fair view of the financial position of the Authority as at 31st December 2013 and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Going concern

I draw attention to note 1(c) to the financial statements and that the Authority's continuation as a going concern is dependent on its ability to obtain appropriate financing and on the ongoing support of the Solomon Islands Government in order to meet its obligations. Current liabilities are exceeding Current assets resulting in a working capital loss of \$139,331. The directors believe that the going concern basis is appropriate as the Authority is a state owned enterprise and the Solomon Islands Government have indicated to CEMA that it will provide financial support to enable it to pay its debts as and when they fall due for a period of 12 months from the date the Directors approved these financial statements.

Report on Other legal and Regulatory Requirements

Lack of compliance with the State Owned Enterprises Act 2007

I draw your attention to the fact that CEMA has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act 2007* which require audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. The management signed financial statements were not presented to me until 15 October 2014."

2014 Financial Statements

The 2014 financial statements were certified by the Auditor-General on 31 March 2015 with the following qualified audit opinion:

"Basis for Qualified Opinion

Investment Property comparative balances.

My audit identified that total rent received for the year from all properties amounted to \$1,350,666. Under IAS 40, when properties earn rentals they should be accounted for and disclosed as investment property in the financial statements. However the value of the investment properties held by CEMA as at 31 December 2013 has not been disclosed in the financial statements and no independent valuation has been performed prior to 2014. I was therefore unable to satisfy myself regarding the opening valuation balances of investment properties held by the Authority as at 1 January 2014. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements in respect of the 2013 closing balances.

Property, plant and equipment comparative balances.

Prior to 2014, the last independent valuation of land and buildings was undertaken in 2003. I was therefore unable to satisfy myself as to the carrying value of land and buildings at 31 December 2013 and the subsequent opening balances as at 1 January 2014 to determine whether any adjustments might be necessary to the amounts disclosed in the financial statements, to ensure land and buildings were recognised at fair value and the asset revaluation reserve was fairly stated as at balance date. I was also unable to rely on the balance reported for depreciation expenses. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements.

Valuation

A valuation of property, plant and equipment was undertaken during 2014. There were five land and building properties held by the Authority of the same asset class which had not been revalued during the financial year. This represents a departure from IAS 16 "Property, Plant and Equipment" Which requires that the revaluation model be applied to an entire asset class." Accordingly, the value of these five properties is unable to be reliably determined and I am unable to ascertain what adjustments, if any, might be necessary to the balances recorded in financial statements. I was also unable to rely upon the report related balances for depreciation expenses and the asset revaluation reserve."

2015 Financial Statements

The 2015 financial statements were certified by the Auditor-General on 31 March 2016 with an unqualified audit opinion.

3.3.3. Investment Corporation of Solomon Islands

Entity	ICSI
Year	2008
Opinion	Disclaimer
Revenue	\$ 9,343,874^
Expenditure	\$ 7,088,569
Surplus/ (Deficit)	\$ 2,255,305
Assets	\$ 125,175,786
Liabilities	\$ 13,262,460
Current Assets	\$ 7,886,134
Current Liabilities	\$ 13,262,460
Current Liabilities Exceed Current Assets	-\$ 5,376,326
^Included \$6,722,382 in government grants	

The Investment Corporation of Solomon Islands is established under the Investment Corporation of Solomon Islands Act. The functions of the Corporation are defined as:

“4. The functions of the Corporation shall be—

(a) to implement Government policy with regard to public sector participation in commercial investment;

(b) to manage and administer the Government's commercial investment portfolio;

(c) to promote, partake in, identify and initiate commercial investment in Solomon Islands in accordance with Government's commercial investment policies; and

(d) to perform and promote such other functions in relation to commercial investment in Solomon Islands, as the Minister may direct.”

2008 Financial Statements

The 2008 financial statements were certified by the Auditor-General on 24 November 2011 with the following disclaimer of opinion:

“Basis for Disclaimer of Opinion

Lack of or unreliable accounting records

Due to lack of or unreliable accounting records, I was unable to obtain sufficient appropriate audit evidence with respect to cash and cash equivalents, interest bearing loans and borrowings, property plant and equipment, investments in subsidiaries, investments in associates, investment losses from associates and impairment losses. I am unable to determine whether any adjustments might have been found necessary in respect of the Profit and Loss Statement, Statement of Changes in Equity, Balance Sheet and Cash Flow Statements and the related disclosures.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.”

2009-2015 Financial Statements

Financial statements for the Investment Corporation of Solomon Islands have not been signed by management and certified by the Auditor-General since the 2008 financial year.

Unsigned financial statements for the 2009 to 2011 financial years were submitted to the Auditor-General. However, these did not consolidate the controlled entities of ICSI. As this did not provide adequate accountability and transparency of the operations of ICSI, OAG has been negotiating with the management of ICSI to prepare consolidated financial statements.

The management of ICSI has recently agreed to prepare consolidated financial statements from 2009 and ongoing. The financial statements for 2012 to 2016 are now being prepared. At the time of preparing this report, OAG is awaiting the signed, consolidated financial statements for 2009 to 2011.

3.3.4.Solomon Islands Broadcasting Corporation

Entity	SIBC
Year	2015
Opinion	Disclaimer
Revenue	\$ 10,607,246
Expenditure	\$ 9,598,517
Surplus/ (Deficit)	\$ 1,008,729
Assets	\$ 18,865,041
Liabilities	\$ 2,960,468
Current Assets	\$ 2,682,475
Current Liabilities	\$ 883,309
Current Assets Exceed Current Liabilities	\$ 1,799,166

The Solomon Islands Broadcasting Corporation is established under the Broadcasting Act. The functions of the Corporation are described as:

“25.-(1) The Corporation may make regulations, not inconsistent with this Act, prescribing all matters which by this Act are required or permitted to be prescribed, for carrying out or giving effect to this Act.

(2) The Corporation shall -

(a) provide adequate transmission of news and current affairs from within Solomon Islands and in other parts of the world; and

(b) employ adequate staff in Solomon Islands, and overseas for the purpose of collecting the news and information to be broadcast in pursuance of this section; and

(c) procure news and information relating to current events in other parts of the world from such overseas news agencies, services and other sources as it thinks fit.”

The Solomon Islands Broadcasting Corporation has been subject to qualified and disclaimed audit opinions due to inadequate record keeping in recent years. OAG emphasises the importance of ensuring that both paper and electronic records are protected. Electronic records need to be backed up regularly and back-ups taken off site to allow data to be restored if lost or inappropriately deleted. This applies to both accounting and operations data to ensure the smooth continuing operations of the organisation.

2008 Financial Statements

The 2008 financial statements were certified by the Auditor-General on 26 January 2011 with the following disclaimer of opinion:

“Basis for disclaimer of opinion

Lack of or unreliable accountings records

Due to lack of or unreliable accounting records, I was unable to obtain sufficient appropriate audit evidence with respect to accounts receivables , trade creditors, revenues, bank balances, payroll, and advance balances. I am unable to determine whether any adjustments might have been found necessary in respect of these accounts, the resulting net loss, retained earnings and cash flows, and the related disclosures.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Broadcasting Corporation for the financial year ended 31 December 2008.

Emphasis of matter

Lack of compliance with the State Owned Enterprises Act

Without qualifying my opinion, I draw your attention to the fact that SIBC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act* which require audited consolidated financial statements and the auditor’s report thereon to be presented to the accountable minister within three months of the end of the financial year.

Going concern

Without qualifying my opinion, I draw attention to Note 1 (c) of the financial statements. The Corporation’s current liabilities exceed its current assets by \$3,477,436. As a going concern, the Authority is dependent upon the continuing support of the Solomon Islands Government, its bankers and creditors.”

2009 Financial Statements

The 2009 financial statements were certified by the Auditor-General on 18 November 2011 with the following disclaimer of opinion:

“Basis for disclaimer of opinion

Lack of or unreliable accountings records

Due to lack of or unreliable accounting records, I was unable to obtain sufficient appropriate audit evidence with respect to trade and other receivables, revenue, cash and cash equivalents, payroll, imprest and staff advances. I am unable to determine whether any adjustments might have been found necessary in respect of these accounts, the resulting net profit, retained earnings and cash flows, and the related disclosures.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Broadcasting Corporation for the financial year ended 31 December 2009.

Emphasis of matter

Lack of compliance with the State Owned Enterprises Act

Without qualifying my opinion, I draw your attention to the fact that SIBC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act* which require audited consolidated financial statements and the auditor’s report thereon to be presented to the accountable minister within three months of the end of the financial year.

Going concern

Without qualifying my opinion, I draw attention to Note 1 (c) of the financial statements. The Corporation’s current liabilities exceed its current assets by \$1,558,084. As a going concern, the Authority is dependent upon the continuing support of the Solomon Islands Government, its bankers and creditors.”

2012 Financial Statements

The 2012 financial statements were certified by the Auditor-General on 22 April 2014 with the following disclaimer of opinion:

“Basis for disclaimer of opinion

The basis for disclaimer of opinion on the 2012 financial statements is attributed to the following:

Opening Balances

A disclaimer of opinion was issued on the 2011 financial statements. I therefore could not determine the accuracy of the opening balances as at 1 January 2012, and the effect of any misstatements therein on the profit and loss statement, statement of changes in equity and cash flow statement for the year ended 31 December 2012. As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the profit and loss statement and statement of changes in equity and the net cash flows from operating activities reported in the cash flow statement.

Unsupported adjusting entries in bank reconciliations

There were unsupported adjusting entries recorded within the cash at bank reconciliations for the financial years 2008, 2009, 2010 and 2011 carried forward to 31 December 2012. As a result, I was unable to verify the accuracy, completeness, occurrence and propriety of these adjusting entries to obtain reasonable assurance over the validity of the reported bank balance as at 31 December 2012.

Revenue and Receivables

There were missing invoice books covering the period from 30 July 2012 to 12 September 2012 totaling \$215,738. Deposit books for the period of 1 January to 29 February, 4 July to 16 July and from 25 September to 17 October 2012 were also unable to be located. Audit identified a misposting of invoices totaling \$7,542 relating to 2012 which were recorded in the 2013 financial year. As a result I am unable to verify the accuracy and completeness of revenue collected for the year ended and the accuracy of the receivables balances as at 31 December 2012. I was unable to determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Bad Debt Provision

Due to missing invoices and insufficient supporting documentation, as well as the lack of a current special imprest register and advances register I was unable to verify the completeness, existence and accuracy of the bad debt provision totalling \$917,032. This provision comprised of balances reported over the period 2008 to 2012. Further, a journal entry totalling \$832,446 was misposted against this account understating the provision for doubtful debts. As a result I am unable to confirm or verify by alternative means the bad debt provision included in the financial statements as at 31 December 2012. Accordingly, I am not able to determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Misstatement of Finance Expenses and Bad Debts Expense

The reported balance for finance expenses disclosed within the profit and loss statement was understated by \$832,446. This resulted from a journal entry misposting, the balance also incorrectly included expenses for bad debts and bad debts commission. These balances should not be categorised as finance expenses as they do not meet the definition of borrowing costs under IAS 23 "Borrowing Costs". In addition, the balance for the bad debt provision was incorrectly offset against the accounts receivable balance which is also misstated. These balances remain unadjusted and are incorrect. As a result these line items do not give a true and fair view of finance expenses or bad debts expense reported within the profit and loss statement for the year ended 31 December, 2012.

Trade and Other Payables

Due to the absence of sufficient supporting invoices and confirmation documentation, I was unable to verify the completeness, existence and accuracy of the trade payables balances totaling \$32,925.84. Due to the absence of sufficient and appropriate supporting documentation, I was unable to verify the completeness, existence and accuracy of the NPF payable balance totaling \$556,247. As a result I am unable to confirm or verify by alternative means the carrying amount of trade and other payables included in the financial statements as at 31 December 2012 and determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Property, Plant and Equipment

The last independent valuation of property plant and equipment was undertaken as at 1 January 2010. SIBC also did not review the useful lives and residual value of the property, plant and equipment as at reporting date. I was therefore unable to satisfy myself as to the fair value of property plant and equipment and I was also unable to determine whether adjustments to property, plant and equipment and associated depreciation expense within the financial statements were necessary. As a result I am unable to confirm or verify by alternative means the carrying amount of property plant and equipment included in the financial statements as at 31 December 2012 and determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the SIBC for the financial year ended 31 December 2012.

Emphasis of Matter

Going concern

I draw attention to Note 1 (c) of the financial statements. SIBC's current liabilities exceed its current assets by \$4,693,548. As a going concern, SIBC is dependent upon the continuing support of the Solomon Islands Government, its bankers and creditors.

Report on Other Legal and Regulatory Requirements

Lack of compliance with the State Owned Enterprises Act 2007

I draw your attention to the fact that SIBC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act 2007* which require audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. The management signed financial statements were not presented to me until 17 March 2014."

2013 Financial Statements

The 2013 financial statements were certified by the Auditor-General on 11 November 2014 with the following qualified audit opinion:

"Basis for Qualified Opinion

Receivable

I was unable to obtain sufficient appropriate audit evidence regarding the accuracy of the receivable balances as at 31 December 2013 financial year. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements.

Property, plant and equipment

The last independent valuation of land and buildings was undertaken in 2010. I was therefore unable to satisfy myself as to the carrying value of land and buildings at 31 December 2013 and determine whether any adjustments might be necessary to the amounts disclosed in the financial statements, to ensure land and buildings were recognised at fair value and the asset revaluation reserve was fairly stated as at balance date. I was also unable to rely on the balance reported for depreciation expenses. Accordingly, I am not able to ascertain what adjustments, if any, might necessary to the amounts and disclosures in the financial statements.

Qualified Opinion

In my opinion, except for the effect if any, of the matters described in the Basis for Qualified paragraphs above, the financial statements give a true and fair view of the financial position of the Corporation as at 31st December 2013 and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other legal and Regulatory Requirements

Lack of compliance with the State Owned Enterprises Act 2007

I draw your attention to the fact that SIBC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act 2007* which require audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. The management signed financial statements were not presented to me until 5 November 2014."

2014 Financial Statements

The 2014 financial statements were certified by the Auditor-General on 28 August 2015 with the following disclaimer of opinion:

"Basis for Disclaimer of Opinion

MYOB deleted Transactions

A total of 15 transactions were deleted in 2014 financial year. I was therefore unable to quantify and satisfy myself as to the value of these transactions. As a result, I am not able to ascertain if these transactions can significantly affect the balances and disclosures in the financial statements.

Disclaimer of opinion

Because of the significance of the matter described in the basis of disclaimer paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Broadcasting Corporation for the financial year ended 31 December 2014.

Emphasis of Matter

Going concern

I draw attention to note 1(c) to the financial statements and that the SIBC continuation as a going concern relies on the Solomon Islands Government funding through grants and community service obligations payments to maintain working capital, without which the corporation would have experienced a deficit of \$2,709,421.

Report on Other legal and Regulatory Requirements

Lack of compliance with the State Owned Enterprises Act 2007

I draw your attention to the fact that SIBC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act 2007* which require audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. The management signed financial statements were not presented to me until 27 August 2015."

2015 Financial Statements

The 2015 financial statements were certified by the Auditor-General on 31 March 2016 with the following disclaimer of opinion:

"Basis for Disclaimer of Opinion

MYOB deleted Transactions

A total of 16 transactions were deleted in 2015 financial year. I was therefore unable to quantify and satisfy myself as to the value of these transactions. As a result, I am not able to ascertain if these transactions can significantly affect the balances and disclosures in the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Disclaimer of opinion

Because of the significance of the matter described in the basis of disclaimer paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Broadcasting Corporation for the financial year ended 31 December 2015.”

3.3.5.Solomon Islands College of Higher Education

Entity	SICHE
Year	2011
Opinion	Disclaimer
Revenue	\$ 54,207,819
Expenditure	\$ 50,369,522
Surplus/ (Deficit)	\$ 3,838,297
Assets	\$ 77,626,436
Liabilities	\$ 24,679,207
Current Assets	\$ 46,549,601
Current Liabilities	\$ 24,679,207
Current Assets Exceed Current Liabilities	\$ 21,870,394

2012 Financial Statements

OAG raised a concern over the recognition of revenue in the 2012 financial statements and requested SICHE management to correct the financial statements. SICHE management agreed to do so, but have not submitted revised financial statements.

The delay in processing these changes and resubmitting the financial statements has had a flow on effect to delay the preparation of the financial statements for the new entity Solomon Islands National University.

At the time of preparing this report, OAG was finalising the audit and report for the SICHE 2012 financial statements, in spite of the significant mis-statement of revenue, in order for the Solomon Islands National University to be able to commence preparing financial statements.

3.3.6.Solomon Islands Electricity Authority

Entity	SIEA
Year	2015
Opinion	Unqualified
Revenue	\$ 447,132,402
Expenditure	\$ 341,502,239
Surplus/ (Deficit)	\$ 105,630,163
Assets	\$ 834,750,651
Liabilities	\$ 65,479,606
Current Assets	\$ 279,050,528
Current Liabilities	\$ 36,159,910
Current Assets Exceed Current Liabilities	\$ 242,890,618

The Solomon Islands Electricity Authority is established under the Electricity Act. The duties of the Authority are defined as:

13.—(1) Subject as hereinafter in this Act provided, it shall be the duty of the Authority—

(a) to manage and work any electrical installations transferred to the Authority by the Government and such other installations and apparatus as may be acquired by the Authority;

(b) to establish, manage and work such electrical installations as the Minister may from time to time require or as the Authority may from time to time deem it expedient to establish;

(c) to secure the supply of electricity at reasonable prices;

(d) to promote and encourage the generation of electricity with a view to the economic development of Solomon Islands;

(e) to advise the Minister on all matters relating to the generation, transmission, distribution and use of electricity;

(f) to ensure standards of safety, efficiency and economy in respect of the production, transmission, distribution and use of electricity.

(2) For the purposes of subsection (1), the Authority may—

(a) subject to the provisions of this Act, generate, transmit, transform, distribute and sell electricity either in bulk or to individual consumers;

(b) purchase, construct, reconstruct, maintain and operate supply lines, generating stations, transformer stations and all other appropriate stations, buildings and works;

(c) sell, hire or otherwise supply electrical plant and electrical fittings and apparatus, and install, repair, maintain or remove any electrical plant, fittings and apparatus;

(d) acquire, in accordance with the provisions of this Act or otherwise, any property, real or personal, which the Authority deems necessary or expedient for the purposes of constructing or extending or maintaining any installation or otherwise for carrying out its duties and functions under the provisions of this Act;

(e) carry on all such other activities as may appear to the Authority requisite, advantageous or convenient for it to carry on for or in connection with the purposes of its duties under the provisions of this Act.

The financial statements for the years 2012, 2013, 2014 and 2015 were certified by the Auditor-General without qualification.

3.3.7.Solomon Islands National Provident Fund

Entity	SINPF
Year	2016
Opinion	Unqualified
Revenue	\$ 471,901,564
Expenditure	\$ 264,423,467
Surplus/ (Deficit)	\$ 207,478,097

The Solomon Islands National Provident Fund is established under the Solomon Islands National Provident Fund Act.

2011 Financial Statements

The 2011 financial statements were certified by the Auditor-General on 13 October 2011 with a qualified audit opinion.

“Basis for Qualified Audit Opinion

I was not provided with sufficient appropriate audit evidence in relation to the Members Contribution Liability of \$1,147,946,213. Consequently I was unable to determine if any adjustment to this amount was necessary.

Qualified Audit Opinion

In my opinion, except for the possible effects of any adjustments that might have been necessary in respect of the Members Contribution Liability, the report of Solomon Islands National Provident Fund (“Fund”), presents fairly in all material respects of the Fund’s financial position as at 30 June 2011 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion further, I draw your attention to note 12 to the financial statements. The operations of the Fund and those similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for the foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the fund’s assets are exposed to these uncertainties. I also draw your attention to note 13 to the

financial statements regarding the contingent liability of the Fund should the members take legal action to recover the interest not credited to the member's contribution."

2014 Financial Statements

The 2014 financial statements were certified by the Auditor-General on 30 September 2014 with an unqualified audit opinion.

2015 Financial Statements

The 2015 financial statements were certified by the Auditor-General on 30 September 2015 with an unqualified audit opinion.

2016 Financial Statements

The 2016 financial statements were certified by the Auditor-General on 30 September 2016 without qualification, but with the following emphasis of matter:

"Other Matter

The special death benefit reserve is currently in deficit due to the insufficiency of the annual contributions by members to cover the benefits paid by the reserve on an annual basis. As at 30 June 2016 the Board of the Fund reduced the benefits to be paid in the future under the special death benefit scheme from \$ 10,000 to \$ 3,000 while awaiting approval of the NPF Review Act by the Solomon Islands Parliament which contains provisions that will assist with the sustainability of the special death benefit reserve in the future."

3.3.8.Solomon Islands National University

The Solomon Islands National University is established under the Solomon Islands National University Act 2012. The objects of the University are defined as:

"4. (1) The object of the University is to promote scholarship, research, free inquiry, academic excellence, and trade competence and in this process create, disseminate, maintain, and advance knowledge and productivity by teaching, training and other means, for the welfare and needs of the communities in Solomon Islands and the region.

(2) The University shall be concerned with education and training at the post-secondary-levels, including education and training at the technical and vocational levels, consistent with international standards of teaching, research and other academic activities in institutions of higher learning."

As discussed above under Solomon Islands College of Higher Education, the preparation of financial statements and audit have been delayed due to a delay in SICHE processing significant corrections in accounting for revenue in the 2012 financial statements. OAG has decided to finalise the audit of the financial statements in spite of the mis-statement of revenue in order for the Solomon Islands National University to be able to progress preparation of financial statements for audit for the 2013 to 2016 financial years.

3.3.9.Solomon Islands Ports Authority

Entity	SIPA
Year	2013
Opinion	Unqualified
Revenue	\$ 85,721,892
Expenditure	\$ 84,561,314
Surplus/ (Deficit)	\$ 1,160,578
Assets	\$ 395,099,426
Liabilities	\$ 18,403,272
Current Assets	\$ 51,264,383
Current Liabilities	\$ 12,887,936
Current Assets Exceed Current Liabilities	\$ 38,376,447

The Solomon Islands Port Authority is established under the Ports Act. The duties of the Authority are defined as:

“9.—(1) It shall be the duty of the Authority—

(a) to provide and operate in the ports specified in the First Schedule such port facilities as appear to the Authority best calculated to serve the public interest;

(b) to maintain, improve and regulate the use of the ports specified in the First Schedule and the port facilities transferred to the Authority under this Act, to such extent as may appear to the Authority expedient in the public interest;

(c) to provide for the ports specified in the First Schedule, the approaches to such ports, and the territorial waters of Solomon Islands such pilotage services and such lights, marks, and other navigational services and aids as appear to the Authority best calculated to serve the public interest;

(d) subject to the provisions of section 10 to provide and operate such other services as the Minister may require.”

2009 Financial Statements

The 2009 financial statements were certified by the Auditor-General on 4 April 2011 with the following disclaimer of opinion:

“Basis for disclaimer of opinion

The Basis for the disclaimer of opinion is attributed to the following factors:

- The financial records of SIPA were not sufficient for me to confirm or verify by alternative means all the balances and disclosures with respect to the accompanying financial

statements. This placed a limitation of scope on my audit work due to the lack or unreliability of SIPA's financial records

I was unable to confirm or verify by alternative means the balances and disclosures with respect to the accompanying financial statements. I could not determine the effect of the limitation of scope on the financial position of SIPA as at 30 September 2009, or its financial performance and its cash flows for the year then ended.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphases of matter

Lack of compliance with Public Finance and Audit Act and State Owned Enterprises Act

Without qualifying my opinion, I draw your attention to the fact that SIPA has not complied with the requirements of the *Public Finance and Audit Act and the State Owned Enterprises Act* which requires the audited financial statements for all state owned enterprises to be placed before the Minister responsible within three months of the financial year end."

2011 Financial Statements

The 2011 financial statements were certified by the Auditor-General on 13 June 2016 with an unqualified audit opinion, but with the following emphasis of matter:

"Emphasis of Matter

Without modifying my audit opinion, I draw your attention to Note 15 in the financial statement regarding the Solomon Islands Government (ADB) loan to Solomon Islands Ports Authority (SIPA) which SIPA was in default of the loan that was supposed to be paid off in 2010. As a result of this default, all remaining outstanding balances including interest outstanding as at the balance date have been disclosed as current liability.

Furthermore, long service benefits are recognised as a liability in the financial statements but are not measured in accordance with International Accounting Standards (IFRS) 19 "Employee benefits" which requires such benefits to be discounted in order to determine the present value of the expected future payments at the reporting date. However, the difference between the reported and the IFRS treatment was immaterial and therefore I am of the opinion that this measurement difference does not adversely affect the accuracy of the financial statements.

Report on Other legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act.

The Authority has not complied with the requirements of the *Public Finance and Audit Act [CAP 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements to be submitted to the responsible Minister before 31 December of the same year to which the financial statements relate. The Management signed financial statements were not presented to me until 3rd June 2016."

2012 Financial Statements

The 2012 financial statements were certified by the Auditor-General on 8 August 2016 with an unqualified audit opinion, but with the following emphasis of matter.

“Emphasis of Matter

Report on Other legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act

Without modifying my audit opinion, the Authority has not complied with the requirements of the *Public Finance and Audit Act [CAP 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements to be submitted to the responsible Minister before 31 December of the same year to which the financial statements relate. The Management signed financial statements were not presented to me until 5th August 2016.”

2013 Financial Statements

The 2013 financial statements were certified by the Auditor-General on 20 October 2016 with an unqualified audit opinion, but with the following emphasis of matter:

“Emphasis of Matter

Without modifying my audit opinion, I draw your attention to long service benefits are recognised as a liability in the financial statements but are not measured in accordance with International Accounting Standards (IFRS) 19 “Employee benefits” which requires such benefits to be discounted in order to determine the present value of the expected future payments at the reporting date. However, the difference between the reported and the IFRS treatment was immaterial and therefore I am of the opinion that this measurement difference does not adversely affect the accuracy of the financial statements.

Report on Other legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act

The Authority has not complied with the requirements of the *Public Finance and Audit Act [CAP 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements to be submitted to the responsible Minister before 31 December of the same year to which the financial statements relate. The Management signed financial statements were not presented to me until 11th October 2016.”

2014 Financial Statements

The audit of the 2014 financial statements has been contracted to the accounting firm Morris & Sojnocki. OAG understands that, at the time of preparation of this report, the audit and the draft report are being finalised for submission to OAG for quality review. These financial statements were submitted to the Auditor-General after the legislated due date. This reduces the timeliness of reporting of the financial results and reduces the accountability and transparency of SIPA.

2015 Financial Statements

The audit of the 2015 financial statements has been contracted to the accounting firm of KPMG. The audit is completed, but pending quality assurance review, at the time of preparation of this report. These financial statements were submitted to the Auditor-General after the legislated due date. This reduces the timeliness of reporting of the financial results and reduces the accountability and transparency of SIPA.

3.3.10. Solomon Islands Postal Corporation

Entity	SIPC
Year	2013
Opinion	Disclaimer
Revenue	\$ 10,154,790
Expenditure	\$ 13,213,444
Surplus/ (Deficit)	-\$ 3,058,654
Assets	\$ 20,190,359
Liabilities	\$ 79,458,176
Current Assets	\$ 5,783,194
Current Liabilities	\$ 79,427,959
Current Liabilities Exceed Current Assets	-\$ 73,644,765

The Solomon Islands Postal Corporation is established under the Solomon Islands Postal Corporation Act 1996. The functions of the Corporation are defined as:

“7. The functions of the Corporation shall be to -

(a) provide postal services within Solomon Islands and other countries;

(b) carry on any business or activity relating to postal services; and

(c) carry on any business or activity which is incidental to those mentioned in paragraphs (a) and (b).”

2012 Financial Statements

The 2012 financial statements were certified by the Auditor-General on 1 May 2014 with the following disclaimer of opinion:

“Basis for Disclaimer of Opinion

The basis for disclaimer of opinion on the 2012 financial statements is attributed to the following:

Opening Balances

A disclaimer of opinion was issued on the 2011 financial statements. I therefore could not determine the accuracy of the opening balances as at 1 January 2012, and the effect of any misstatements therein on the profit and loss statement, statement of changes in equity and cash flow statement for the year ended 31 December 2012. As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the profit and loss statement and statement of changes in equity and the net cash flows from operating activities reported in the cash flow statement.

Revenue

There were three missing counter clerk being receipt book numbers 2, and 29. As a result I am unable to verify the accuracy and completeness of revenue collected and recorded by the counter clerk for the year ended and the accuracy and completeness of the revenue balances as at 31 December 2012. I was unable to determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Five receipts totaling \$276,169.42 were unable to be vouched back to the bank statements. As a result I am unable to verify and confirm the accuracy, existence and occurrence of the reported revenue balance as at 31st December 2012. Further, the reported balance post box rental revenues disclosed in the Profit and Loss Statement were overstated by \$101,578.10. As a result I am unable to confirm the accuracy of revenue received from the post box rentals as at 31st December 2012.

Expenditure

A total of 14 payment vouchers totaling \$388,058.62 covering the period from January to at least July 2012 were missing and could not be located during the audit. As a result I am unable to confirm or verify by alternative means the accuracy and occurrence of the reported expenditure balance included in the financial statements for the year ended 31 December 2012.

Trade Receivables

During the year bad debts were written off totaling \$80,266.93 however no supporting documents were able to be located to substantiate the validity of these transactions. I was unable to confirm and verify the completeness, accuracy and validity of bad debts written off amounting to \$80,266.93. As a result I was unable to confirm the existence and accuracy of the trade receivable balance as at 31 December 2012 and the accuracy, existence, completeness and validity of the write offs for the year ended.

Inventory

The inventory stock take records used to document the stocktake and substantiate the reported inventory balance were incomplete. They did not detail either the unit cost or total cost columns. Due to the absence of such significant columns that carries the value the inventory counted, I was unable to verify and confirm the completeness, accuracy, valuation and validity of the inventory valuations as at 31 December 2012.

Investment Property

The last valuation on the investment property was performed by an independent valuer in December 2007. Due to the length of time passed since the last valuation was performed valuation of the investment property I was therefore unable to satisfy myself as to the accuracy, completeness and valuation of the carrying value of the investment property at 31 December 2012 and determine whether any adjustments might be necessary to the reported balances disclosed in the financial statements to substantiate that investment property is reported at fair value.

Property, Plant and Equipment

The last independent valuation of property plant and equipment was undertaken as at 1 January 2010. SIPC also did not review the useful lives and residual value of the property, plant and equipment as at reporting date. I was therefore unable to satisfy myself as to the fair value of property plant and equipment as at 31 December 2012. I was also unable to determine whether adjustments to property, plant and equipment and the associated charges to depreciation in the financial statements were necessary. In addition, apart from net book values, the comparative 2011 balances for property, plant and equipment had not been disclosed within the notes which do not comply with the requirements of International Accounting Standard 1 – “*Presentation of Financial Statements*”. As a result I am unable to confirm or verify by alternative means the movement in

property, plant and equipment balances carrying amount of property plant and equipment included in the financial statements as at 31 December 2012 and determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Postal Corporation for the financial year ended 31 December 2012.

Emphasis of Matter

Going concern

I draw attention to Note 1 (c) of the financial statements. The SIPC's current liabilities exceed its current assets by \$65,452,966. As a going concern, the SIPC is dependent upon the continuing support of the Solomon Islands Government, its bankers and creditors.

Report on Other Legal and Regulatory Requirements

Lack of compliance with the State Owned Enterprises Act 2007

I draw your attention to the fact that SIPC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act 2007* which require audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. The management signed financial statements were not presented to me until 6 August 2013."

2013 Financial Statements

The 2013 financial statements were certified by the Auditor-General on 12 November 2014 with the following disclaimer of opinion:

"Basis for Disclaimer of Opinion

The basis for disclaimer of opinion on the 2013 financial statements is attributed to the following:

Opening Balances

A disclaimer of opinion was issued on the 2012 financial statements. I therefore could not determine the accuracy of the opening balances as at 1 January 2013, and the effect of any misstatements therein on the profit and loss statement, statement of changes in equity and cash flow statement for the year ended 31 December 2013. As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the profit and loss statement and statement of changes in equity and the net cash flows from operating activities reported in the cash flow statement.

Revenue

There was an unjustified receipt number 109700 of \$38,696.57 and a delay in deposit totaling to \$441,168.66. As a result I am unable to verify the accuracy and completeness of revenue collected and recorded for the year ended and the accuracy and completeness of the revenue balances as at 31 December 2013. Further, Receipts totaling \$58,666.08 were unable to be vouched back to the bank statements. As a result I am unable to verify and confirm the accuracy, existence and occurrence of the reported revenue balance as at 31st December 2013. I was unable to determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Expenditure

A total of 15 payment vouchers totaling \$492,527.31 were missing and could not be located during the audit. As a result I am unable to confirm or verify by alternative means the accuracy and occurrence of the reported expenditure balance included in the financial statements for the year ended 31 December 2013.

Trade Receivables

I was unable to obtain sufficient appropriate audit evidence regarding the accuracy of the receivable balances as at 31 December 2013 financial year. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements.

Inventory

The inventory stock take records used to document the stocktake and substantiate the reported inventory balance were incomplete. They did not detail either the unit cost or total cost columns. Due to the absence of such significant columns that carries the value the inventory counted, I was unable to verify and confirm the completeness, accuracy, valuation and validity of the inventory valuations as at 31 December 2013.

Investment Property

The last valuation on the investment property was performed by an independent valuer in December 2007. Due to the length of time passed since the last valuation was performed on valuation of the investment property. I was therefore unable to satisfy myself as to the accuracy, completeness and valuation of the carrying value of the investment property at 31 December 2013 and determine whether any adjustments might be necessary to the reported balances disclosed in the financial statements to substantiate that investment property is reported at fair value.

Property, Plant and Equipment

The last independent valuation of property plant and equipment was undertaken as at 1 January 2010. SIPC also did not review the useful lives and residual value of the property, plant and equipment as at reporting date. I was therefore unable to satisfy myself as to the fair value of property plant and equipment as at 31 December 2013. I was also unable to determine whether adjustments to property, plant and equipment and the associated charges to depreciation in the financial statements were necessary. As a result I am unable to confirm or verify by alternative means the movement in property, plant and equipment balances carrying amount of property plant and equipment included in the financial statements as at 31 December 2013 and determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Postal Corporation for the financial year ended 31 December 2013.

Emphasis of Matter***Going concern***

I draw attention to note 1(c) to the financial statements and that the SIPC continuation as a going concern is dependent on its ability to obtain appropriate financing and on the ongoing support of the Solomon Islands Government in order to meet its obligations. Current liabilities are exceeding Current assets resulting in a working capital loss of \$73,644,765. The directors believe that the going concern basis is appropriate as the SIPC is a state owned enterprise and the Solomon Islands have

indicated to SIPC that it will provide financial support to enable it to pay its debts as and when they fall due for a period of 12 months from the date the Directors approved these financial statements.

Report on Other Legal and Regulatory Requirements

Lack of compliance with the State Owned Enterprises Act 2007

I draw your attention to the fact that SIPC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act 2007* which require audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. The management signed financial statements were not presented to me until 11 November 2014."

2014 Financial Statements

The 2014 financial statements were certified by the Auditor-General on 5 August 2016 unqualified, but with an emphasis of matter.

2015 Financial Statements

At the time of preparation of this report the audit of the 2015 financial statements is being conducted. The draft financial statements were received by OAG August 2016.

3.3.11. Solomon Islands Visitors Bureau

Entity	SIVB
Year	2013
Opinion	Unqualified
Revenue	\$ 9,299,470
Expenditure	\$ 7,439,414
Surplus/ (Deficit)	\$ 1,860,056

The Solomon Islands Visitors Bureau is established under the Solomon Islands Visitors Bureau Act 1996. The objects of the Bureau are defined as:

"5. (1) The objects of the Bureau shall be to encourage, promote and develop tourism in Solomon Islands.

(2) For the purpose of fulfilling the objects of the Bureau, it shall be the duty of the Board -

(a) to encourage, promote and develop tourist travel;

(b) to encourage, promote and develop adequate, efficient and attractive tourist services;

(c) to co-ordinate activities of persons providing tourist related services in Solomon Islands; and

(d) to assist and promote understanding amongst the local population of the benefits that accrue from the development and promotion of tourism in Solomon Islands."

OAG notes that SIVB has made considerable progress in improving the quality of the accounts and records and the systems of internal control during the periods subject to audit. OAG encourages SIVB management to continue to implement improvements and to further improve the timeliness of preparation of financial statements to improve accountability and transparency.

2009 Financial Statements

The 2009 financial statements were certified by the Auditor-General on 8 April 2014 with the following disclaimer of opinion:

“Basis for Disclaimer of Opinion

The Disclaimer of Opinion is attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. I was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

Opening Balances

A disclaimer of opinion was issued on the 2008 financial statements. I therefore, could not determine the accuracy of the opening balances as at 1 January 2009, and the effect of any misstatements therein on the statement of Cash Receipts and Payments and explanatory notes for the year ended 31 December 2009. As a result, I was unable to determine whether any adjustments might have been necessary to this statement.

Receipts

Receipts totaling \$286,876.05 (11% of total reported receipts) were unable to be verified against sufficient supporting documentations. In addition there were a further 14 receipts totaling \$204,219.85 recorded within the manual receipt books but not recorded within the general ledger. As a result I was unable to verify or confirm by alternative means, the completeness, accuracy and occurrence of the reported receipts balance as disclosed within the financial statements for the financial year ended 31 December 2009, nor the completeness, accuracy or existence of the receivables balance as at balance date.

Payments

Sufficient supporting documentation was unable to be located to verify five payment transactions totaling \$21,575.62 (0.7% of total payments). One invoice totaling \$13,162.01 was identified as being paid but not recorded within the general ledger. Given various breakdown in internal control identified, evidence of poor record keeping needed to be able to substantiate payment transactions and numerous account posting errors identified within the financial statements. I am unable to verify the accuracy, completeness and occurrence of transaction for payments reported for financial year ended 31 December 2009.

Property, Plant and Equipment

No reconciliation had been prepared to reconcile the asset balances against the fixed asset register balances as at 31 December 2009. As a result, I am unable to confirm or verify alternative means, the accuracy, existence, completeness and valuation of the reported assets in Note 9 Property, Plant and Equipment as at 31 December 2009, In addition, I was unable to confirm the accuracy of the associated depreciation expense for the financial year ended.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for

an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Visitors Bureau for the financial year ended 31 December 2009.

Report on Other Legal and Regulatory Requirements

Lack of compliance with the Solomon Islands Visitors Bureau Act 1996

I also draw your attention to the fact that the Solomon Islands Board of Directors has not complied with Section 16 of SIVB Act 1996 in that it submitted its accounts to me more than four Years after end of the financial year ended December 2009.”

2010 Financial Statements

The 2010 financial statements were certified by the Auditor-General on 9 April 2014 with the following disclaimer of opinion:

“Basis for Disclaimer of Opinion

The Disclaimer of Opinion is attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. I was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

Opening Balances

A disclaimer of opinion was issued on the 2009 financial statements. I therefore, could not determine the accuracy of the opening balances as at 1 January 2010, and the effect of any misstatements therein on the statement of Cash Receipts and Payments and explanatory notes for the year ended 31 December 2010. As a result, I was unable to determine whether any adjustments might have been necessary to this statement.

Receipts

Receipts totaling \$375,700.45 (4% of total reported receipts) were unable to be verified against sufficient supporting documentation. As a result I was unable to verify or confirm by alternative means, the completeness, accuracy and occurrence of the reported receipts balance as disclosed within the financial statements for the financial year ended 31 December 2010, nor the completeness, accuracy or existence of the receivables balance as at balance date.

Payments

Sufficient supporting documentation was unable to be located to verify nine payment transactions totaling \$293,559.35 (14 % of total payments). Given the various breakdowns in internal control identified, evidence of poor record keeping needed to be able to substantiate payment transactions and numerous account posting errors identified within the financial statements. I am unable to verify the accuracy, completeness and occurrence of reported payments for the financial year ended 31 December 2010.

Property, Plant and Equipment

No reconciliation had been prepared to reconcile the asset balances against the fixed asset register balances as at 31 December 2010. As a result, I am unable to confirm or verify alternative means, the accuracy, existence, completeness and valuation of the reported assets in Note 9 Property, Plant and Equipment as at 31 December 2010, In addition, I was unable to confirm the accuracy of the associated depreciation expense for the financial year ended.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Visitors Bureau for the financial year ended 31 December 2010.

Report on Other Legal and Regulatory Requirements

Lack of compliance with the Solomon Islands Visitors Bureau Act 1996

I also draw your attention to the fact that the Solomon Islands Board of Directors has not complied with Section 16 of SIVB Act 1996 in that it submitted its signed accounts to me more than three Years after end of the financial year ended 31 December 2010.”

2011 Financial Statements

The 2011 financial statements were certified by the Auditor-General on 9 April 2014 with the following disclaimer of opinion:

“Basis for Disclaimer of Opinion

The Disclaimer of Opinion is attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. I was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

Opening Balances

A disclaimer of opinion was issued on the 2010 financial statements. I therefore, could not determine the accuracy of the opening balances as at 1 January 2011, and the effect of any misstatements therein on the statement of Cash Receipts and Payments and explanatory notes for the year ended 31 December 2011. As a result, I was unable to determine whether any adjustments might have been necessary to this statement

Receipts

Four receipts totaling \$196,220.95 (3% of total reported receipts) could not be verified for its legitimacy and further 770 out of 820 (94%) electronic receipts issued were unable to be sighted. As a result I was unable to verify or confirm by alternative means, the completeness, accuracy and occurrence of the reported receipts balance as disclosed within the financial statements for the financial year ended 31 December 2010, nor the completeness, accuracy or existence of the receivables balance as at balance date.

Payments

Sufficient supporting documentation was unable to be located to verify 15 payment transactions totaling \$564,004.30 (10 % of total payments). Given various breakdown in internal control identified, evidence of poor record keeping +needed to be able to substantiate payment transaction and numerous account posting errors identified within the financial statements. I am unable to verify the accuracy, completeness and occurrence of transaction for payments reported for financial year ended 31 December 2011.

Property, Plant and Equipment

No reconciliation had been prepared to reconcile the asset balances against the fixed asset register balances as at 31 December 2011. As a result, I am unable to confirm or verify alternative means, the accuracy, existence, completeness and valuation of the reported assets in Note 9 Property, Plant and Equipment as at 31 December 2011, In addition, I was unable to confirm the accuracy of the associated depreciation expense for the financial year ended.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Visitors Bureau for the financial year ended 31 December 2011.

Report on Other Legal and Regulatory Requirements

Lack of compliance with the Solomon Islands Visitors Bureau Act 1996

I also draw your attention to the fact that the Solomon Islands Board of Directors has not complied with Section 16 of SIVB Act 1996 in that it submitted its signed accounts to me more than two Years after end of the financial year ended 31 December 2011.”

2012 Financial Statements

The 2012 financial statements were certified by the Auditor-General on 18 August 2015 with an unqualified audit opinion.

2013 Financial Statements

The 2013 financial statements were certified by the Auditor-General on 9 August 2016 unqualified but with the following emphasis of matter:

“Emphasis of Matter

Fixed Assets

Without modifying my audit opinion, I draw your attention to the non-update of the fixed asset register and continued unreconciled account between the fixed asset register and the general ledgers for the financial year ended 31 December 2013.

Lack of compliance with the Solomon Islands Visitors Bureau Act 1996

The Solomon Islands Board of Directors has not complied with Section 16 of SIVB Act 1996 which requires the accounts of the Bureau to be audited annually. The Management signed financial statements were not presented to me until 8th August 2016 which is two years and seven months after the SIVB Act requirement.”

3.3.12. Solomon Islands Water Authority

Entity	SIWA
Year	2015
Opinion	Unqualified
Revenue	\$ 101,126,543
Expenditure	\$ 93,950,391
Surplus/ (Deficit)	\$ 7,176,152
Assets	\$ 330,255,110

Liabilities	\$ 151,562,202
Current Assets	\$ 56,332,880
Current Liabilities	\$ 26,403,804
Current Assets Exceed Current Liabilities	\$ 29,929,076

Solomon Islands Water Authority is established under the Solomon Islands Water Authority Act 1992. The objects of the Authority are established under the Act as:

“4. (1) The objects of the Authority shall be –

(a) to ensure that water resources allocated for urban water supply are properly managed, distributed, allocated and used in ways which are consistent with proper water management practices;

(b) to provide water and related services to meet the needs for users in a commercial manner consistent with the overall policies of the Government.

(2) In exercising its functions, the Authority may have regard to such matters as it considers would be appropriate for the attainment of its objects including, but without limiting the generality of the foregoing –

(a) promotion of efficient use of urban water resources;

(b) the necessity for integrated catchment management and planning of land use and the use of urban water resources;

(c) public interest and community needs;

(d) conservation of urban water resources;”

Non-revenue water

The contract auditors have raised the issue of non-revenue water with the management of SIWA repeatedly for a number of years. It has been estimated that non-revenue water increased from 53% to 58% between 2012 and 2014. The industry benchmark is 25% for non-revenue water in developing countries. Non-revenue water means that water is being lost through the water distribution pipes through leakage or deliberate illegal tapping of water. This represents a loss of potential revenue to SIWA of between \$41 million in 2012 and \$97 million in 2014 at the water billing rates that applied in those years. SIWA is incurring excess costs of treating and pumping the non-revenue water. This also represents a drain on an important environmental asset. OAG understands that SIWA is investigating how to reduce the rate of non-revenue water.

2012 Financial Statements

The 2012 financial statements were certified by the Auditor-General on 26 June 2014 with the following qualified audit opinion:

“Basis of qualification

Revenue

I was unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of revenue. Accordingly I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

Qualified opinion

In my opinion, except for the effect if any, of the matters referred to in the qualification paragraphs above, the financial statements give a true and fair view of the financial position of Solomon Islands Water Authority as at 31 December 2012 and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modification to my opinion, I draw attention to note 2(b) to the financial statements and that the Authority's continuation as a going concern is dependent on its ability to obtain appropriate financing and on the ongoing support of the Solomon Islands Government in order to meet its obligations. The directors believe that the going concern basis is appropriate as the Authority is a state owned enterprise and the single provider of water services in the Solomon Islands.

Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act

The Authority has not complied with the requirements of the *Public Finance and Audit Act [CAP 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements to be submitted to the responsible Minister before 31 March of the following year to which the financial statements relate. Whilst the majority of the audit fieldwork was completed prior to the statutory deadline, the final corrected and signed financial statements were only submitted to me for my audit opinion on 1 August 2013.”

2013, 2014 and 2015 Financial Statements

The 2013, 2014 and 2015 financial statements were certified by the Auditor-General with unqualified audit opinions.

3.3.13. Solomon Airlines Limited

Entity	SAL
Year	2015
Opinion	Unqualified
Revenue	\$ 267,064,449
Expenditure	\$ 300,920,482
Surplus/ (Deficit)	-\$ 33,856,033
Assets	\$ 171,181,720
Liabilities	\$ 161,601,324
Current Assets	\$ 31,736,970
Current Liabilities	\$ 130,117,881
Current Liabilities Exceed Current Assets	-\$ 98,380,911

Solomon Airlines Limited has ongoing liquidity, profitability and going concern issues. The company continues to rely upon financial support from the Solomon Islands government should it become necessary.

2011 Financial Statements

The 2011 financial statements were certified by the Auditor-General on 14 June 2011 with the following disclaimed and qualified audit opinion:

“Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows

The disclaimer of opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows is attributed to the following:

- A disclaimer of opinion was made on the financial statements for 2009. I therefore could not determine the accuracy of the opening balances as at 1 January 2010, and the effect of any misstatements therein on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended 31 December 2010.

As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the Statement of Comprehensive Income and Statement of Changes in Equity and the net cash flows from operating activities reported in the Statement of Cash Flows.

Basis for Qualified Opinion on the Statement of Financial Position

The qualified opinion on the Statement of Financial Position is attributed to the following:

- The sales building was an owner occupied property until 31 July 2010. From 1 August 2010 the building was leased to another entity and therefore became an investment property. The building was revalued at the end of the year to \$8,000,000 and included in property

plant and equipment. The full revaluation gain for the year of \$4,580,000 was accounted for in the asset revaluation reserve on the Statement of Financial Position. Under International Financial Reporting Standards, the building's revalued amount of \$8,000,000 at 31 December 2010 should have been accounted for as an investment property on the Statement of Financial Position. The fair value gain on the building attributable to the period from 1 August to 31 December 2010 of \$1,980,333 should have been recognised in the profit for the year on the Statement of Comprehensive Income.

- During the year only two out of three aircraft included in property, plant and equipment at 31 December 2010 were revalued. Under International Financial Reporting Standards, if an item of property, plant and equipment is revalued the entire class of property, plant and equipment to which that asset belongs shall be revalued. As a result, I was unable to obtain sufficient appropriate audit evidence about the carrying amount of aircraft held as at 31 December 2010 or determine whether any adjustment to the amount was necessary.
- I was unable to obtain sufficient appropriate audit evidence about the carrying amount of revenue received in advance as at 31 December 2010 or determine whether any adjustment to the amount was necessary.

Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows. Accordingly, I do not express an opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows.

Qualified Opinion on the Statement Financial Position

In my opinion, except for the possible effects of the matters described in the basis for Qualified Opinion paragraph, the Financial Position presents fairly in all material respects as at 31 December 2010 in accordance with International Financial Reporting Standards."

2013 Financial Statements

The 2013 financial statements were certified by the Auditor-General on 3 September 2014 with the following qualified audit opinion and emphasis of matter:

"Basis of Qualified Opinion

I have expressed a qualified opinion on revenue received in advance and inventories as at 31 December 2012 as I was unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of revenue received in advance and completeness, existence, accuracy and valuation of inventory at year end.

Since I was unable to satisfy myself by alternative means concerning the completeness and accuracy of revenue received in advance and completeness, existence, accuracy and valuation of inventory as at 31 December 2012 and opening revenue received in advance and inventories enter into the determination of the financial performance for the year ended 31 December 2013, I am unable to determine whether adjustments might be necessary in respect of the loss for the year reported in the statement of comprehensive income and net cash flows reported in the statement of cash flows.

Qualified Audit Opinion

In my opinion, except for the possible effects of the matters described in the Basis of Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of

Solomon Airlines Limited as at 31 December 2013, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further modifying my opinion, I draw attention to Note 2 (c) in the financial statements which indicates that the Company incurred a loss after tax of \$7,274,788 and had a working capital deficiency of \$18,792,486 excluding revenue received in advance as at 31 December 2013. Whilst there has been an improvement in management of the Company's cash flows from previous periods, the financial position as at balance date indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern except for the Company's ability to access Solomon Island Government financial support should that become necessary.

Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act

The Company has not complied with the requirements of the *Public Finance and Audit Act [Cap 120] and the State Owned Enterprises Act 2007* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate. The statements were received 153 days after the due date of 31 March 2014."

2014 Financial Statements

The 2014 financial statements were certified by the Auditor-General on 6 June 2015 unqualified but with the following emphasis of matter:

"Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 (c) in the financial statements regarding the existence of uncertainties in relation to the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations. These conditions may cast doubt on the ability of the Company to continue as a going concern except for the Company's ability to access Solomon Islands Government financial support should that become necessary.

Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act

The Company has not complied with the requirements of the *Public Finance and Audit Act [Cap 120] and the State Owned Enterprises Act 2007* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate. The statements were received 30 days after the due date of 31 March 2015."

2015 Financial Statements

The 2015 financial statements were certified by the Auditor-General on 5 September 2016 unqualified but with the following emphasis of matter:

"Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 (c) in the financial statements regarding the existence of uncertainties in relation to the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Other Matter

Without modifying my opinion, I draw attention to Note 31 in the financial statements which sets out the details in relation to the restatement of the prior year figures to correctly record exposure to Pay-As-You-Earn Tax on school fees.

Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act [Cap 120] and State Owned Enterprises Act

The Company has not complied with the requirements of the *Public Finance and Audit Act [Cap 120] and the State Owned Enterprises Act 2007* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate. The statements were received 153 days after the due date of 31 March 2016."

3.3.14. Telecommunications Commission Solomon Islands

Entity	TCSI
Year	2015
Opinion	Unqualified
Revenue	\$ 10,991,928
Expenditure	\$ 12,994,950
Surplus/ (Deficit)	-\$ 2,003,022

The Telecommunications Commission is established under the Telecommunications Action 2009.

2013, 2014 and 2015 Financial Statements

The 2013, 2014 and 2015 financial statements were certified by the Auditor-General with unqualified audit opinions.

3.3.15. Honiara City Council

2009 Financial Statements

The 2009 financial statements were certified by the Auditor-General on 4 March 2011 with a qualified audit opinion.

"Basis for Qualified Opinion

Supporting documentation was not located and provided for audit examination for a material amount of payments. The overall level of payments as stated is correct according to the bank account but due to lack of supporting documentation I am unable to confirm that the classification of all payments in the Statement of Receipts and Payments is correct.

Qualified Audit Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Audit Opinion paragraph, the Statement of Cash Receipts and Payments and the Statement of Comparison of Budget & Actual Amount present fairly, in all material respects, the cash transactions of the Council in the year ended 31 December 2009 in accordance with International Public Sectors Accounting Standards - Cash Basis.

Emphasis of Matter

The Council has made deductions from employee's salaries for Pay As You Earn tax payments and National Provident Fund Contributions but has not remitted all of these monies to the relevant entities. This is in contravention of the Income Tax Act Cap 23 and the Solomon Islands National Provident Fund Act Cap 109 and under this legislation these amounts should have been paid in the period. Remittance of these deductions in accordance with the relevant legislation would have increased the total cash payments by \$251,893 resulting in a reduced end of period cash balance of \$945.063.

Report of Other Legal and Regulatory Requirements

The Council has exceeded its appropriation within the Finance and law Enforcement heads of expenditure although not overall. This could have been prevented if the Council had foreseen the potential over-expenditure and made the necessary virements to transfer budget from one head to another. It is also possible that many of the transactions which have been coded to these accounts could have equally legitimately been allocated to some other head of expenditure, such as Administration. Actual expenditure in all other heads of expenditure was significantly less than was budgeted. Such over-expenditure of a line item in the Budget is a breach of Section 39 (4) of the Honiara City Council Act in that expenditure was not made in accordance with an Appropriation Ordinance.

Under its Act the Council is required to present a Balance Sheet of Assets and Liabilities. The Council does not currently have adequate data and systems to produce such a Statement and does not include any physical assets in its accounts. It is not possible for the Council to produce a statement of assets and liabilities that would comply with a relevant accounting framework. In this respect it has failed to comply with the requirements of the Act. As noted in the statements the Council failed to produce its financial statement within three months of the end of its financial year as required by the Act.

Section 46 (2) (f) of the Act requires the Council to adopt systems and procedures which show in a full and complete manner all assets and liabilities including contingent liabilities and guarantees. The Council has not yet developed systems and procedures which achieve this objective. "

2011-2015 Financial Statements

An audit of the accounts and records of Honiara City Council was performed for the period 2011 to 2013. The results of this audit have been reported under Chapter 5 Special Audits.

The financial statements for the years 2011 to 2015 were received from Honiara City Council in September 2016. The audit of these financial statements has commenced.

Chapter 4 Performance Audits

OAG's reports of the results of performance audits will be issued as individual reports in accordance with INTOSAI Exposure Draft ISSAI 3200 Guidelines for the Performance Auditing Process paragraph 169 and in line with better practice of other Supreme Audit Institutions.

The following is a summary of the performance audits that have been conducted by OAG during the period 2014 to 2016, and the status of those audits at the time of preparation of this report.

Audit	Status
Distribution of Rural Constituency Development Fund	Finalising report to the Ministry
National Shipping Grant Initiatives	Finalising report to the Ministry
Climate Change Adaptation and Disaster Risk Reduction Management - Global Warming Food Security Measures	Finalising report to the Ministry
Tax Exemption	Finalising report to the Ministry
SIVB Marketing and Promotion Program	Finalising report to the Ministry

Chapter 5 Special Audits

5.1. Solomon Islands High Commission to Papua New Guinea

5.1.1. Background

OAG conducted a special audit on the Bank Accounts of the Solomon Islands High Commission in PNG (SIHC-POM) upon the request of the current Solomon Islands High Commissioner (HC) to Papua New Guinea (PNG) through the Ministry of Foreign Affairs and External Trade (MFAET). The purpose of the audit was to investigate alleged misuse of funds and to review the appropriateness of disbursements incurred by SIHC-POM. The audit was done by OAG in conjunction with the Financial Controller of MFAET, one officer from Ministry of Finance and Treasury (MOFT) and one officer from Ministry of Education and Human Resources Development (MEHRD). The financial periods designated for audit were the 2013, 2014 and 2015 financial years.

SIHC-POM manages and oversees the conduct of Solomon Islands interests in bilateral and multilateral relations, including ensuring that the country's sovereignty, territorial, security and interests in the international community at PNG are maintained and safeguarded. SIHC-POM also manages and facilitates the allowances and tuition fees of Solomon Islands Government (SIG) sponsored students studying in various tertiary institutions in PNG.

Table 5.1.1 - Summary of total grants received each year by the SIHC-POM from MFAET for operations for the three years 2013, 2014 and 2015.

Year	Amount (SBD \$)	Beneficiary Bank Account
2013	\$ 1,026,192.00	ANZ – Mission Account - 11184224
2014	\$ 1,930,440.00	ANZ – Mission Account - 11184224
2015	\$ 1,472,839.00	ANZ – Mission Account - 11184224
Total	\$ 4,429,471.00	

Table 5.1.2 - Summary of Total Grants received by SIHC-POM from MEHRD for 2013, 2014 and 2015

Year	Amount (PGK)	Beneficiary Bank Account
2013	4,023,841.00	SIHC Education Trust Account – PNG
2014	3,735,142.00	SIHC Education Trust Account – PNG
2015	6,652,851.30	SIHC Education Trust Account – PNG
Total	14,411,835.30	

5.1.2. Audit Objectives and Scope

The audit was conducted to investigate the alleged misuse of the Education Trust Account and to review if the disbursements incurred by the SIHC in PNG were appropriate and in accordance with proper financial management as required under respective funding purposes of the individual accounts, Financial Instructions 2013 (FIs), Public Financial Management Act 2013 (PFM) and General Orders (GO).

The team also did a follow-up audit of the recommendations given in the audit report for the 2008/2009 financial years.

The audit periods covered were the 2013, 2014 and 2015 financial years.

5.1.3. Conclusion

OAG reviewed the procedures and the administration of the bank accounts, assets, revenue, procurement and expenditures of the SIHC-POM. OAG noted that there were many deficiencies in internal controls which continued unabated since 2009. The SIHC-POM is yet to apply required controls to safeguard the funds available in all three bank accounts and on how they manage the funds effectively. To apply the required controls and reduce the deficiencies within the internal controls the SIHC-POM needs assistance from a qualified Accountant. This officer would help to put in place the required documents (cash book, etc.) as well as improve the processes to monitor, prepare quarterly reports and provide advice to HC, Minister Counsellor (MC) and Education Attaché (EA) on how to manage and control the financial affairs of the SIHC-POM.

Management had still not implemented an action plan to address the 2008/9 audit recommendations.

5.1.4. Key Findings

The Risk Ratings used below are defined in the Glossary section of this report.

Overall, OAG observed that the processes to manage and monitor the assets, bank accounts, revenue, procurement and expenditure procedures were inadequate. There was little or no regard for the requirements of the Financial Instructions. The audit issues identified are summarised below:

Misuse of Education Trust Account

Risk Rating-High

OAG conducted a thorough analysis of the Education Trust Account Cash Book and Bank Statements for 2013, 2014 and 2015. It found a total of PGK 268,430 was misused during a four months period in 2014 by the Office Secretary of the SIHC. The Secretary transferred PGK 242,730 from the Education Trust Account to her spouse's bank account and PGK 25,700 to the SIHC Janitor's bank account via mobile transfer. The access code of the Education Trust Account via mobile was known to her. The failure of the authorised officer to monitor the transactions that passed through the bank account resulted in the funds being fraudulently withdrawn by the Secretary.

Payments incurred via Mobile and Internet transfers.

Risk Rating-High

Using Internet and mobile system is a very safe and quick way of processing payments. However, OAG found that no controls existed to safeguard the system within the SIHC. Access to the mobile pin and the device was not restricted to the Accountable Officer (AO). The device was not stored in a safe location restricted to the Accountable Officer only. This resulted in the tax payers' money worth PGK 268,430 being misappropriated from the Education Trust Account.

No Control over SIHC expenditure process.

Risk Rating-High

OAG was unable to verify almost all of the payments made by SIHC-POM. Almost all supporting documentation for payments or transfers during the three financial years for Education Trust Account and Chancery Account were missing or could not be matched to payments made for any of

the payments made during this period. No supporting documents were sighted for the months of January and February 2015 for the Mission Account. No proper payment process had been used to incur expenditures and there had been no proper filing of relevant supporting documents.

Funds Transfer from/to Chancery Bank Account, Education Trust Bank Account & Mission Bank Account (Also issue – 2009)

Risk Rating-High

From Cash Books and Bank Statements provided by the SIHC-POM, OAG found that for the three financial years audited, PGK 235,305.80 was transferred from the Chancery Bank Account to the Mission Bank Account but only PGK 118,146.34 was repaid back from the Mission Bank Account to Chancery Bank Account which means PGK 117,159.46 is yet to be repaid from the Mission Bank Account. During the same period PGK 1,531,490.54 was transferred from the Education Trust Account to the Mission Account but only PGK 446,266 was repaid which means PGK 1,065,224.54 is yet to be refunded back.

The operations of the SIHC-POM were being subsidised by both the Chancery building project and funds intended for scholarships.

Bank Reconciliation (Also issue 2009)

Risk Rating-High

OAG identified that no bank reconciliations were done for two of the three active bank accounts kept by the SIHC-POM. The bank reconciliation reports for the other bank account were not reviewed by the Accountable Officer (AO), to identify errors and the misappropriation of money in the bank account.

Cash book not up to date

Risk Rating-High

OAG noted that SIHC-POM kept their cash book using Microsoft Office Excel for each of their bank accounts. When the team reviewed the Cash Books it was noted that no Cash Book was kept for the Chancery Bank Account. Cash Books were sighted for the Education Trust Bank Account for 2013 and 2014 only. However the cash book was not up to date as certain transactions were not recorded.

A cash book was kept for the Mission Bank Account for 2013 and 2014. However, no Cash Book was kept for transactions incurred for the months of January and September to December 2015.

Weak Control over Advances

Risk Rating-High

Over the three year period Staff Advances taken by both the SIG employees and the direct employees of the SIHC-PMO amounted to PGK 38,560. The SIHC-POM is manned by 4 officers. This amount was significant when compared to the number of staff in post. Staff advances were above and beyond the net salaries they were paid each fortnight. Officers were even allowed to receive multiple advances.

Illegitimate and Unauthorised Allowances paid to direct employed staff at the SIHC

Risk Rating-High

OAG found that illegitimate and unauthorised allowances were paid to two direct employees of the SIHC-POM for performing extra duties related to student matters. The former MC claimed that verbal agreements were made between the two officers and the SIHC. Since no written legal contracts existed OAG is of the view that the education related allowances paid to the two officers were inappropriate.

Cash Cheques (Also issue – 2009)

Risk Rating-High

The audit report for 2008/2009 reported cheques being made out to cash inappropriately. OAG found that this practice was still ongoing. 94 cheques worth PGK 104,849.92 were made out to Cash as the payee.

No Asset Register (Also issue - 2009)

Risk Rating-High

OAG found that the SIHC-POM did not keep an asset register and was unable to identify the assets of SIHC-POM as the assets had not been labelled and registered. The cost for individual items and how their disposal had been administered could not be ascertained. Although the previous audit report recommended to SIHC-POM to create and keep an Asset Register, no action had been taken. Financial Instructions M4 4.1 and 4.2 require proper maintenance of registers of non-current assets at their acquisition price.

No proper management of unused/surplus assets

Risk Rating-High

During interviews conducted with SIHC officer, OAG noted that surplus assets were sold by past administrators of SIHC-POM. OAG was unable to confirm the quantity, asset type, values and disposal prices of the assets as no asset register was kept by the past administrators.

Illegitimate Payments

Risk Rating-High

OAG identified 17 illegitimate payments worth K241,424.36 were paid during 2013, 2014 and 2015 in the cash book for the Mission Account (Operating Account). Three of the 17 payments were advanced by SIHC-POM to other SIG agencies to meet their financial needs while in transit or visiting Port Moresby. One payment of PGK 5,000 was paid as an imprest for a SIG Delegation attending the PIF meeting in Port Moresby. This is a clear breach of the Financial Instructions and is not the purpose for which funds have been provided to SIHC-POM.

Weak Control over Revenue

Risk Rating-High

OAG noted that the SIHC received revenue for Visa Fees and Passports. The past audit report provided recommendations on how to solve the issue as there was no MOU/ Agreement between

the SIHC and the Ministry of Commerce, Industries, Labour & Immigration (MCILI) on the collection of these fees. OAG found that no MOU was signed between the two parties and the SIHC continued to use the fees for its operations.

When reconciling the bank statements with the receipt books, OAG noted that not all the receipts were deposited at the bank. There is no proper control in place to safeguard the revenue collected. The Office Secretary confirmed that sometimes the cash collected was used by the SIHC to meet its commitments. This is a clear breach of the Financial Instructions. There was a risk of misappropriation of SIG revenue, and revenue from visa fees and passports has been understated in the SIG financial statements.

5.1.5.Overall Recommendations

OAG's key recommendations were that the Ministry and SIHC-POM:

- Implement the 2009 audit action plan
- Ensure that monthly bank reconciliations are performed, signed by the bank reconciliation preparer and reviewer with the bank statement and cash book sheets attached to it.
- Update Cash Books for each of the three (3) active bank accounts on a daily basis.
- Complete Cash Books at the end of each month, ensures the preparer certifies and signs the Cash Books and reviewer (Accountable Officer) confirms the accuracy and countersigns the Cash Books.
- Ensures the transfer of funds between bank accounts are not allowed under any circumstances.
- Maintains a good filing system and records management as part of its financial responsibility.
- Ensures cheque books are properly stored in a safe location and accessible by authorised persons only.
- Ensures separate files are kept for all receipts, expenses and other revenue and payment documents related to each of the three bank accounts.
- Ensure Requisitions and Payment Vouchers are approved before cheques are raised and counter signed by the Accountable Officer.
- Adheres to this recommended payment process: Payment request form prepared and approved, Cheque request form prepared and approved, Payment Voucher prepared and approved, Cheque countersigned by Accountable Officer or Delegate Authority, Signed Cheque available to payee, payee signed receipt to confirm receiving the cheque.
- Cease using mobile banking.
- Ensures relevant actions are taken to discipline Officers who do not comply with their employment contracts.
- Liaises with relevant authorities on how to recover the misappropriated money and initiate possible criminal action.
- Ensures payments of allowances are supported by properly signed agreements between the SIHC and the employees.
- Ensures payee name is written on the cheque slip.
- Ensures that an asset register is kept for non-current assets and inventories are maintained with complete descriptions and information of the asset as required by Section M4 5 (5.1) of the Financial Instructions.

- Complies with FIs M4 8(1) and/ or FIs M4 10 when disposing of surplus assets.
- Ensures payment requests which are not budgeted for in the Grants are referred to Headquarters for review.
- Ensures proper policy or control is in place to safeguard against requests for advances from other parties (SIG agencies).
- Puts in place a system to recover all advances made to other SIG agencies in 2013, 2014 and 2015.
- Liaises with the Ministry of Commerce, Industries, Labour and Immigration and MOFT on how to account for the fees collected for Visas and Passports.
- Ensures revenue collected is recorded daily in the cash book and banked the next day.
- Ensures proper handovers are done for newly appointed officials of the SIHC including HC and MC.
- Liaises with Relevant Government Ministries so that an Accountant is appointed to oversee the financial operations of the SIHC.

The above recommendations are simply compliance with the existing Financial Instructions, of which the Accountable Officer should be aware.

5.2. Solomon Islands High Commission to Fiji

5.2.1. Background

A special audit was carried out by the Office of the Auditor General into the Solomon Islands High Commission in Suva, Fiji.

The Solomon Islands High Commission Operations account was established for the maintenance of the High Commission in Fiji which provides a diplomatic liaison with the Government of Fiji and consular services.

5.2.2. Audit Objectives and Scope

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

- Expenditure is appropriate, reasonable and properly authorised;
- Processing and incurring of expenditure adheres to Financial Instructions;
- Officers employed within the High Commission have proper contracts that are authorised; and
- Related employment allowances are valid.

The audit period covered the years from 2010 to 2012.

5.2.3. Key Findings

The major findings of the audit were that payments were made from the bank account with little or no supporting documentation. In some cases payments were made for the purchase of goods and services of a private or personal nature and not for High Commission Office business. OAG found that the former High Commissioner had approved and signed for his own refunds and expenses. Instances were identified where no receipts and supporting documentation had been filed to support payments and claims made. The audit identified that there was a poor internal control environment in place including lack of segregation of duties and poor record management practices.

The Risk Ratings used below are defined in the Glossary section at the beginning of this report.

Conflict of interest identified

Risk Rating – High

OAG noted that the former High Commissioner recruited his wife as the councillor during his term as the head of Mission in Fiji. The former High Commissioner and his wife as councillor raised payments for their salary allowances and spent funds from the High Commission Operation account.

OAG further noted that the cheques were signed by the former High Commissioner himself. Financial Instructions define conflict of interest as *“any situation where an officer’s decisions are influenced by opportunities for personal financial gain or other personal advantage”*. The recruitment of a family member is clearly a personal advantage for financial gain by the former High Commissioner.

This exacerbated the lack of segregation of duties and independent checking available in a small office.

Failure of High Commissioner to pay portion of utilities charges as required under PSAS

Risk Rating - High

According to the "Public Service Agreement of Service" (PSAS) for the High Commissioner, 70% of the cost including water, gas, electricity and telephone shall be paid by the government each month and the remaining 30% is to be paid for by the High Commissioner.

OAG noted that the High Commissioner had not paid for the 30% cost of the utilities charges as per the "Public Service Agreement of Service" signed between the High Commissioner and the Ministry. Audit noted that the bills had been included in the payment invoices and the invoices had been paid in full from the High Commission funds. This resulted in higher costs borne by the Solomon Islands Government (SIG).

Payment of reimbursements without supporting documentations

Risk Rating - High

OAG identified that the High Commissioner approved and paid reimbursements to himself from the Solomon Islands High Commission Operation account. There was no supporting documentation to verify the purpose and accuracy of the amounts paid to the High Commissioner. OAG was unable to sight any authority approving these payments or identify whether prior approval had been given by the Ministry to use personal funds for HCO business and later refunded.

Table 3 Reimbursement payments

PV	Chq #	Code	Detail (3.8065 BSP Rate)	Amount (\$FJ)	Amount SBD\$
327/2010	419	Nil	Councillor	\$2,000.00	\$7,613.00
329/2010	DD	Nil	High Commissioner	\$3,337.17	\$12,702.94
341/2010	DD	Nil	High Commissioner	\$249.22	\$948.66
348/201	434	Nil	Councillor	\$219.00	\$833.62
254/2010	368	2024	Councillor	\$247.50	\$942.11
178/2010	316	Nil	High Commissioner	\$1,200.00	\$4,567.80
116/2010	DD	Nil	High Commissioner	\$3,543.40	\$13,487.95
			Total	\$10,796.29	\$41,096.08

The practice of allowing staff to use their personal funds for business purposes and subsequently refund the staff member later is very poor administrative practice creating the opportunity abuse of public of funds, fraud and financial loss to the Solomon Islands Government.

The High Commissioners spouse working in the small office added to the lack of supporting documentation, and the ability for High Commissioners to public funds at their discretion increases the risk of misappropriation of public funds and fraud.

Lack of segregation of duties

Risk Rating - High

During the period 2010 to 2012 the High Commissioner was the sole administrator for the High Commission bank accounts. The High Commissioner authorised unsubstantiated or inappropriate payments, signed his own cheques for personal benefit and incurred expenditure unquestioned and unchallenged. The High Commissioner also made payments to his wife (Councillor) and paid himself allowances.

Segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. It helps fight fraud by discouraging collusion. When one person has the ability to initiate transactions, approves transactions, record transactions, reconcile balances, handle assets and review reports it creates a recipe for possible fraud and mismanagement of funds.

5.2.4.Recommendations

OAG recommended that the Ministry:

- Remind accounting officers and/or responsible delegated officers of applicable required legislation in performing their duties and ensure Financial Instructions are complied with;
- Ensure that conflict of interest is avoided in any situation where an officer's decisions are influenced by opportunities as defined in the Financial Instruction;
- Ensure that recruitment of staff in the High Commission offices is at arm's length and documented;
- Ensure the Solomon Islands Government code of conduct is read and signed off by the High Commission staff and a record maintained by the Ministry;
- Implement regular review arrangements to ensure the High Commissioners comply with the Terms and Conditions of the "Public Service Agreement of Service";
- Investigate the total bills not paid for by the High Commissioner and seek recovery from his salary;
- Undertake a more proactive approach to monitoring the finances of the High Commission Offices by requiring the provision of HCO monthly financial reports for scrutiny;
- Ensure HCO staff cease obtaining advances from High Commission funds;
- Assist the High Commissioner and his staff to ensure segregation of duties is maintained. Separate officers should be responsible for the ordering, receiving, recording, approving and paying for expenditure transactions.
- Provide an induction to High Commissioners on the critical internal controls expected in the management of funds administered by the HCO.
- Ensure that an asset register of non-current assets and inventories is maintained with a complete description, location and information for each asset.
- Ensure the High Commission maintains a good filing system and records for example, separate folders could be maintained for monthly revenue, expenditure, payroll, assets, liabilities and monthly reports.

5.3. Solomon Islands Games

5.3.1. Background

OAG conducted a special audit investigation based on a request from the Office of the Prime Minister (OPM) through the Permanent Secretary Supervising of the Ministry of Home Affairs (MHA) to audit the management and usage of 2016 Solomon Games finances by the Ministry of Home Affairs.

The purpose of the audit was to investigate the management and the appropriateness of disbursement of funds by Ministry of Home Affairs for the running of Solomon Games 2016. The audit covered the approved Contingency Warrant and direct funds from MHA which was expended during the course of the Solomon Games period from 3rd to 17th July 2016. The audit also covered games related events before and after the Games.

The total funds approved for the Solomon Games was \$6,399,739 of which \$5,952,989 was approved through Contingency Warrant and \$446,750 was expended from MHA appropriation.

While there is no legislation to enable the Solomon Games, the Solomon Games was established under Solomon Islands Games Charter and adopted by the Constituent Congress on the 12th day of November 2009. The Games is managed, administered and organised under the direction of the Games Council which is the authority in all matters concerning the Games. The Games Council consists of the following members and Committees;

- Provincial and Honiara City Council Sport committees;
- National Olympic Committee of Solomon Islands;
- Solomon Islands National Sports Council;
- Ministry responsible for sports in the Government of Solomon Islands; and
- Oceania National Olympics Committee.

In the exercise of its functions and powers, the Council acts independently and should not be dictated to or directed by or influenced by other bodies and authorities.

The Games Council is supported by an Executive Board which is responsible to the Council on a day to day basis. This Board consists of the following persons;

- President
- Vice President
- Secretary General
- Treasurer Director Marketing
- Director Sport Development
- Five other members.

The Council determines the next host of the Games during its Annual General Meeting (AGM). The Council selects the host based on assessments made on the bids received from the bidding sporting committees².

² Provincial Sports Committees and Honiara City Council Sports Committee usually submit bids to host the Games.

For the Solomon Games 2016 the President appointed a Local Organising Committee called Solomon Games Management Committee to manage the event. The committee was responsible to run the Games 2016 and the committee consisted of the following members;

- Chief Executive Officer
- Deputy Chief Executive Officer
- Coordinator – federation
- Marketing Manager
- Promotion/ Administration/ Welfare Manager
- Information Manager
- Information Technology/ Accreditation
- Transport Manager
- Security/ Protocol Manager
- Catering Manager
- Ceremonies Manager
- Accommodation Manager

5.3.2.Audit Objectives and Scope

The main objectives of the audit were to determine:

- The effectiveness of the management and usage of public funds to finance the Solomon Games 2016.
- The accuracy, existence and completeness of records and the management of assets obtained during the Solomon Games.
- to give assurance to SIG, donors and stakeholders that responsible bodies have the management capacity to prepare for and host the 2023 Pacific Games.

The audit covered the approved Contingency Warrant and direct funds from MHA which was expended during the course of the Solomon Games period in July 2016.

5.3.3.Conclusion

OAG reviewed the administration, procedures and effectiveness of controls over the procurement, expenditures, assets and special imprest and noted that there were many deficiencies in internal controls to safeguard public funds.

There was sufficient evidence that there was no proper preparation and planning and no monitoring mechanism by the Ministry to ensure the proper running of the Games to effectively and efficiently manage the Games and to avoid mismanagement and misappropriation of public funds.

There are inadequate regulations, laws, ordinances and charters that would enable MHA to enforce proper legal control over public funds that were used during the Games. MHA failed to apply good governance during the Games. Funds were not allocated in the Appropriation Act, but by a Contingency Warrant approved by Cabinet.

In addition, the Ministry's Accounting Officer and senior officials did not apply the provisions of the financial laws currently in force in Solomon Islands. Thus, it is appropriate that the persons involved in the 2016 Solomon Games should be liable for the public monies that were abused and mishandled.

5.3.4.Key Findings

The Risk Ratings used below have been defined in the Glossary at the beginning of this report.

Overall, OAG observed that process to manage and monitor procurement and expenditure, assets and special imprests were inadequately controlled with little or no regard for the requirements of the Public Financial Management Act, Financial Instructions and good practices. The audit issues identified are summarised below:

Ministry of Home Affairs/Solomon Games Management Committee not prepared

Risk Rating: High

There was lack of mutual understanding between the Ministry and Solomon Games Management Committee on who would run the Games or who had the authority to run the Games. There was a lack of evidence of planning for the Games. This lack of planning is evident throughout the issues reported here.

Lack of Proper Formation of Solomon Games Management Committee

Risk Rating: High

OAG conducted interviews and reviewed relevant charters and regulations and noted that the appointment and formation of the Solomon Games Management Committee members was not properly done. According to Board Paper No 2016-05 to 09 no specific time frame was given for each member and the terms and conditions of their engagement were not documented. The Solomon Games Charter does not give the Executive Board the power to form a sub-committee to run the Games. Members of the Solomon Games Management Committee (SGMC) were selected based on them volunteering their services and the preference of the Board. Their selection should have been merit based and in accordance with some provisions in a law or regulation or administrative process.

Lack of legal mandate to safeguard public funds

Risk Rating: High

The Charter of the Solomon Games lacks any clause with a purpose to safeguard public funds provided by the national government and other donors³. There is no clause stating how the Solomon Games Management Committee will be liable to the national government, if there are fraudulent activities by members, conflict of interest or mismanagement of public funds. The national government does not have regulations or laws to recognise the existence of Solomon Games or to provide public funds to host the Games.

In addition, the budget for the Solomon Games was created by Solomon Games Management Committee and was not approved by the Council. According to the Charter, the Solomon Games Council is the highest governing body of the Games and should approve the budget before presenting the budget to the Cabinet through MHA and HTC.

³ The National Sports Council Act provides for such provisions.

Composition of Solomon Games Management Committee

Risk Rating: High

OAG noted from information collected that the Solomon Games Management Committee was a sub-committee created by the Executive Board of Solomon Games to run the 2016 Games in Honiara. When reviewing the composition of the members of the committee, OAG found that MHA was not represented in the committee. The Ministry representative would have provided the linkage between the committee and the Ministry and HCC.

The Ministry representative could also have had oversight of public funds given by the National Government. The Solomon Islands Government through the MHA funded all the costs of running the 2016 Games so it was strange that the MHA as the sport ministry was excluded from the committee. Even with this flaw the Permanent Secretary and the Financial Controller saw fit to put reliance on decisions and recommendations given by the members of the committee on what and how to expend public funds.

The absence of Ministry representatives within the committee to run the Games could result in no transparency and accountability and the risk of mismanagement of funds and fraudulent activities by opportunists.

Lack of preparation, signing and safe keeping of Minutes

Risk Rating: High

OAG noted the following concerns with the Minutes of the various bodies:

1. Solomon Games Council - Only one Minute was able to be sighted, which was for a meeting held on Wednesday 13th July, 2016.
2. Executive Board of Solomon Games - OAG sighted 14 Board Papers. However, the Board Papers did not evidence the existence of quorum.
3. Solomon Games Management Committee - All suppliers providing goods and services for the Games were approved by the Committee. The approved budget was created by the Committee. Despite numerous requests for minutes, no minutes were given for the decisions made concerning procurements and suppliers' engagement.
4. Ministerial Tender Board - OAG identified two minutes, one for accommodation and the other for catering. However, the Ministry was unable to provide the original minutes for review as they were unable to locate them.

Inappropriate procurement processes

Risk Rating: High

Purchases valued at \$1.9 million were procured using bid waiver. OAG was advised that the bid waiver was necessary due to time constraints. However, the Games event was known well in advance, this was not an urgent or unexpected event. It is believed the bid waiver was used as an excuse to circumvent proper procurement processes.

Furthermore, no procurement processes have been followed when selecting suppliers/ contractors during the Games. The Manager of the Committee did not advertise or get three (3) quotations from possible suppliers/ contractors but made direct allocations to suppliers/ contractors or selected their

close friends. It was noted that medals and trophies from Lili Beauty Shop worth \$16,956 were left unused after the Games.

Financial Instructions M1 22(1) states *"All Officers are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, for any losses or errors while carrying out those duties."*

In addition, General Conditions of Contract documents was signed after the Games or after goods and services rendered to the Games. This shows that supplier does not go through a proper procurement processes to safe guide the public funds.

Ministerial Tender Board (MTB) Minutes tampered with by Permanent Secretary

Risk Rating: High

OAG noted that total payments amount of \$ 3,781,772.00 which accounted for 64% of the total Contingency Warrant were raised and approved by MHA and paid by MOFT. OAG discovered that the Permanent Secretary of MHA provided two fake Ministerial Tender Board (MTB) minutes to support the Payment Vouchers that were submitted to MOFT for payment.

The Permanent Secretary admitted to OAG that due to the workload of his officers he created those minutes on his own to fast track the payments process at MOFT. He organised, selected and directed his staff to sign the fake minutes as members of the MTB. In actual fact no such MTB meetings were convened for such purposes prior to and during the games.

Financial Instructions M1 22(1) states *All Officers are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, for any losses or errors while carrying out those duties.*

It is further stated in M1 23;

23.1 All public officers must be aware of the consequence of misconduct in office under Part 12 of PFMA.

23.2 Any Officer who fails to comply with any FIs is guilty of misconduct in office and will be disciplined, provided that any direction received to perform a duty is lawful.

The content of minutes was also unrealistic which prompted a thorough review. Upon reviewing the minutes OAG identified the following issues;

- Dates were not consistent - Minutes stated the meeting was held on Wednesday 1st July 2016, but on the calendar Wednesday was not 1st of July instead Friday was the 1st of July.
- No MTB meeting was held at MHA conference room as stated.
- Section 3.11 of the minute stated appointment of screening committee/ Evaluation committee. However, on those same minutes on section 5 of the minutes MTB made resolution on recommendation given by the newly appointed Committee which was not realistic.
- Two different minutes existed with the same members, date, time and venue.
- Senior Officers were not included in the MTB - Director Sport and Under-Secretary Technical were available according to their personal files but were not included. Instead three L 7 officers and two Acting Directors not related to sports were selected as MTB members.

P7 20 (1) of the Financial Instructions 2013 states; *"The Ministerial Tender Board will consist of the AO (Chair), the Financial Controller (or Chief Accountant if no Financial Controller) and one other*

senior public officer appointed by the Chair. The membership of each MTB should be advised annually to the Permanent Secretary of Finance".

The appointed MHA MTB Secretary confirmed on 07/09/16 that no MTB meetings were held but that the Requisition Officer went to her home after working hours to sign the minutes on the directive of the Permanent Secretary.

This is an example of abuse of power by the Accounting Officer.

Non-public officer included in the Tender Evaluation Committee

Risk Rating: High

OAG noted that the Permanent Secretary appointed two non-public Officers to the Tender Evaluation Committee. These persons were the members of the Solomon Games Management Committee. Their roles were to provide advice and recommendation to MTB Committee of the Ministry.

Unbudgeted accommodation expenses

Risk Rating: High

OAG reviewed the accommodation expenses and noted that there were three accommodation bills worth \$122,900 that were not budgeted for or approved by Solomon Games Management Committee or Ministry. There was lack of minutes and OAG did not see the minutes to confirm that those accommodations were approved by the Solomon Games Management Committee. According to Manager Accommodation, an agreement was done verbally. Also one of the accommodation cost was estimated at 600% higher in contrast to other accommodations hired during the Solomon Games. It is also noted that the accommodation with highest rates was owned by a member of the Solomon Games Management Committee.

No.	Venue	Unit Cost
1	Honiara Integrated Primary	\$ 18/Person
2	West-Side Lodge	\$ 180/Person
2	West-Side Lodge	\$ 130/Person
3	Meets Primary School	\$ 15/Person

Rates charged for each unbudgeted venue

Lack of control over unbudgeted expenses increased the risk of funds not available to meet all budgeted expenses of the Solomon Games 2016 and with possible mismanagement and fraudulent use of public funds.

Excessive Accommodation Charges

Risk Rating: High

OAG noted that almost all venues owners charged the Ministry for usage of electricity, water and accommodation separately. These charges exhausted the budget amount for accommodation.

The table below clearly shows that hiring of multiple venues to accommodate athletes and officials was very costly for the Government as most venues charged excessively for electricity, water bills and other costs which should have been included in the accommodation charges as one package. It was written on the agreements that accommodation costs should be charged per head. However, in

most schools, Principals or Deputy Principals charged on estimates while the actual numbers in the contingent were less, thus the cost charged should have been reduced to reflect the actual number of people accommodated. It should be the responsibility of the accommodation committee to ensure that accommodation charges were monitored on a regular basis.

According to section P7 18 sub-sections 18.1 & 18.3 of the Financial Instructions 2014 states;

“18.1 All Public Officers have a duty to report any excessive prices being charged by suppliers to the Ministry Permanent Secretary.”

“18.3 If deemed appropriate the Ministry Permanent Secretary should report excessive pricing to the PSF.”

Cost Summary of total Accommodation Charged

No.	Venue	Accommodation (Cost)	Electricity (Cost)	Water (Cost)	Other (Cost)	Days
1	Honiara Integrated Primary	\$ 40,000	\$ 26,000	\$ 14,000	\$ 15,120	14 days
2	St John CSS	\$ 86,360	\$ 8,500	\$ 2,500	\$ 19,550	17 days
3	Honiara High Secondary	\$ 108,800	\$ 11,900	\$ 15,300	\$ 37,400	17 days
4	Koloale CSS	\$ 123,930	\$ 3,294	\$ 3,150	\$ 40,500	18 days
5	King George Sixth	\$ 205,200	None	None	None	18 days
6	West-Side Lodge	\$ 9,360	None	None	\$ 12,420	5 days
7	Meets Primary Sch	\$ 6,000	None	None	None	10 days
8	West-Side Lodge	\$ 46,440	None	None	\$ 51,600	22 days

NB: Home Economic Class room, Admin Office hiring, Security Services, and Catering etc.

Inflated Charges for Catering

Risk Rating: High

OAG found that the Ministry of Home Affairs had approved and paid caterers who had either inflated the rate of charge per head or the number of days and participants which led to inflate the total amount of payment.

“The Public Financial Management Act 2013, Part 9 - Procurement and Use of Public Resources, section 73(1) which stated that every accountable and accounting officer shall conduct government procurement activities in a way that ensures prudent spending and use of public resources and in accordance with prescribed procedures.

The Financial Instructions 2014, P7-18.1 stated all Public Officers have a duty to report any excessive price being charged by suppliers to the Ministry Permanent Secretary.”

The table shows a summary of the rate, quantity and number of days charged by caterers.

In his interview with OAG, the former President of the Games confirmed that the agreed rate for catering across the board was fifty dollars (\$50) per head a day. However, West Side Lodge charged much more than that, as shown in the table below.

The number of people catered for were overstated in most venues.

The LMI Logistics and Multi Investment invoiced the Ministry of Home Affairs for 20 days caterings services at Don Bosco. According to the interview with Principal and the Security at the school, they confirmed that catering services were not provided until mid-second week of July 2016 which was around 13th July 2016. This meant that the caterer only provided 5 days service.

Caterers Charges

Payee	Date	Venue	Rate (\$)	Participants	Days	Amount (\$)
1. Member of committee	7/7/2016	West Side Lodge	80	6	22	10,500
			120	6	22	15,840
		(breakfast)	80	6	21	10,080
		(Dinner)	120	6	21	15,120
2. Member of committee	26/7/2016	Honiara High	50	185	2	18,500
			50	185	5	46,250
3. Member of committee	7/07/2016	Honiara High	50	320	13	208,000
4. Bishop Epalle School	7/07/2016	Bishop Epalle	50	400	15	320,500
5. Fiuguani Ken Solomon Logistic	7/07/2016	Mbokona CHS	50	320	14	211,000
6. LMI Logistic & Multi Investment	7/07/2016	Don Bosco	50	300	20	300,000
Total						1,202,250

Excessive security hiring and costs during the Games

Risk Rating: High

OAG identified that two security firms had been engaged for each venue that accommodated the athletes attending the Solomon Games. Out of the seven venues engaged by the Solomon Games, only two venues engaged were serviced by one security firm. It cost the tax payers a total of \$82,008.00 for engaging additional security firms for the Games villages.

Security Charges by Security firms

No.	Accommodation	Security Firm	No. Guards	Charge Rates	Amount (\$)	Status
1	Don Bosco	Executive Protects SI	5	• \$ 9/24 hrs/day for 17 days	11,016	Paid
		JGS Security	5	• \$ 10/24 hrs/day for 17 days	12,240	
2	King George Sixth	KG 6 Security	12	• \$ 9/24 hrs/day	51,744	Paid

	School	JGS Security	4	for 17 days • \$ 10/24 hrs/day for 17 days	12,240	
3	Honiara Integrated Primary School (HIPS)	HIPS Security	6	• \$ 9/24 hrs/day for 17 days	15,120	Paid
4	Koloale CHS	Koloale School Security RPS Security	6 4	• \$ 9/24 hrs/day for 17 days • \$ 9/24 hrs/day for 17 days	16,218 14,688	Paid
5	Honiara High School	Honiara High Security SMEAC Security	4 5	• \$ 9/24 hrs/day for 17 days • \$ 9/24 hrs/day for 17 days	?? 18,360	Paid with accomodation
6	St John CHS	St John School Security JGS Security	4 4	• \$ 9/24 hrs/day for 17 days • \$ 10/24 hrs/day for 17 days	6,800 12,240	Paid
7	Bishop Epalle School	School Security	7	• \$ 9/24 hrs/day for 17 days	25,704	Not Yet Paid

Detail information of security firms engaged during the Solomon Games 2016

Budget exceeded

Risk Rating: High

Commitment cards were not maintained in the Accounts Section. The Financial Controller failed to monitor the budget which resulted in spending funds in excess of budget and excessive charges by suppliers. The budget amount of \$5.9 million has been exhausted, with some suppliers still to be paid. OAG is not able to quantify the excess expenditure and commitments as it has not been recorded.

Inadequate Supporting Documents

Risk Rating: High

OAG found that six payments processed had inadequate supporting documents. The payment vouchers either did not mention the number of participants attending the functions, the names of venues or the number of days for which the rations had been paid.

Duplicate Payments

Risk Rating: High

OAG found that Ministry of Home Affairs had bought rations and dropped them off at the various games villages to sustain the athletics while waiting for the release of the Contingency Warrant.

While the Ministry of Home Affairs was doing this, the caterers on the other hand were charging the Ministry at full cost without acknowledging the rations were bought by the Ministry and that they need only to charge for labour cost. This was duplication of payments by caterers and was the major factor for overspending the Solomon Games budget. The Ministry also used a total of \$258,745.00 under Special Imprest to purchase foods for the Solomon Games.

The table below that shows rations bought and total imprest used for food by the Ministry.

Payee	Date	Venue	Rate	Participants	# Days	Amount (\$)
1. Fangs Co	10/07/2016	Not stated	NA	Not stated	Not stated	24,892
2. Wings Super Market	18/07/2016	Not stated	NA	Not stated	Not stated	69,097
3. Wings Super market	5/07/2016	Not stated	NA	Not stated	Not stated	60,025
4. VFresh	10/07/2016	Not stated	NA	Not stated	Not stated	20,000
5. Solomon Bakery		Not stated	NA	Not Stated	Not stated	252,450
Sub-Total						426,464
Caterers Sub-Total						1,202,250
Special Imprest Sub-Total				Not stated		258,745
Total Amount Provided on Food services						1,889,459

Missing Payment Vouchers

Risk Rating: High

Two (2) payments vouchers could not be located in the MOFT registry at the time of the audit. These were for payments of \$193,000 and \$156,000.

Transfer of Special Imprest

Risk Rating: High

OAG noted that the Executive Personal Secretary (EPS) for MHA was the Imprest holder for a sum of \$390,500. The Accountable Officer selected her as the imprest holder as she was eligible under Finance Circular 05/2015 subsection 1.2. However, OAG noted during the interview with the EPS that the special imprest money was surrendered to the Financial Controller when she cashed the imprest money for the purposes of usage of the imprest. The Financial Controller already had an imprest for the Games, and was not able to draw another imprest until that one was acquitted. The EPS was being held accountable for funds she did not control because the Financial Controller was circumventing MOFT processes.

Groups paid to perform at the Game villages

Risk Rating: High

Solomon Games Management Committee's Deputy CEO confirmed in a letter to OAG that no groups were performing during the Games' period at the Games villages. The Financial Controller did not confirm that the performances were provided. Payments from imprest for a total of \$40,000 were used to pay for groups performances at the Games villages.

Unplanned use of imprest funds

Risk Rating: Moderate

OAG reviewed the imprest retirements for both the EPS's imprest of \$390,500 and the Financial Controller's imprest of \$709,000. OAG noted that \$ 176,174.00 and \$ 303,610.50 respectively were used for activities not included in the purposes for which the applications were made. While most, but not all, of the payments were related to the Games, this reflects a lack of planning for the Games.

Expenses warrant direct payment

Risk Rating: High

OAG noted from expenses incurred through the special imprest that there were payments that warranted direct payments through the MOFT payment system. Payments including vehicle hire, assets purchases and renovation of buildings should have been paid to the vendors by MOFT, rather than through imprests, as quotations and other documents needed to be prepared prior to service delivery.

Signing and collecting of allowances on behalf of others by another person.

Risk Rating: High

OAG noted from spreadsheets used by the imprest holder to pay allowances to volunteers that one or two persons collected the money on behalf of others.

Lack of Asset Register

Risk Rating: High

OAG noted that the Ministry and the Solomon Games Management Committee failed to keep an asset register for assets purchased by the Ministry for Solomon Games. It is unknown how assets acquired for the Games have been disposed of.

Lack proper control over Ministerial Assets

Risk Rating: High

OAG noted during the verification of assets purchased for Solomon Games that assets worth \$113,320.00 were unaccounted for or stolen during the Games. According to the Purchasing Officer, assets were purchased and stored at the Ministry before the Games. The Ministry did not keep a register of Committee members and NOCSI officers who collected assets for accreditation of Solomon Games during and after the Games.

5.3.5.Overall Recommendations

OAG's key recommendations are that the Ministry of Home Affairs:

- Draft legislation and regulations to control the Solomon Games and upcoming Pacific Games,
- Work with the Solomon Games committees to ensure proper planning of the Solomon Games and fund raising well in advance of the Games,
- Control all government funds in accordance with the Public Financial Management Act and Financial Instructions,
- Whenever public funds are used for major sporting events, that the government is represented on the management committees, that the funds are administered and controlled in accordance with government laws and procedures, and that full acquittal of the funds is required,
- Ensure that any assets acquired with public funds remain the property of the government and are taken back after any publicly funded event,
- Consider recovery action for over payments and duplicate payments and
- The matters reported above be reported to the Leadership Code Commission, The Public Service Commission and the Police for further investigation.

5.4. Mekem Strong Fisheries Project Special Audit (NZ Aid Grant) 2014

5.4.1. Background

The Mekem Strong Solomon Islands Fisheries [MSSIF] Programme is a partnership programme between New Zealand and Solomon Islands, implemented by the Solomon Islands Ministry of Fisheries and Marine Resources with support from New Zealand's International Aid and Development Programme.

The Ministry of Foreign Affairs and Trade [MFAT] provide grant funding to the Solomon Islands Government [SIG] through the Mekem Strong Solomon Islands Fisheries (MSSIF) program on the terms and conditions set out in the Grant Funding Arrangement [GFA] signed on the 11th November, 2010. Thereafter, the Donor [MFAT] and MFMR agreed to vary the Grant Funding Arrangement each year, subject to changes happening each year to provide funding through MSSIF.

5.4.2. Audit Objectives and Scope

The purpose of the assurance engagement was to determine whether the receipts and expenditures provided under the Arrangement in relation to the funding and performance of the Mekem Strong Solomon Islands Fisheries Program was appropriately recognized and measured, was accurate, complete, appropriately coded, reported within the correct period, compliant with the terms of the Arrangement, and whether it has been managed according to SIG Financial Instructions and has been correctly accounted for and reported.

The accounting cycles covered under this engagement included the testing of:

- Standing and special imprests
- Bank account
- Procurement and expenditure

The audit period covered the 12 months ending 31 December 2014.

5.4.3. Audit Approach

Key officers within the Mekem Strong Solomon Islands Fisheries (MSSIF) Programme at the Ministry of Fisheries and Marine Resources (MFMR) and Ministry of Finance and Treasury (MoFT) personnel were interviewed.

OAG reviewed copies of the payment vouchers and Special Imprests and bank reconciliations obtained from the Ministry of Fisheries and Ministry of Finance and Treasury.

Original copies of payment vouchers, requisitions and Imprest warrants provided by the Ministry of Finance and were reviewed.

5.4.4. General Conclusion

OAG reviewed and tested the operational processes in managing the Donor funding at MFMR and MoFT to determine whether the payments from the 390 ledger account (MSSIF Donor fund) were in accordance to the terms and conditions in the grant funding arrangement, the SIG Financial Instructions and were expended for the intended purposes.

Our testing showed that although the processes were effective in ensuring that payments and imprests are valid and accurate, the lack of a few genuine invoices or receipts from suppliers made it difficult to determine the reasonableness of the costs and payments involved.

In the imprest processes, there are issues with the quality of the documentation used to support Imprest retirements. It was noted that most imprest retirements have receipts supporting the expenditure. However, a few of these receipts were from standard receipt books, with no evidence of the supplier invoice or company stamp which makes it difficult to check the validity of the retirement.

Overall, the testing showed that expenditures were generally spent for the intended purposes and were adequately supported and accounted for. However, we have identified a few control issues of non-compliance to financial regulations (Financial Instructions).

Audit has identified areas where improvements in controls, procedures and practices would make the process more accountable and transparent.

5.4.5.Key Findings

The Risk Ratings used below are defined in the Glossary at the beginning of this report.

The audit issues identified are summarised below:

Failure to retire special imprest accounts on a timely basis.

Risk Rating - Low

The Ministry under MSSIF funding issued a total of 14 special imprests in 2014. A hundred percent testing was performed to ensure the special imprests had been appropriately authorised and accounted for. OAG noted that one special imprest holder did not retire his special imprest of \$34,177.50 which remained outstanding as at 31 December 2014. This is a breach of Financial Instruction P7 68.4, which states that *“Special imprest is to be retired within the reasonable period and must sign a salary deduction if the special imprest is not accounted for and retired on a timely basis”*.

Lack of documentation to support the genuineness of the payment of fuel to a private vehicle

Risk Rating – Low

In reviewing the standing imprest replenishments, OAG noted that at various dates payments were made to suppliers of fuel for two private vehicles. There was a lack of supporting source documents provided as evidence to confirm the validity and appropriateness of the payments.

Bank reconciliations not performed on a monthly basis

Risk Rating – Low

Bank reconciliations were not performed on a monthly basis for the MSSIF Standing Imprest account as required by the Financial Instruction P5 73.2. Bank reconciliation was performed only on time of replenishment. Non-performance of monthly bank reconciliations could result in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds.

No segregation of duties over the preparation of bank reconciliation

Risk Rating – Low

OAG noted that there was no verification of the accuracy of the bank reconciliation performed by the Ministry. Lack of independent verification of bank reconciliation increases the risk of inaccuracy and oversight of errors and may result in fraud if unchecked by management in a timely manner.

The Financial Instruction P5 73.5 requires the authorised officer to prepare bank reconciliations every month and for them to be verified by another officer to ensure that cash exists and is reported accurately and completely.

No monthly reconciliation of Account Code Control Cards to Treasury Information

Risk Rating - Low

Financial Instruction P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to Treasury information. The Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increases the risk of over commitment of public funds.

5.4.6.Overall Recommendations

OAG's key recommendations are that the Ministry:

- Ensure that special imprests managed are retired on a timely basis,
- Ensure that imprest holders with outstanding imprests be advised immediately to provide all supporting receipts and documentation to the Financial Controller, and if this is not forthcoming, Ministry of Finance and Treasury should be notified to take recovery action and charge interest as required under Financial Instructions P7 77
- Remind staff of their obligations under the regulation or provide further training to ensure improvement
- Ensure monthly bank reconciliations are performed, reviewed and signed by an independent officer
- Ensure all account code cards are reconciled to Treasury information and that these reconciliations are reviewed and signed by an independent officer
- Consult with Ministry of Finance and Treasury for guidance on how to perform this reconciliation if staff responsible does not understand how to perform this.

Management Response

MSSIF management agreed to implement the recommendations.

5.5. Malaita Chazon Development Authority

5.5.1. Background

On the 19th December 2011, the Solomon Islands Government transferred the amount of \$3 million to the ANZ Bank account in the name of Malaita Chazon Authority (MCA) transitional account. This transfer of funds was facilitated by the National Bureau for Social and Economic Reform within the Office of the Prime Minister and Cabinet.

These funds were for three Economic Growth Centres (EGCs) of Suafa Bay (North Malaita), Faumamanu (East Malaita) and Afio (South Malaita) in Malaita Province as budgeted for in the 2011 fiscal year. By July 2012, MCA had exhausted these funds.

MCA prepared a report on the use of the funds titled “Report on the use of the \$3million in respect of the Three EGC”. This prompted the Minister of Finance to request the Auditor-General to conduct a special investigation into the use of the funds.

5.5.2. Audit Objectives and Scope

OAG conducted the audit to determine the following:

- The authenticity of all the expenses and programs of activity for which funds were expended out of the MCA account between the period December 2011 and August 2012;
- If funds from the MCA bank account were not used by the Provincial Premier and his executive to pay executive members during the period of political instability between December 2011 and April 2012;
- If funds from MCA bank accounts were not used to fund the overseas trip in May 2012 to Israel by the members of the Malaita Provincial Delegation, which included the Premier, Honorary Consul, the Deputy Director of MCA, and two Members of Parliament;
- The objectives and purpose of establishing the MCA;
- MCA internal financial procedures – governance and management structure – and whether those procedures have been followed when making payments ;
- The Governance structure of MCA, current members of the Board, and how they were appointed;
- The role of the Israel Honorary Consul on the MCA Board and management;
- The independence of MCA management and the Board of the current provincial premier and his executive members;
- The authorized signatures of the MCA operating bank account with ANZ Bank; and

5.5.3. Process of the investigation

- a) Key officers within the Malaita Chazon Authority (MCA), Malaita Province, Ministry of Rural Development, Ministry of Finance & Treasury and Office of the Prime Minister and Cabinet were interviewed.
- b) Copy of the payment voucher was obtained from the Ministry of Finance and Treasury.
- c) Records provided by the Minister of Finance were reviewed.

- d) Visited the MCA office in Auki on 1st November 2012 but was unable to access records of accounts. Audit was informed that only the interim Director has access to these records and not the MCA accountant.
- e) The Auditor General wrote to MCA Interim Director giving the MCA 14 days dateline to provide financial records for audit.
- f) OAG visited MCA Auki again on the 27th December and was provided with some records which are covered as part of the findings by audit in its working papers and this report.

5.5.4.Key findings

The Risk Ratings used below are defined in the Glossary at the beginning of this report.

The following is a summary of the key findings.

Complete lack of internal control and adherence to required financial procedures

Risk rating: High

Contrary to the *Public Finance and Audit Act [Cap 120]*, the *Financial Instructions, Malaita Provincial Financial Management Ordinance* and *Malaita Chazon Authority Ordinance 2012*, there was a complete lack of accounting systems in place to account for the funds. As such OAG was unable to verify or confirm:

- a) The authenticity of all the expenses and programs of activity for which funds were expended out of the MCA account between the period December 2011 and August 2012;
- b) If funds from the MCA bank account were not used by the Provincial Premier and his executive to pay executive members during the period of political instability between December 2011 and April 2012.
- c) If funds from MCA bank accounts were not used to fund the overseas trip in May 2012 to Israel by the members of the Malaita Provincial Delegations; and
- d) The purpose for monies drawn from the bank and who the actual beneficiaries for the amounts shown were.

OAG noted that despite the existence of MCA internal financial procedures, these were not applied to the funding under audit. Further, the MCA governance and management structure was ignored and financial procedures not followed when making payments.

There was a complete lack of accounting knowledge and financial procedures by the MCA officers in charge of the funds to ensure funds spent were properly and accurately captured and reported as required by relevant public finance procedures.

Lack of proper governance structure

Risk rating: High

The MCA was noted to have been operating without a Board, despite the members being appointed by the MPA responsible Minister, due to the non-gazetting by the Minister of Provincial Government. As such the MCA affairs were run by the Interim Director and his Deputy in the absence of a Board.

OAG did not sight any record to suggest that the Israeli Honorary Consul to Solomon Islands held any role on the MCA Board or management but noted through interviews conducted with MCA officers

that the Consul was in constant contact and dialogue with the MCA interim Director with regards to the industrial Parks of Kadabina, Faumamnu and Liwe.

OAG noted that the Provincial Ordinances state that the MCA, its Board and management in performing its functions are subject to the authority and directions of the provincial Premier and his executive members by virtue of its role as the business arm of the province.

Control over bank account

Risk rating: High

OAG noted the authorized signatories to the MCA operating bank account with ANZ bank as: the Interim Director, the Deputy Interim Director, and the Provincial Secretary. The method of operation is “any two to sign”. Audit noted from interviews, that the Interim Director and Interim Deputy Director can draw cheques without requiring the Provincial Secretary to check and countersign.

OAG noted from MCA provided work budgets that only 56.3% (\$1,687,900) out of the total funding of \$3 million was budgeted for in the work programs MCA claims to have implemented. The remaining 43.7% (representing \$1,312,100) cannot be explained by MCA.

Only 53% of \$3M funding was allocated in a budget

Risk Rating: High

OAG noted that MCA provided work budgets that cover only 53.3% (\$1,599,680) out of the total funding. The remaining 46.7% (representing \$1,400,320) cannot be explained by MCA and is not covered by work programme budgets provided for audit. The following table summarises the work activities and the budgeted amounts for the portion.

Item	Description	Amount	% Budget	% \$3M
1	Transport	\$147,388.00	9.2	4.9
2	Accommodation	\$55,210.00	3.5	1.8
3	Hire of Venue	\$10,000.00	0.6	0.3
4	Food	\$379,912.00	23.7	12.7
5	Allowances	\$576,420.00	36	19.2
6	Community Transport Hire/allowances	\$3,500.00	0.2	0.1
7	Miscellaneous	\$71,490.00	4.5	2.4
8	Land Boundary Survey	\$50,000.00	3.1	1.7
9	Equipment (Projector)	\$5,760.00	0.4	0.2
10	Management fees	\$300,000.00	18.8	10
Budgeted Total		\$1,599,680.00	100%	53.3%
Unbudgeted for		\$1,400,320.00		46.7%
Total Funding		\$3,000,000.00		100%

Only 1.8% of \$3M can be accounted for

Risk rating: High

OAG further noted that out of the 53.3% (\$1,599,680), copies of source documents provided by MCA as part of the "Report on the use of the \$3 million in respect of the Three Economic Growth Centres" accounts for only 9.24% (\$147,946.70). OAG however noted that a payment to Solomon Airlines for \$92,679-30 was later dishonoured by the bank due to insufficient funds. Thus only \$55,267.40 out of the \$3 million funding is accounted for. This figure represents 3.5% of the budgeted amount and 1.8% of the total Fund audited.

Unequal distribution of funds

Risk rating: High

The funds paid to MCA were to finance the three (3) SIG initiated Economic Growth Centres (EGCs). OAG however noted these funds were also used to fund the MPA- Israeli initiative of industrial parks along with other MPA projects.

Audit further noted that funds were to be spent equally amongst the 3 EGCs as each EGC was allocated \$1 million each. OAG noted however those funds were not spent equally. From the limited documents provided, OAG noted that funds were spent based on the MCA interim management work budgets which did not reflect the SIG allocations. The table below summarises the spending budget by region.

Region	Centre/Project	Amount per Centre/Project	% Per Centre	Region Total	Region Total %
North Malaita	Suafa Bay	\$639,542.00	21.3%	\$732,162.00	24.4%
	Suafa Bay Battery	\$33,000.00	1.1%		
	Kadabina	\$59,620.00	2.0%		
East Malaita	Faumamanu	\$273,500.00	9.1%	\$273,500.00	9.1%
South Malaita	Afio	\$261,656.00	8.7%	\$516,736.00	17.4%
	Liwe	\$255,080.00	8.5%		
MPA Projects	Buma Pineapple	\$70,000.00	2.3%	\$132,500.00	4.4%
	Maoa Cattle	\$44,000.00	1.5%		
	Mage Cabbage	\$18,500.00	0.6%		
Others	Israel Tour	\$25,002.00	0.8%	\$33,002.00	1.1%
	Israel Solar	\$8,000.00	0.3%		

Funds spend on different purposes

Risk rating: High

In addition to the unequal distribution of funds, moneys were spent on the Industrial parks of Kadabina, Faumamanu and Liwe. While Kadabina and Liwe budgeted figures were separated, OAG could not verify or separate the figures for Faumamanu as there was no separation of the costs for the SIG EGC and the MPA – Israeli Industrial Park. Furthermore, funds were also spent on MPA projects. Both of these are outside of the purpose for which the funds were established. The following table summarises expenditure by project type:

Project Type	Amount	\$3m
EGC	\$1,174,698.00	39.2
Industrial Parks	\$314,700.00	10.5
MPA Projects	\$165,500.00	5.5
Other Israeli - MPA	\$33,002.00	1.1
Total Budget	\$1,687,900.00	56.3%

Audit noted that of the \$3 million funding, only 39.2% was actually spent on the EGCs, the purpose for the fund. Of the remaining 60.8%, 10.5% was spent on the Israeli – MPA industrial parks, 6.6 % on MPA private project and the remaining 43.7 % is unaccounted for.

Management Fee paid not accounted for

Risk rating: High

OAG noted that a 10% management fee of \$300,000 was paid out of the MCA bank account. Audit was informed that this fee was for services rendered by MCA as required under clause 5(d) of the MCA Ordinances 2012. OAG, however, was unable to determine where or who this amount was paid to as there was no documentation provided by MCA for audit.

OAG further noted that the purpose of the provision in the MCA ordinance 2012 (Clause 5(d)) that allows this fee to be charged is to cater for payment of allowances and wages associated with the implementation of such activities associated with the fund. This however, was not the case as MCA officers and other MPA officials continuously claimed and received allowances paid out of the EGC funds.

Excessive allowances paid

Risk rating: High

OAG noted the excessive payment of allowances to officers of MCA and MPA. The highest amount paid per day was \$5,000 and the regular rate used was \$2,000. Audit noted that the total of allowances paid made up 18.9% of total funding or 33.5% of budgeted funds. OAG noted that MCA officers continued to pay themselves and MPA officials unreasonably high allowances. Allowances paid totalled \$861,532, including \$177,942 to one individual.

OAG further noted that, from work budget provided that spending on food totalled to \$379,912 in addition to allowances paid. This figure represents 23.7% of the total funding. It should be noted

that while MCA claims this is how they spent the ECG monies, they cannot provide any supporting documents other than the work budgets.

Funds paid directly to MCA, not to Malaita Provincial Assembly

Risk Rating: High

OAG was unable to sight any memorandum of understandings or agreement to support the release of public funds directly to MCA instead of the Malaita Provincial Assembly.

5.5.5. Follow up Audit

A follow up audit was conducted by the Office of the Auditor General from 12th – 17th December 2013. The Primary objective of the follow up audit was to verify the proposed growth centres in Suafa Bay (North Malaita), Faumamnu (East Malaita) and Afio (South Malaita).

Findings

1. As per the initial report, OAG noted that there were no financial records kept by the MCDA officers. One of the accountants who worked with the MCDA now moved to the provincial accounts confirms to OAG that, most of the payments were done on directives only and not according to sound financial process.
2. OAG confirmed that the records were not available to be able to audit them..
3. OAG confirmed that the recommendations are correct according to its findings.
4. OAG requested any records on the payments for the three Growth centres, especially the records for South Malaita. The MCDA officials were able to hand over documents for verification purposes. OAG confirmed that there were no records available.
5. The Suafa Bay Growth centre was visited by the OAG team. There was a plot already being arranged between the landowning groups, MCDA and the government. The actual area was already cleared and studies were already done before the plot was paid for. There was still confusion by the public as to who really owned this project. OAG understands that is a national project so it belongs to the nation and not to certain tribes as claimed during the visit. There were no physical developments started as at the time of the follow-up. OAG confirmed through its site visit that a lot of money was being spent without proper planning in place to ensure a positive outcome.
6. The Suafa Battery – OAG sighted a building that was meant for that project. Some old items were visible in it but no batteries were sighted in it. As there are no records available, OAG could not confirm if the money was being used for its intended purpose.
7. Kadabina is in North Malaita and it is 25 km from Auki. OAG team visited that area and noted that the arranged area was already cleared and the landowning groups were already paid. According to some villagers interviewed, this area was still disputed by some land owning parties. OAG could not confirm what actually caused that disagreement. There were no physical developments started yet as confirmed by the villagers. If not maintained properly that area will be covered by bushes again, then more money needed to start clearing it again.

8. The MPA projects were not in any way close to being sustainable projects. OAG was unable to determine whether funds were available for further work, or whether further work had already been paid for.
9. The Israel tour was allocated a budget of \$25,002. While this amount is reflected in the budget, OAG could not tell if this amount was spent for its purpose.

5.5.6.Recommendations

OAG recommended that:

- MCA immediately implements financial recording systems for all funds as required by the *Public Finance and Audit Act [Cap 120]* , the *Financial Instructions*, the *Malaita Financial Management Ordinances* and the *MCA Ordinances 2012*;
- MCA must ensure all payments are subjected to the requisitioning process and payment vouchers must have sufficient supporting documents to verify the purpose of payment and appropriateness before being authorized and processed;
- MCA must implement a more stringent filing system and storage over financial records such as payment vouchers and source documents to ensure the security of important financial documents;
- MCA ensure appropriately skilled human resources are recruited to ensure all financial reporting needs are catered for;
- Further investigations be conducted by the Police to determine if there are grounds for criminal prosecutions due to corruption misappropriation and fraud; and
- The Leadership Code Commission investigates possible abuse of the office by officers concerned and impose appropriate disciplinary measures.

5.5.7.Conclusion

The audit revealed the above serious problems in the control over and financial reporting of the funds under investigation. The nature of the breaches of the *Public Finance and Audit Act [Cap 120]* , the *Financial Instructions* and other applicable legislations such as the *Malaita Province Financial Management Ordinance* and the *Malaita Chazon Authority Ordinances* is such that there is suspicion of corruption and misappropriation and fraud. The funding and its disbursement need to be further investigated by the police and the Leadership Code Commission to determine whether criminal prosecutions and/or disciplinary actions are appropriate.

5.6. Revenue Collection of the National Judiciary

5.6.1. Overview

In a letter dated 3 June 2014, OAG was formally requested by the National Judiciary to investigate suspected theft and loss of money for period 1 January to 31 December 2013. OAG was further requested to suggest recommendations to strengthen internal controls.

5.6.2. Background

The National Judiciary (NJ) promotes and enhances the rule of law, peace, justice, security and development in the Solomon Islands through the administration, provision and access to justice, legal services advice and reforms. Its mission statement is *“to make justice visible, tangible and accessible to the whole community by hearing and determining cases according to law”*.

The National Judiciary collects revenues as part of its administration. Total actual revenue receipted during 2013 was \$3.8 Million (refer to the table below). Revenues were collected at six locations including the High Court and Central Magistrates Court in Honiara and four provincial Magistrates Courts located at Gizo, Auki, Lata and Kirakira.

Revenue	Accounting Code	Amount	%
Fees and Charges	296-0156-000-0001	\$ 15,655.00	0.41
Court Fee	296-0156-000-0004	\$ 574,064.00	15.13
Court Fines and Forfeitures	296-0156-000-0005	\$ 142,765.00	3.77
Public Fees and Other Receipts	296-0156-000-0006	\$ 3,058,811.00	80.61
Law Book Fee	296-0156-000-0011	\$ 3,165.00	0.08
Total		\$ 3,794,460.00	100

Source: Recurrent Budget 2014

Figure 1: Summary Table of published revenues.

5.6.3. Scope and objective

The audit objective was to assess whether the National Judiciary had effective internal control in place to provide management with assurance over the completeness, accuracy and timeliness of revenue collections. It was also to determine whether cash was receipted and deposited within the CBSI bank account in a timely basis. The scope covered the period of January to December 2013. However, testing over revenue at the High Court for the period from 11 -31 December 2013 was out of scope because NJ had performed its own investigation. In addition, revenues collected at the Gizo, Auki, Lata and Kirakira Magistrates were not examined as part of this investigation. The investigation was performed over the period from December 2014 to February 2015.

OAG interviewed staff at the High Court, Central Magistrate Court and Magistrate Courts at Gizo, Auki, Lata and Kirakira and the Ministry of Finance and Treasury.

OAG examined documents at:

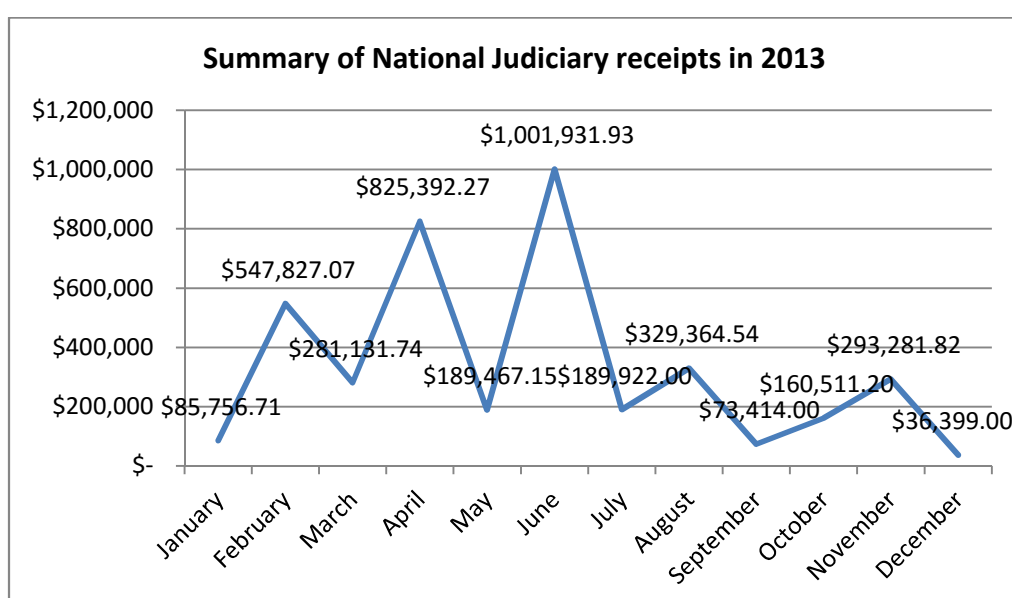
- The High Court
- Central Magistrate Court
- Ministry of Finance and Treasury

OAG spoke to representatives and staff at the Financial Management Support Service (FMSS) and Central Revenue Collection unit at MoFT. OAG also reviewed past audit reports and examined the Ministry's Act and the latest available Annual Report (2009).

Analysis

As part of our testing we checked the revenue recorded in the AX general ledger system. 35 receipt books were not available for the period January to June 2013. Furthermore an exhaustive check of AX entries for the period July to December 2013 was necessary as summary sheets recording those revenues deposited at MoFT were found to be incomplete. The chart below shows monthly net receipts as recorded in the AX general ledger system.

OAG noted that revenue collection increased in 2013 for both the month of April and June. Specifically, the revenue collected increased by 21 percent (\$1million) in April and by 27 percent (\$825,392 thousand) in June of the total revenue collected in 2013. The spikes were from 3 large cheques received in April and 2 large cash receipts in June.



Source: OAG and MoFT General Ledger

Summary of AX receipts

5.6.4.Key audit findings

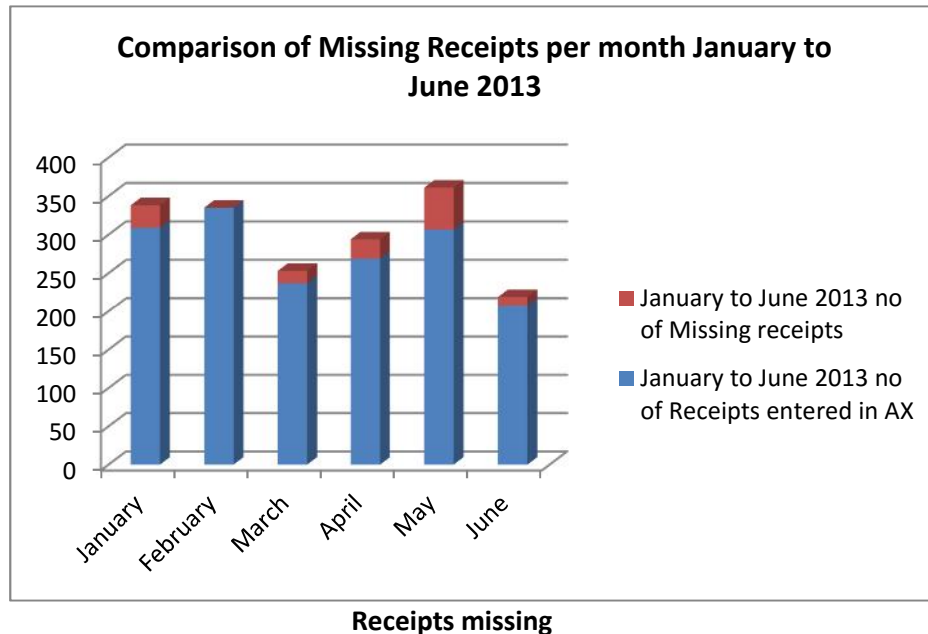
The Risk Ratings assigned below have been defined in the Glossary section at the beginning of this report.

High Court revenue unaccounted for over the period January to June 2013

Risk Rating: High

Receipt books for the period January to June 2013 were unable to be located for audit scrutiny. However OAG was able to examine some receipt carbon copies at MoFT. As a result it was necessary to examine the AX records for this period to determine if any receipts had not been banked to assess the completeness of revenue. By analysing the reference numbers of the receipts processed through the AX system, it was possible to determine which receipt books had been used during this period.

Whilst it was not possible to ascertain the value of the missing receipts, OAG was able to summarise the volume of missing receipts per month. During this six month period there were 1665 receipts recorded in the AX system. There were a total of 135 receipts which could not be verified as unused, issued or cancelled. This represents 8% of the total number of receipts for the period and indicates that reported revenues are incomplete. See the bar chart below.



Period July to 10 December 2013

Risk Rating: High

During the period 16th July to 10th December 2013 a total of \$830,060.56 (cash and cheques) was collected at the High Court Registry. This figure is based on issued receipts.

Before receipts are presented to MoFT for banking, summary sheets are prepared by the High Court Registry. Our testing shows that during this period, there was a shortfall of \$56,680 which is made up of “missing” receipt numbers not listed in the filed summary sheets. This is a significant proportion (7%) of the total revenue for the period.

When the receipts are registered by MoFT their numbers are entered in the AX System. Receipt numbers missing from summary sheets were checked through the AX system to double check that the discrepancy was not caused by incorrect filing of summary sheets by MoFT.

Management have less assurance over the completeness and accuracy of reported revenues. In the absence of an audit trail, there is high risk that these monies had been stolen and NJ has lost cash.

Recommendation

OAG recommended that National Judiciary:

- Maintain a register for receipt books by recording the sequence numbers for each receipt book, date collected from MoFT, date returned to MoFT and receiving officers. This register should be reconciled monthly against the AX/SIG Info records and signed off by management as verified.
- Regularly monitor receipts in detail. For example analysing data by location to identify and explain transactions not within expectations.

Missing Receipt Books

Risk Rating: High

OAG noted during the testing that 35 used receipt books from the month of January to June 2013 were missing. In our analysis we traced the receipts books sequences issues from MoFT to High Court and compared these receipt numbers with the receipt numbers entered in the AX system over the same period. We also took account of those receipts issued by MoFT to the High Court in June but which were used in July.

Without sufficient supporting documentation there is a risk of money being misappropriated. There is a risk that official receipt books may be used and the moneys collected not banked and recorded in the government systems.

Recommendation

OAG recommended that the National Judiciary in future comply with Government Records Management Policy and ensure all documents and records are readily available and filed.

Irregularities and Responsibilities of Accounting Officers for Revenue

Risk Rating: High

OAG noted there is a poor internal control which had led to irregularities in the process of collecting revenues with the National Judiciary. Furthermore there was lack of systematic communication between MoFT and the National Judiciary to identify these ongoing irregularities.

Financial Instruction 5 13(1) *A Collecting Officer at the Treasury, Sub-accountant or other office must immediately report to senior Officer any suspected irregularities in collected revenue, cashbook or other documents presented by the Revenue Collector.* Furthermore Financial Instruction 5 14(1) mentioned that *“Despite the checks required on Revenue Collectors’ cashbooks and documents by collecting officers at Treasury, Sub-accountant and other office, the AO is still responsible for making sure all revenue collected is correctly and promptly accounted for”.*

The National Judiciary and MoFT have breached Financial Instruction 5 13(1) by not immediately reporting to senior Officer any suspected irregularities in collected revenue.

Recommendation

OAG recommended that the National Judiciary:

- have sound management procedures to strengthen its internal controls over the collection of revenue;
- regularly monitor revenue collections to ensure it is correct and accounted for;
- comply with Financial Instructions 5 13(1) and 14(1) and
- have systematic communication with MoFT.

Cash Books

Risk Rating: High

OAG noted that there were no cashbooks kept at the High Court, therefore OAG cannot confirm the validity of details in the Summary sheets.

The Financial Instructions 5 7 (1) states that *“every revenue collector must keep a cashbook in the form approved by PSF. All receipts must be entered daily and pay-overs to Treasury, Sub-accountant or other Office must be entered immediately any pay-over occurs”*.

Furthermore Financial Instructions 10 (1) *“states that revenue collector must add up the amounts recorded in the cashbook as revenue receipts, rule off the cash book and show both the total revenue collected and on – hand since the last pay-over”*.

The lack of maintaining a cashbook increases the risk of collected revenues being misappropriated and revenue will be under stated in the financial statements. Further the National Judiciary will not be able to check the total revenue collected from time to time.

Recommendations

OAG recommended that the National Judiciary;

- ensures a proper cash book is maintained
- Complies with Financial Instruction 5 10 and ensure balancing of cash books is performed
- Consult with MoFT provide guidance on how to maintain cashbooks.
- Ensure that staff are provided with internal training on cashbook

Summary Sheets

Risk Rating: High

OAG noted that two summary sheets were not verified by the checking officer (Registrar) prior to the deposit at Treasury. Without sufficient verification or checking there is a risk of error or of money being misappropriated. The revenue recorded in the 2013 general ledger is incomplete, which might contribute to a disclaimer in the audit opinion for the National Accounts.

Recommendation

OAG recommended that the National Judiciary ensure that checks and verifications are performed by independent officers.

5.7. Honiara City Council

The last financial statements for Honiara City Council certified by the Auditor-General were for the 2010 financial year. The financial statements for the 2011 to 2015 financial years have been prepared for Honiara City Council with the assistance of an accounting firm. They were submitted to the Auditor-General in September 2016. OAG is currently conducting the audit of these financial statements.

OAG conducted an audit of the accounts and records of Honiara City Council for the financial years 2011 to 2013. While this was in the nature of an interim audit, the scope and findings were so broad that this summary of the audit has been included under Special Audits. The following is a summary of the results of that audit.

Overall Conclusion on Honiara City Council Internal Controls

The objective of the audit was to form an opinion on the effectiveness of management's internal controls used in the operations of the Council, its safeguarding of Council assets and the preparation of financial information that underlie the production of financial statements.

As can be seen from the detailed findings in the following sections there are a number of fundamental internal control failures that hinder the efficient operation of the Council, restrict its ability to safeguard its assets (including public monies) and undermine the reliability of financial and accounting information that should form the basis of preparation of the Council financial statements.

Key control failures include:

- a lack of controls to ensure that all revenues due to the Council are identified and collected;
- a lack of site visits and inspections by revenue field officers to ensure that payers for Council services have paid the full and correct amounts due;
- inadequate escalation of arrears recovery procedures and failure to instigate court action on persistent arrears;
- a failure to perform basic accounting controls such as bank reconciliations and MYOB system reconciliations on a timely basis;
- failures of authorisation controls, i.e. where senior officers are required to check and authorise transactions, but where the transaction has been authorised even though the check has not been performed in accordance with HCC policy (imprest, advances, allowances);
- inadequate physical safeguards on Council property including valuable and desirable Council assets including cash, receipt books, fuel, vehicles and IT equipment
- a lack of segregation of duties to reduce the risk of errors or misappropriation of assets;
- a lack of understanding of the accounting system leading to mispostings and inability to issue financial statements;
- a general lack of documentation to evidence the operation of controls and frequent failure for senior officers to sign on standard HCC forms to show they have supervised, reviewed, checked or approved a transaction or process; and
- Compliance failures including financial ordinances and procurement regulations.

These control failures lead us to conclude that overall HCC management's internal controls used in the operations of the Council, its safeguarding of Council assets and the preparation of financial

information that underlie the production of financial statements are **ineffective** and require improvement.

Although numerous control failures have been identified and many are serious, OAG considers that HCC can improve its systems and controls in these areas with limited additional effort or resources, and as a result we have included what we consider to be practical and realistic recommendations in the following sections that address these system and control weaknesses.

REVENUE – BUSINESS LICENCES

1 Completeness of business licencing

Risk Rating - High

HCC is empowered to issue business licences to all commercial operations within the Honiara City boundaries, and to collect fees for the granting of business licences. However business licences are not proactively sought by HCC, which instead depends primarily upon business owners to approach HCC and complete an application form for a business licence. When business owners apply for licences they may have been operating for some period of time but not reflect this on the application.

HCC revenues may be lost as business owners are either unaware of the need to apply for a licence or remain unlicensed to avoid making the licence payment. It is likely that HCC are forgoing significant revenues due to this reactive approach to licencing.

In addition, business licence rates after 1 July in any year are reduced (as all licences expire on 31 December) which may encourage business owners to delay application.

Recommendation

OAG recommended that HCC should develop a policy and procedure to identify businesses operating in Honiara that are unlicensed. This may include a formal process of periodically reviewing advertisements and local business publications, companies registering in Honiara with Companies House, researching websites and periodic visits to commercial areas of Honiara to observe any new business premises opening, or unrecorded on the business licence register.

2 Accuracy of business licence applications

Risk Rating - High

There is a detailed application procedure for Business Licences that involves the Physical Planning Division (and Environmental Health for food related businesses), as well as Administration at HCC. However, despite the need to submit supporting documentation including copies of title deeds, tenancy agreements, and recommendations by chief civil engineer no checks are conducted on the validity of the submitted copies of documents. Equally, no other assertions on the form are verified.

HCC issues business licences for a range of activities and fee rates vary depending on the category of business activity. However business licence categorisation is not checked by inspection on a sample basis to ensure that businesses are correctly classified and multiple activities of businesses may not be captured. The Business Licence Ordinance states such inspections should be carried out by the Treasurer/City Clerk) or delegated officers regularly, but auditors could obtain no evidence of such inspections.

There is a risk that applications are supported by inaccurate or altered documentation in order to obtain a business licence for a business operating in inappropriate conditions. Businesses may

indicate a wrong categorisation in their application to pay a lower licence rate or only record their major activity.

Recommendation

OAG recommended that:

- HCC periodically check a sample of application forms and submitted supporting documents for business licence applications for authenticity. This will ensure that HCC is not issuing business licences where businesses are conducted in appropriate conditions, and that assertions made by the business licence applicant are factual;
- HCC appoint Revenue Field Officers as a priority to perform a sample of inspections of businesses to ensure that they have the correct category of business licence and have paid the correct fee. Such inspections could also identify if businesses are carrying out more activities than they are registered to conduct.; and
- details of HCC inspections be publicised as a deterrent to business owners for inaccurate or incomplete disclosures on their licence applications.

3 Business licence renewal chasing and arrears

Risk Rating - High

All business licences expire at 31 December of the year in which they are issued. Business owners are expected to visit HCC to renew the licence in January when the licence has expired, but there is no compulsion to do so and this is dependent on the business owner. If the business owner does not visit HCC in January for renewal, the Business Licence Officer generates and sends an invoice through the post and arrears can form. The Business Licence Officer can continue to send invoices and letters but there is limited enforcement mechanism if the letter continues to be ignored.

The Business Licence Officer can escalate persistent arrears to the City Clerk who in turn sends a letter and if this is not successful HCC can take court action. However OAG could get no evidence that court action had been taken and to date no court case has succeeded in recovering arrears.

Business licence arrears will remain unrecovered if business owners ignore reminders and enforcement is not rigorously pursued by HCC officers.

There is also a risk that currently licenced business owners do not renew their licences due to the perceived lack of enforcement of arrears by HCC.

Recommendation

OAG recommend that:

- HCC review its arrears policy for business licences and considers establishing a more robust enforcement of arrears with escalating reminders and the threat of court action to recover HCC funds due.
- HCC takes court action in a number of cases to recover funds and set an example that continuing arrears will not be tolerated by HCC. This court action should be reported to the public through newspaper advertisements.

4 Business licence system – lack of segregation of duties

Risk Rating - High

The Business Licence Officer role covers many aspects of the business licence system including:

- receiving and assisting with applications

- collecting business licence receipt
- preparing business licence
- invoicing
- posting application details into MYOB and maintaining business licence ledgers
- pursuing arrears
- reconciling MYOB business licence with main MYOB
- changing the MYOB business licence system information

As such there is little segregation of duties for the business licence system. In addition, OAG noted that there was no evidence of supervision of the Business Licence Officer's work at HCC.

The responsibilities of one individual for so many of the business licence system activities increases the risk to HCC of errors and manipulation of the system for personal gain, as well as increasing opportunities for overriding established controls. It also increases the likelihood that any fraud and errors are not detected on a timely basis.

In addition, if the responsible officer were to leave HCC, the Council would struggle to continue the business licence operations while a replacement is sought.

Recommendation

While there are resourcing limitations in terms of HCC staff, there are possibilities for segregating duties with HCC with current staff numbers. OAG recommended that HCC consider options for sharing of responsibilities or rotation of staff so that duties are more effectively segregated and more than one member of staff is conversant with the business licence system.

In addition OAG recommend that the work of the Business Licence Officer should be subject to supervision by senior HCC staff, as it represents a major council revenue stream.

REVENUE – LIQUOR LICENCES

5 Completeness of liquor licencing

Risk Rating - Moderate

HCC is empowered to issue liquor licences to businesses and to raise revenues for licencing. However currently there is no mechanism for HCC to identify businesses selling liquor without a licence.

Potential HCC revenues may be lost as business owners are either unaware of the need to apply for a licence or remain unlicensed to avoid making the licence payment.

Recommendation

OAG recommended that HCC develop a policy to identify businesses selling alcohol in Honiara that are unlicensed. This may include reviewing advertisements and local business publications, companies registering in Honiara with Companies House, researching websites and periodic visits to commercial areas of Honiara to observe any new business premises opening without a liquor licence.

6 Lack of transparency in granting of liquor licences

Risk Rating - Low

The City Mayor of HCC appoints members of the Liquor Board which meets quarterly to approve or reject liquor licence applications. Auditors were unable to obtain any minutes of Liquor Board meetings where decisions were taken on liquor licence applications, or any documentation reflecting the decision-making process of the Board.

There is a risk that liquor licences may be given in return for bribes or favours and to associates of Board members.

Recommendation

OAG recommended that all decisions to award or decline liquor licences by the Liquor Board are clearly documented including the basis of decision.

REVENUE – BASIC RATES

7 Completeness of basic rates received by HCC

Risk Rating - High

Basic Rates are only payable to HCC by those earning more than \$10,500 in the Honiara area. HCC is reliant upon those businesses with qualifying employees to submit monthly Returns Notices and that the Returns state accurately and completely the staff subject to pay Basic Rates. HCC does not have a proactive mechanism for identifying new possible Basic Rate payers other than through the Business Licence application system.

There is a risk that HCC fails to identify people required to pay Basic Rates, especially if they are employed by businesses which have also not registered for a business licence. This will result in HCC forgoing revenue that they are entitled to collect.

Recommendation

OAG recommended that HCC look into alternative procedures to identify businesses with employees required to pay Basic Rates in the event that the potential payers do not register for a business licence. Options could include similar procedures to those for business licences (as licence holders are often the same individuals responsible for submitting Basic Rate Returns - see finding 1).

8 Basic Rate collections by HCC and arrears

Risk Rating - High

Once a Basic Rate payer is added to the HCC Basic Rate database as a result of applying for a business licence, there is no system for ensuring the payer submits Return Notices. HCC officers do send letters to some businesses periodically asking them to send Returns or face penalties, but HCC has limited ability to recover Basic Rate arrears other than to keep sending letters.

OAG noted that HCC can call upon Prosecution Officers to take action against persistent non-payers, but to date the Treasurer indicated that there have been no successful civil suits to recover arrears.

HCC revenues are lost as business owners may be either unaware of the need to submit Basic Rate Notice Returns or attempt to avoid payment. Moreover if they are unlicensed, then HCC will not have their details held on a database. This prevents HCC from collecting Basic Rate revenues to which they are entitled.

Recommendation

OAG recommended that:

- when business owners pay for and receive their business licences at HCC, that revenue officer discuss with them whether they employ staff that meet the Basic Rate criteria. If the business owner does employ qualifying staff, revenue officers should provide them with a Return Notice to complete and explanatory guidance on submission of Basic Rate information.
- when businesses seek a renewal of the business licence each year, that their payment of Basic Rate is reviewed, and that any Basic Rate arrears are settled before the licence is renewed.
- HCC consider the possibility of requiring all licenced businesses to submit Basic Rate Returns, even nil returns

9 Base Rate inspections/Revenue Field Officers

Risk Rating - High

OAG could not obtain evidence of HCC visits to businesses to ensure that they are paying the correct Basic Rate. Such visits are within the remit of HCC and contained within HCC Revenue Officer's terms of reference.

OAG also noted that there were four vacant positions at HCC for Revenue Field Officers. These officers' role are to visit businesses and properties to ensure that they had appropriate licences and were paying rates, as well as to visit properties in Honiara to confirm that property rates had been paid. Two of the officers had left HCC and the other two had taken other positions in the Council

There is a risk that HCC is losing significant revenue from Business Licences, Basic Rates and Property Rates as a result of failing to implement a regime of site visits to businesses and properties in Honiara.

Moreover if potential and exiting payers are aware that HCC does not implement effective monitoring and enforcement of Business Licences, Basic Rate and Property Rates, they may be motivated to avoid making payments to HCC in future.

Recommendation

OAG recommended that:

- HCC management consider the reasons why all four Revenue Field Officer positions are currently vacant, and take steps to fill these key positions, if necessary making the positions more attractive. This will enable HCC to more effectively monitor and improve its revenue collections.
- HCC maintain records of any field visits and inspections so that it can monitor the effectiveness of visits and determine the appropriate level of coverage by inspections to ensure that non-payers and inaccurate disclosures by business owners are identified

10 Basic Rate incomplete Returns Notices

Risk Rating - Moderate

OAG observed that 21 of 30 Basic Rate Return Notices reviewed were incompletely filled in, with tax due but limited or no salary information. The Return was still accepted and processed, despite the fact that the calculation of Basic Rate tax could not be confirmed for these notices.

Where annual and monthly income figures are not included in Notice Returns, HCC cannot determine if the proper Basic Rate has been calculated by the Rate payer, and so the amount paid to HCC may not be correct.

Recommendation

OAG recommended that HCC:

- not accept partially completed Returns.
- perform a sample check on the computation of Basic Rate based upon Annual/Monthly income figures recorded on the notice, and this check is evidenced.
- develop guidance for completing returns notices to be provided with the Returns to rate payers.

11 Direct Payments of Basic Rate

Risk Rating - High

Many government civil servants and companies based overseas make Basic Rate payments direct to the HCC bank rather than paying with a Return Notice with the cashier. It is not always clear what the source of the basic rate payment is – which ministry, company, etc. the payment was made by as the bank statement does not clearly give the breakdown/details of the revenue credit.

HCC is supposed to obtain a basic rate summary from MoFT and the companies to reconcile to the bank payment received. When OAG requested a recent copy of the summary received from Ministry of Finance, the Basic Rate Officer stated no summary had been obtained since 2012. Copies of summaries from overseas companies continue to be received regularly.

There is a risk that MoFT is not paying Basic Rate at the correct rate and for all employees.

Even if HCC did reconcile the payment made to bank statements regularly, a risk remains that the information contained in the summary is inaccurate or incomplete.

Recommendation

OAG recommended that HCC:

- resume the process of obtaining statements of Basic Rate from MoFT in order to reconcile Basic Rate direct bank payments to supporting summaries.
- periodically check the accuracy of the Basic Rate information received from MoFT and overseas companies to ensure that all those liable for Basic Rate are included in the summary, and evidence this check.

REVENUE – CENTRAL MARKET

12 Central Market revenue reconciliations

Risk Rating - High

Honiara Central Market is a major source of HCC revenue, including parking fees and market rents, and contributed approximately 20% of HCC revenues between 2011 and 2013.

The market closes at 6pm each day and at this time all 18 Revenue Collectors return all completed and half completed receipt books with the money collected to the Market Master. The Market Master collects all receipts with revenue for all 12 zones of the central market and checks them for accuracy against the receipt books. The Market Master then records a receipt for the revenue collected for the 12 zones on 12 separate receipt slips in preparation to give to cashier the next day. Only the Market Master reconciles the collection and the reconciliation is not checked and reviewed.

There is a risk that if the market master makes errors or deliberately manipulates figures in reconciling the receipts, collections and receipt books, or transposing totals for each zone onto new receipts then this will not be detected.

Recommendation

OAG recommend that:

- HCC ensures that the daily reconciliation of receipts, receipt books and collections is formalised in a daily reconciliation report form.
- the reconciliation be reviewed by the Senior Revenue Officer at HCC and that he evidences his review by signing off on a daily reconciliation report. The officer could be paid overtime in order to attend the reconciliation. Copies of the reconciliation report should be retained at HCC Administration.

13 Central Market revenue reconciliations checks

Risk Rating - High

OAG was informed that HCC Administration periodically visited the Market Master's office to check that the 12 receipt slips presented by the Market Master with collections agreed to the underlying individual receipt information. However when OAG requested evidence of the check, they were advised that no evidence could be provided.

There is a risk that reconciliations performed by the Market Master are inaccurate and that not all receipts are transferred onto the zone summary receipts prepared by the Market Master daily. Therefore not all market receipts may be paid over to the HCC cashier.

Recommendation

OAG recommended that a member of HCC Administration division periodically performs independent checks of receipt records held by the Market Master to ensure that all receipts are captured by the market zone summary receipts prepared by the Market Master. The responsible officer should sign off on a market receipts checking form to evidence that he has done this.

REVENUE – PROPERTY RATES

14 Property rates – reconciliation of database with Ministry of Lands

Risk Rating - Moderate

HCC maintains a detailed database of land within Honiara for Property Rate purposes. However HCC is largely reliant on Ministry of Lands for new information regarding changes to land ownership and any changes to zoning (e.g. residential land changed to commercial). Currently there is limited communication between HCC and Ministry of Lands, and their records are not periodically reconciled.

There is a risk that the HCC database may not be updated on a timely basis for changes in ownership processed by Ministry of Lands if Ministry of Lands fails to inform HCC of the changes. As a result HCC may waste resources chasing false 'arrears' due to their database not being up to date or incomplete and officers may be charging the wrong amount.

Recommendation

OAG recommended that HCC liaise with Ministry of Lands in order to agree the performance of regular reconciliations between Ministry of Lands Property data and the HCC databases so that any errors or outdated information in the database can be corrected on a timely basis.

15 Property rates - chasing and arrears

Risk Rating - High

Review of the Property Rate Arrears by OAG highlighted the limitations in recovering arrears by HCC. Some arrears date back to 2008, and the process of chasing is to send letters. HCC may need to consider stronger action to recover persistent arrears.

There is a risk that HCC is losing significant revenue from Property Rates as a result of failing to enforce recovery of arrears. Moreover if exiting payers are aware that HCC does not implement an effective mechanism to recover Property Rates, they may be motivated to avoid making payments to HCC in the future.

Recommendation

OAG recommended that HCC establish a more robust system to chase and enforce persistent arrears of Property Rates, including legal action. Such enforcement of arrears, if successful, should be publicised to send a message to other debtors.

16 Property rates – HCC map updates

Risk Rating - High

The property rates team maintains a detailed map of Honiara in order to identify property owners and collect property rates. Officers informed OAG that the map was updated every two weeks. However, when OAG examined the map it was discovered that the map had not been updated for two years.

HCC property rates map is out of date leading to inaccuracies in invoicing for property rates

Recommendation

OAG recommended that the HCC Senior Officer periodically review the property rates map to ensure that it is updated regularly based upon Ministry of Lands, Housing & Survey data.

REVENUE – BUILDING PERMITS

17 Building permits – transparency of valuation calculation

Risk Rating - Moderate

Building permit fees are based upon the value of the planned building construction, with residential permit fees of 0.35% valuation and commercial at 0.5%. This valuation is determined by HCC building inspectors based upon the square metres of the building stated in the architect's plans multiplied by a rate for the category of building. For example residential construction varies between \$3000/m² for timber to \$5000/m² for concrete.

However when OAG reviewed the permit file documentation at the Physical Planning division they observed that 30% of the selected building permit invoices did not explain the basis of the property valuation upon which the permit fee is calculated. The invoice has a section to record the square metres and rate per square metre but this was not used.

One example reviewed had the original valuation figure deleted and replaced, and the valuation figure recorded of \$400,000 was assessed by the building inspector to be too low for the property plans it related to (which was said to have a typical valuation of \$650,000 – 700,000).

There is a risk that permit fees are incorrectly calculated and charged due to the lack of clear computation of construction valuation.

There is also an increased risk that HCC officers could undervalue properties in return for bribes or for relatives or associates.

Recommendation

OAG recommend that HCC officers fill in the existing business permit documentation completely in order that the basis of determining the valuation is transparent. The rate used and the square metres should be clearly disclosed.

REVENUE – RECEIPTS

18 Security of HCC receipt book storage

Risk Rating - High

HCC uses a number of pre-printed receipt books used for many revenue collection activities. These books are potentially valuable as they can be used to obtain funds from HCC service users, and so could also be misused for unauthorised collection of revenues due to HCC.

These books are held in significant numbers in the 'strong room', which is generally locked, with the key held by the Deputy Treasurer. However any officer at HCC can access the room by requesting the key. As other assorted supplies (such as cleaning materials) are held in the same room it is clear that many HCC officers access the room routinely.

OAG observed that the door to the strong room was left open without any HCC officers within on a number of occasions during the audit visit.

There is a risk that receipt books may be lost or stolen and that officers or persons outside HCC use the books to collect funds due to HCC for their own benefit.

Recommendation

OAG recommended that:

- receipt books be more securely held within the HCC the strong room. A strong box or safe should be purchased in order to keep the receipt books and other similar valuable items, and the key/combination to the safe or strong box be restricted to senior members of HCC management.
- access to the strong room be restricted to a few key senior officers of HCC, and if officers require supplies from the room, they must request the key holders to open the door and be present while they obtain the supplies.

19 HCC Cash unbanked receipts held insecurely

Risk Rating - Moderate

Cash receipts are received daily at HCC by the cashier and can be significant (sometimes exceeding \$160,000). These receipts are banked the following day, and cash held overnight in a n area to which many officers have access (e.g. cleaning materials are stored there and so cleaner routinely access the room).

Significant holdings of cash are received daily and held at HCC prior to banking. The cash is not securely held overnight, and there is a risk that receipts may be stolen or misappropriated before they can be deposited.

Recommendation

OAG recommend that:

- The Cashier uses a cash register that is balanced at the end of each day, and the balancing exercise is supervised and signed off by the Treasurer.
- HCC consider making a banking midway through the day rather than leaving significant sums at HCC overnight.
- HCC purchases a new safe to keep cash receipts and cheques.
- Access to the strong room should be restricted to key staff and that the door is always kept closed and locked when authorised staff are not present in the room.

20 Cashier – lack of segregation of duties

Risk Rating - High

The cashier is responsible for most of the receipts function, including:

- receiving, receipting and recording collections and counter payments;
- performing the daily cash count;
- preparing a summary of daily receipts, and reconciling total receipts to the cash counted at the end of the day ;
- Deposits cash at the bank;
- Posting receipts to MYOB,

One HCC officer is responsible for receiving of money, recording, checking and banking of cash receipts.

The lack of segregation of duties increases the risk of fraud and errors occurring and not being detected within a timely basis.

Recommendation

OAG recommended that HCC reassign duties so that different HCC officers are responsible for different duties in the receipts cycle, including receiving, recording, reconciling and banking of receipts.

21 Review of daily cash count and reconciliation

Risk Rating - High

The cashier prepares the daily cash count and reconciliation to receipts, and the Senior Revenue Officer should sign off the cash reconciliation. However, the cashier indicated that the Senior Revenue Officer did not always re-count all the cash, but instead counted part of the cash while she counted the other part and they added the totals to check that the balances are correct.

In addition, when OAG reviewed copies of the daily cash summaries for recent days none had been signed off by preparer or reviewer.

The review of the daily cash reconciliation by the Senior Revenue Officer is potentially a strong control to enable HCC to ensure that receipts and cash are properly accounted for and safeguarded. However the current process is inconsistent and the control is compromised as a result.

Recommendation

There should be a full count carried out by the Senior Revenue Officer, and rather than just adding their signature to the summary count form, the form should have a statement for the officer to sign off against – 'I _____ (Name) confirm that I have counted the cash and confirm that the total agrees to the total in the count summary produced by the cashier'.

ACCOUNTING SYSTEM

22 Production and presentation of HCC financial statements

Risk Rating - High

The Treasurer stated that HCC lacks the knowledge to produce financial statements that comply with international accounting standards. During the opening meeting he cited this as the reason for the failure of HCC to produce financial statements for 2011-2013.

In discussions with the Deputy Treasurer, he indicated that he had financial statements prepared, reconciled and ready to run off for 2011, 2012, 2013, but needed the approval of the Treasurer to do so. The Treasurer disagreed that this was the case and wanted the Deputy to run off the financial statements if this was the case.

OAG requested soft copies of the general ledgers for 2011, 2012, 2013 and 2014 during the audit, but although excerpts of the ledgers were provided, these were not complete (for example 2011 and 2012 had a single account code (1-1110) for the period, while 2013 had all account codes, but only January 2013 was covered. Eventually on 3 July 2014 auditors received the full general ledgers, over three weeks after they were initially requested.

The lack of conversance with international accounting standards is not a reason to delay preparation of financial statements for audit. HCC is required by law to issue financial statements for audit by OAG within three months of year end. The MYOB system is able to produce reasonable income and expenditure information that should form the core of HCC financial statements. Without presentation of timely financial statements there is a lack of accountability of HCC for its activities and management of public funds.

HCC has difficulty in providing basic financial information such as an annual general ledger.

Recommendation

OAG recommended that HCC assess whether the Deputy Treasurer's indication that reliable, reconciled, and robust financial statements are available to be run off for 2011, 2012 and 2013 is justified. If this is the case, the financial statements for these years should be submitted to OAG without delay.

If, however, there are on-going problems in finalising the financial statements for these years, HCC should consider the need to obtain outside technical expertise in order to prepare financial statements that comply with required accounting standards.

23 Financial statements are not in accordance with Honiara City Council Act 1999

Risk Rating - High

HCC has produced its previous financial statements in accordance with cash basis IPSAS, rather than preparing financial statements that include a Balance Sheet (accrual) as per HCC Act (1999). As such HCC is not reporting in accordance with its governing legislation.

HCC is not in compliance with the HCC Act (1999). HCC financial statements lack the disclosure required by the HCC Act such as non-current assets and liabilities. This reduces the usefulness of the financial statements to stakeholders.

Recommendation

OAG recommended that HCC undertake a programme to ensure that they have the necessary accounting and financial reporting expertise to produce compliant financial statements on a timely basis. HCC may need to upgrade the version of MYOB it uses.

24 MYOB accounting entry deletion

Risk Rating - High

The Deputy Treasurer indicated that in order to correct MYOB errors, instead of posting journal adjustments or reversing accounting entries he deletes the original posting and inputs a replacement entry.

It is a basic accounting principle that accounting entries are reversed or adjusted rather than deleted in order to maintain a complete accounting record. Such deletions mean that changes to accounting entries are difficult to trace and explain and that inappropriate accounting entries can be hidden.

Recommendation

OAG recommended that:

- no MYOB accounting entries be deleted, and instead incorrect entries are subject to reversal and reposting or journal adjustment.
- that the HCC MYOB system settings are altered to preclude deletion of accounting entries.

25 MYOB Basic Rate and business licence reconciliation

Risk Rating - High

The MYOB system consists of the main ledger and separate MYOB accounts for which HCC officers have access, e.g. Basic Rates, Business Licence Officers are required to reconcile their data with the main system to ensure its accuracy. However this had just been completed for 2013 (in June 2014) and no reconciliations had been carried out for 2014 at the time of audit.

System data reconciliations can be an effective control if performed regularly and on a timely basis to detect data entry errors. If reconciliations are not performed regularly or on a timely basis, data errors will persist for long periods and any management reporting in the meantime may be distorted by inaccuracies in the accounting data.

Recommendation

OAG recommended that the MYOB reconciliations be performed as a regular and systematic HCC control procedure. Many SIG public sector organisations reconcile their MYOB systems monthly by the end of the following month. Officers should be reminded of the need to reconcile their sections of MYOB by e-mail and the Treasurer or Deputy Treasurer should maintain a reconciliation register to monitor the reconciliations by HCC Officers. The Treasurer should review and sign off on reconciliations produced by officers to ensure that they have been performed and provide evidence that they have been checked.

In addition, HCC should consider options for establishing a separate MYOB account for Property Rates as this is another significant revenue stream.

26 Lack of external backup for MYOB data

Risk Rating - High

HCC has a system server that acts as MYOB backup, and ensures that there is no data loss during interruption of power or system failures. However, there is no external backup of HCC accounting data offsite, such as hard copies of the general ledger or held on external hard drives.

If the server were badly damaged HCC could be unable to restore accounting data and financial reporting would be impossible for the period.

Recommendation

OAG recommended that HCC maintain soft and hard copies of accounting data backups offsite, in order that accounting and financial data can be restored in the event of permanent server failure.

27 Review of MYOB data entry

Risk Rating - High

While many HCC officers are responsible for data entry to the MYOB system, there is a lack of review of data entry in the main MYOB system. The Deputy Treasurer has free access to make entries into MYOB without any subsequent review, and is responsible for checking all data entry in the main system and is also responsible for checking reconciliations on the MYOB system, journal entry, system access, and report production.

OAG noted that on one day during the absence of the Deputy Treasurer, no officers could make any entries into the MYOB system.

With a single individual responsible for review of all entries into the main MYOB system, as well as many of the associated MYOB functions and in addition that officer's entry is not reviewed, there is an increased risk of accounting errors not being detected and corrected. There is also an increased risk that the accounting system may be manipulated or used to hide illegal or ineligible transactions.

Recommendation

OAG recommended that the Treasurer be given similar access to MYOB as the Deputy Treasurer, and reviews the entries made by the Deputy Treasurer and HCC officers on a sample basis to ensure the accuracy of postings.

28 Bank account not reconciled on a timely basis

Risk Rating - High

Review of the bank reconciliations at HCC indicated that after a period where the main bank account was not reconciled regularly, officers had started to perform reconciliations to clear the backlog. For example, the bank reconciliation for 2 August 2013 was not performed until April 2014, a delay of eight months.

Bank reconciliation is one of the most important controls an organisation can implement over its transactions, providing assurance on the accuracy of recording of revenues and expenditures as well as the bank balance itself. However its potency depends upon its timeliness. Over the period of audit reconciling items were not investigated in a prompt manner and corrective action taken.

Recommendation

Bank reconciliations should be performed within a week of month end, and any reconciling items explained to the satisfaction of a supervisory reviewer who evidences their review of the reconciliation.

29 Bank reconciliation not reviewed

Risk Rating - High

Bank reconciliations of the HCC Main Bank Account held at BSP were prepared by the Deputy Treasurer. However, these reconciliations were not signed and dated as prepared. In addition, this reconciliation was not signed off as reviewed by a second officer.

The lack of review of the bank reconciliation by a second officer increases the risk of fraud and errors occurring and not being detected within a timely basis. The lack of review of the bank reconciliation could increase the likelihood of misappropriation of HCC funds and material misstatement of the financial statements.

Recommendation

Bank reconciliations should be signed off as prepared and dated by the Deputy Treasurer. The reconciliation should be reviewed (and signed/dated) by the Treasurer, who should satisfy himself that entries are accurate and in particular that reconciling items are valid and not misposted. He should investigate any reconciling items and seek explanations from the preparer.

30 Failure to investigate reconciling items on the bank reconciliation

Risk Rating - High

The latest bank reconciliation that was provided to auditors was for 29/11/13, and was performed on 16/5/14. There was no indication on the MYOB bank reconciliation that any consideration has been given to reconciling entries. If reconciling items are not investigated and explained or corrected in the accounting system, the bank statement is not actually reconciled to the MYOB ledger and the bank reconciliation loses its potency as an internal control.

On the latest reconciliation there were a number of large outstanding cheques dating back as far as January 2010. After a year cheques are unable to be presented and so these old items should be removed. Outstanding cheque items over a year in age totalled \$63,808.

In addition there was an item in 'outstanding cheques' dated 22/1/13 for \$344,564.46 described as 'Deposit for 17/1/2013', which appears to be a misposting. No banking was made on 17/1/2013 per the HCC deposit slips.

Also, there were a number of large deposits that had not been banked (some dating back to July 2011). The value of unbanked deposits over a month old at the reconciliation date totalled \$299,785.

Given the large number of old and unexpected reconciling items reflected in the bank reconciliation that have not been investigated by HCC officers, the effectiveness of the bank reconciliation is undermined.

Failing to investigate and correct old cheques means that MYOB is misstated. Unexpected reconciling items within the bank reconciliation suggest that accounting entries have been incorrectly posted to the bank and the MYOB balance is further misstated.

Failure to investigate receipts that have not been banked after months (sometimes years) may mean HCC funds have been lost or misappropriated.

Old unpresented cheques are unlikely to represent current HCC liabilities.

Recommendation

OAG recommended that all old outstanding cheques be written back against the relevant accounts where they are no longer presentable by law.

Unbanked deposits are more serious and OAG recommended that these should be fully investigated by HCC senior management as a matter of urgency to determine their fate and to see if there is any scope for tracing and recovering the HCC funds.

Similarly OAG recommended that HCC investigate all items in 'outstanding cheques' that do not appear to be cheques.

INVENTORIES

31 Lack of inventory controls and security

Risk Rating - High

Auditors noted that HCC does not have an inventory management system in operation or controls over the storage and use of inventories. In addition there is no secure inventory holding site for HCC.

There is a high risk that any inventories held by HCC are ineffectively used, mismanaged or lost and stolen. Some inventories such as fuel, tools and spare parts may be prone to theft if not managed and monitored.

Inventories can be expended without details of remaining balances of inventories. This leads to a greater likelihood of stock-outs that could result in delays to HCC operations while new inventories are purchased.

Recommendation

OAG recommended that HCC establish an effective inventory holding and control system, allowing HCC to hold inventories securely, and to monitor inventory holdings regularly. This will assist HCC in maintaining adequate levels of routinely used inventories necessary for the efficient running of day-to-day HCC operations, especially in Divisions that are reliant on use of inventories such as the Works Division.

PROCUREMENT

32 HCC officers are not following procurement regulations

Risk Rating - High

HCC officers indicated to auditors that they were currently not performing procurement activities in accordance with the Procurement and Contract Administration Manual (2013). Auditors observed this in regard to HCC using a threshold of \$20,000 before requiring three quotations as opposed to the threshold of \$10,000 as required by the Manual.

Poor value for money and an increased risk of poor performance may result as where alternative quotations are not obtained for significant purchases. There is also a lack of transparency in purchasing and an increased risk of corruption where suppliers are selected without any competitive element.

Recommendation

OAG recommended that HCC establish a formal procurement process in accordance with the Procurement and Contract Manual (2013) that involves a hierarchy of tendering procedures based upon the value of the procured goods or services. This involves observing the thresholds established in the Manual for each type of procurement procedure.

33 Lack of consultation on works division contractor selection

Risk Rating - High

Works Division contracts are given to suppliers based upon the decision of the Head of Works Division, with no consultation or approval by Treasurer/City Clerk.

Contracts for HCC Works may be awarded to suppliers who do not represent the best value for money. In addition there is an increased risk that contracts are awarded in exchange for bribes/favours. Under the current system, Works contract awards are not authorised by Council.

Recommendation

OAG recommended that HCC formalise the current process of awarding Works contracts, and that there is an approval process involving HCC senior management. The procedure should be in accordance with contract procedures set out in the Procurement and Contract Administration Manual (2013).

PAYROLL AND ALLOWANCES

34 Excessive overtime payments

Risk Rating - Moderate

A review of the 29 October 2013 Head of Division meeting minutes indicated issues related to excessive overtime claims. In an extreme case 18 hours of overtime had been approved and paid resulting in an individual being paid for 26 hours in a single day.

HCC Treasurer indicated that the Council is trying to ensure all overtime is pre-authorised, but this is difficult especially in areas of HCC activities that are not standard hours, such as market and refuse collection. Not all divisions seek prior approval for overtime from the City Clerk.

If overtime is not preapproved there is a risk that HCC management feel obligated to pay overtime that has already been performed, regardless of whether the overtime was necessary, and increasing the risk of overspending on staff costs.

Overtime claims are being approved without being scrutinised by those responsible for authorising overtime payments (as was clearly the case in the example referred to in Head of Department meeting minutes).

Recommendation

OAG recommended that:

- HCC establish daily limits on overtime (of say six hours per day).
- all overtime claims are subject to preapproval by Heads of Division, and the City Clerk checks the claim against HCC policy and limits, and that the justification for overtime is valid before approving.

- HCC develop detailed overtime budgets for each division based upon their typical operational hours. For example, market and works divisions are more likely to require staff to perform their activities outside normal council hours than administration.

35 **Lack of supervision over payroll processing**

Risk Rating - High

The Payroll Officer inputs all total hours and allowances as well as all deductions for each employee into the MYOB payroll system and prints out the payroll summary/spreadsheet. OAG noted that the payroll spread sheet is later checked when the payment voucher was issued by the treasurer before the cheque issued, but this checking involves the payroll summary reflecting individual net pay rather than the detailed payroll records that show deductions etc.

Inaccuracies in the detailed calculation of payroll deductions and allowances, accidental and deliberate, are not detected.

Recommendation

OAG recommended that instead of appending the monthly payroll summary to the payment voucher for approval, that detailed payroll computations are attached for review.

36 **Failure to control staff advances**

Risk Rating - High

Review of the MYOB balances for 2014 indicated a considerable number of significant receivables balances relating to staff advances. Staff advances are recoverable against future salary payments, but the amounts of recovery each month are limited by labour laws. A number of the advances were between \$5,000 and \$10,000, and were being recovered at \$50-100 a month.

Such large balances would not continue to grow if HCC enforced its policy that new advances would not be provided to employees until they settled earlier advances. For example one employee's advance of \$6,000 at January 2014 had grown to \$10,000 in June 2014, with only \$200 repaid in the six months.

There is no established limit to HCC staff advances. Staff apply for advances and these are considered on a case-by-case basis.

The above example also demonstrates that recoveries against salary are not being implemented properly by HCC as correct recovery would yield at least \$300 in a six month period (\$50/month is the minimum).

Staff advances are not effectively controlled and are unlikely to be recovered by HCC. Moreover many staff loans are accumulating faster than they are paid off. Any unrecovered staff advances represent a loss of public funds. Some of the present advances will take eight years to recover at current rates even with no further advances.

Recommendation

OAG recommended that HCC enforce its policy not to approve staff loans to members of staff who have not yet paid off existing loans. This could be achieved by requiring the MYOB printout of existing advances to the member of staff to be attached to any application for advance. If the printout indicated an existing balance or was not provided, the application for advance should be declined.

OAG also recommended that HCC establish reasonable limits to staff loans based upon their salaries, for example limiting loans repaid at \$50/month to \$400 and those recovered at \$100/month limited to \$800.

OAG further recommend that HCC establish standing deduction data with HR and Payroll to ensure that all recoveries are applied.

37 Staff advances granted without appropriate approval

Risk Rating - High

OAG noted that a number of staff advance application forms had been approved for payment by the City Clerk even though they had not been pre-approved by the Payroll Officer and Treasurer as required by HCC procedures. In reviewing staff advance forms OAG observed that of 28 advances reviewed only one had been approved by all the required officers (Head of Division, Treasurer or Deputy Treasurer, and City Clerk or Deputy City Clerk). 24 of the 28 had been approved by the City Clerk or Deputy despite not being approved by representatives of one or more to the Division/Treasury/Payroll functions. In addition three of the 28 advances had been granted without using the advance form, and four advances continued to exceed \$1,000 despite being advanced in 2012.

Recommendation

OAG recommended that HCC complies with its own established staff advance approval process.

38 Accumulation of advances and unretired imprests to members

Risk Rating - High

A number of large asset balances were reflected in the MYOB system for Council Member's advances as at June 2014, some exceeding \$100,000 (one over \$230,000). Balances continued to build during 2014, with additional advances of over \$200,000 while repayments of advances in the same period totalled just \$13,000. Given that the Council will be dissolved in November 2014 recovery of these advances (totalling \$849,500 in June 2014) remains doubtful.

Auditors were told that HCC would try to recover these balances by not paying out Termination Grants payable to departing members, but these grants are only \$40,000. Such a retention would recover the current outstanding balance of 5 members, but the remaining 7 members' outstanding advances exceeded this amount by varying degrees.

In addition, many Council Members have further imprests of \$30,000 that represent funds advanced to Members to be used in their communities to alleviate urgent problems, but which have not yet been retired. OAG was informed that SIG has indicated that it will reimburse HCC for any unretired imprests, but no evidence of this guarantee was provided to auditors, and in the exit meeting discussion it was apparent that this reimbursement was now in doubt.

There is a serious risk that unless HCC takes urgent action to recover members advances, that these large advances will not be settled by the time of Council dissolution and the sums advanced will not be recoverable by HCC.

There is a risk that advances are increasingly not seen by some members as amounts that need to be repaid, and that imprests are taken without intention of spending on the intended purpose in violation with regulations and HCC policy. There is also a risk that the further \$360,000 advanced to Councillors and not retired may not be met by SIG and so lost to HCC.

Recommendation

OAG recommended that HCC review its policies for providing advances to council members and imprests to retire, and establish a more robust system to ensure that limits are set in order that there is a reasonable probability of advances being recovered over the course of the council term.

OAG further recommend that HCC considers establishment of Committee to oversee imprests such as Ward Grants.

OAG also recommended that HCC publish details of council member advances and imprests on its website or notice board to encourage prudent use of advances.

Executive Response

No executive response was received within the timeframe given by OAG.

5.8. Mining Sector Technical Assistance Project Phase 1 (World Bank Grant Audit)

5.8.1. Background

The State and Peace-Building Fund (SPF) for the Solomon Islands Mining Sector Technical Assistance Project: Phase 1 (Recipient-Executed) SPF Grant No. TF097135 was funded by the World Bank Grant and was signed on July 1, 2008 which allocated grant funds to assist the Ministry of Mines, Energy & Rural Electrification (MMERE) and Ministry of Environment, Conservation & Meteorology (MECM).

The objective of this project was “....to support reviews of existing regulatory frameworks and institutional capacities within the MMERE and MECM which inform a process of policy and legislative development and institutional capacity development for mining sector management, and to support a process of stakeholder engagement which informs future policy initiatives in mining sector.

OAG audited the project financial statements for the years ended 2011, 2012, 2013 and 2014. The following are the audit opinions on those financial statements and the basis of the opinions:

5.8.2. 2011 Financial Statements:

The financial statements were audited and the audit certificate was signed with a disclaimer of opinion was signed by the then Auditor-General on 21 July 2014.

The basis of the disclaimer of opinion was as follows:

“Basis for Disclaimer Opinion

The cash payments reported on the Statement of Cash Receipts and Payments were not stated fairly in accordance with the Grant Agreements between Solomon Islands and International Development Association.

Ineligible Expenditures

There were 12 payments totalling \$ 156,761.25 (73% of total reported payments) were incurred for the expenses of the National Mining Forum which should be funded by Grant TF097136. However, expenditure incurred for phase 1 of the project has been funded by Grant TF097135. Consequently 73% of the total payments recorded in Statement of Receipt and Payments are misstated. As a result the completeness, accuracy and presentation and disclosure of reported payments disclosed within the financial statements for the financial year ending 31 December 2011 is materially mistated.

Missing source documentation

Sufficient supporting documentation was unable to be located to verify seven payment transactions totalling \$ 54,589.85 (24% of total payments). Given various breakdown in internal controls identified and poor record keeping practices, I was unable to obtain sufficient and appropriate audit evidence to gain assurance over the reported payments. As a result, I was unable to verify the accuracy, completeness and classification of reported payments reported for the financial year ended 31 December 2011.

Incorrect classification of expenditures

Five payment transactions totalling \$ 31,398.00 (15% of the total payments) had been incorrectly allocated within the project cash book summary as training cost. These should have been classified

as incremental operating cost as this was their nature. As a result, accuracy and classification of reported payment transactions disclosed in the financial statement ending 31 December 2011 are materially misstated.

In my opinion, the Statement of Cash Receipts and Payments presents fairly, in all material respects, the receipts and payments of the Solomon Islands Sustainable Energy Project for the year ended 31st December 2011 in accordance with Cash Basis IPSAS.

Disclaimer of Opinion

Because of the significant matters described in the basis of disclaimer of opinion paragraph, I have not able to obtain sufficient appropriate audit evidence to provide the basis for an audit opinion. According, I do not express an opinion on the Financial Statement of the Mining Sector Technical Assistance Project for the financial year ended 31 December 2011.

Report on Other legal and Regulatory Requirements

Lack of Compliance with Grant Agreement TF097135 dated 28th July 2008 between Solomon Islands and the international Development Association.

The ministry has not complied with the requirements of the section 2.07 (b) of the standard conditions which requires the Statement of Receipt and Payment to be audited after 1 fiscal year and submitted to the association not later than six months after the end of such period.”

5.8.3.2012 Financial Statements:

The financial statements were audited and the audit certificate was signed with a disclaimer of opinion was signed by the then Auditor-General on 9 September 2014.

The basis of the disclaimer of opinion was as follows:

Basis for Disclaimer Opinion

The cash receipts and cash payments reported on the Statement of Cash Receipts and Payments were not stated fairly in accordance with the Grant Agreement between Solomon Islands and International Development Association.

Receipts - Missing source documentation

Two receipt transactions received from World Bank totalling \$835,278.00 (35% of total receipts) could not be verified for their legitimacy. As a result I was unable to verify the accuracy, completeness and occurrence of reported receipts balance as disclosed within the financial statements for the year ended 31 December 2012.

Payments - Missing source documentation

Sufficient and appropriate supporting documentation was unable to be located to verify six payment transactions totalling \$79,430.00 (13% of total payments). Given various breakdown in internal controls identified and poor record keeping practices, I was unable to obtain sufficient and appropriate audit evidence to gain assurance over the reported payments. As a result, I was unable

to verify the accuracy, completeness and classification of reported payments reported for the financial year ended 31 December 2012.

Disclaimer of Opinion

Because of the significant matters described in the basis of disclaimer of opinion paragraph, I have not able to obtain sufficient appropriate audit evidence to provide the basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Mining Sector Technical Assistance Project for the financial year ended 31 December 2012.

Report on Other legal and Regulatory Requirements

Lack of Compliance with Grant Agreement TF097135 dated 28th July 2008 between Solomon Islands and the International Development Association.

The Ministry has not complied with the requirements of the section 2.07 (b) of the standard conditions which requires the Statement of Receipt and Payments to be audited after 1 fiscal year and submitted to the association not later than six months after the end of such period. The signed financial statements were not received by my Office until 9 September, 2014.”

5.8.4.2013 Financial Statements

The financial statements were audited and the audit certificate was signed with a qualified audit opinion by the then Auditor-General on 21 July 2014. The qualification related to being unable to obtain sufficient and appropriate supporting documentation for two payment transactions totalling \$197,370.00 SBD (51% of total 2013 payments) and also being unable to locate sufficient and appropriate supporting documentation for four direct payments totalling \$100,849.00 USD where no details of transactions were provided. OAG was unable to verify the accuracy, completeness and classification of reported payments reported for the financial year ended 31 December, 2013.

5.8.5.2014 Financial Statements

The financial statements were audited and the audit certificate was signed with an unqualified audit opinion by the then Auditor-General on 2 December 2014.

Chapter 6 Grants and Project Audit Reports

OAG conducted a number of audits of grants and projects financial statements and acquittals. This is a summary of the outcome of those for 2011 which have not previously been reported to Parliament.

6.1. Domestic Maritime Support (Sector) Project 2010

The Auditor-General certified the Statement of Cash Receipts and Payments for the period from 1 January 2010 to 31 December 2010, and a summary of significant accounting policies and other explanatory information on 17 June 2011. There was no modified audit opinion.

6.2. Solomon Islands Road Improvement (Sector) Project (SIRIP)

OAG audited the accompanying Statement of Cash Receipts and Payments of the Solomon Islands Road Improvement (Sector) Project (SIRIP), which comprise the Statement of Cash Receipts and Payments for the period from 1 January 2010 to 31 December 2010, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 22 June 2011.

6.3. Solomon Islands Road Improvement (Sector) Project (SIRIP 2)

OAG audited the accompanying Statement of Cash Receipts and Payments of the Solomon Islands Road Improvement (Sector) Project (SIRIP 2), which comprise the Statement of Cash Receipts and Payments for the period from 2 August 2010 to 31 December 2010, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 30 June 2011.

6.4. Rapid Employment Project

OAG audited the accompanying Statement of Cash Receipts and Payments of the Rapid Employment Project, which comprise the Statement of Cash Receipts and Payments for the period 1st April 2010 to 31st December 2010, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 25 November 2011.

6.5. Solomon Island Rural Development Program

OAG audited the statement of cash receipts and payments of Solomon Island Rural Development Program, which comprise the statement of cash receipts and payments for the year then ended 31st December 2010, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 11 November 2011.

6.6. Solomon Islands Sustainable Energy Project

2009 Statements

OAG audited the accompanying Statement of Cash Receipts and Payments of the Solomon Islands Sustainable Project, which comprise the Statement of Cash Receipts and Payments for the period from 25th June 2009 to 31st December 2009, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 24 March 2011.

2010 Statements

OAG audited the Statement of Cash Receipts and Payments of the Solomon Islands Sustainable Energy Project, which comprise the Statement of Cash Receipts and Payments for the year ended 31st December 2010, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 13 September 2011.

6.7. Solomon Islands Emergency Assistance Project

OAG audited the Statement of Cash Receipts and Payments of the Solomon Islands Emergency Assistance Project (SIEAP), which comprise the Statement of Cash Receipts and Payments for the period from 1 January 2010 to 31 December 2010, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 22 June 2011.

6.8. Telecommunications Commission of Solomon Islands

OAG audited the accompanying Statement of Cash Receipts and Payments of the Telecommunications Commission of Solomon Islands, which comprise the Statement of Cash Receipts and Payments for the period from 11 January 2010 to 31 December 2010, and a summary of significant accounting policies and other explanatory information. The Auditor-General certified the financial statements without qualification on 13 September 2011. This audit was performed as a grants acquittal audit.

Chapter 7 Annual Report of the operations of the Office of the Auditor-General

The Auditor-General was sworn in on 15 February 2016. The contract of Robert Cohen, who had been acting Auditor-General since 2013, ceased on 30 June 2016. He had also been performing the role of Deputy Auditor-General in addition to his tasks as Principal Audit Advisor. Since that time there has been no Deputy Auditor-General in the Office of the Auditor-General. Also there has been no full-time audit advisor support.

The goals and objectives of OAG are described in the draft 2015 – 2020 Corporate Plan as:

- Fully independent
 - Legislation establishing modern OAG
 - Protected OAG budget
 - Scheme of service managed by OAG
 - Own Premises
 - Active participation in international organisations and in particular PASAI and INTOSAI
- Effective reporting
 - Timely reports
 - Quality reports which demonstrate accurate and comprehensive understanding of topic and issues
 - Readable reports which can be understood by target audiences and persuasive in implementing recommendations
 - Excellent working relationships with stakeholders including PAC
 - Active awareness and public support program
- Compliance with ISSAIs
 - Regular CAATs assessments
 - TeamMate primary delivery platform
 - Effective regional twinning program
 - Active Continuous Professional Development Program for staff
- Professional Staff
 - Qualified staff appropriate for financial and performance audits
 - Internationally accredited staff
 - Adherence to professional standards of dress and behaviour compliant with SIG Code of Conduct and ISSAIs
- Efficient Management Support
 - Effective Corporate Services Branch
 - Effective Audit Branches
 - Effective Committees support and deliverables
 - Effective monitoring of Strategic Plan and Annual Work Plan deliverables
 - Effective financial management

The following is a summary of the activities and achievements of OAG during the years 2014 to 2016 written against the goals and objectives of the draft Corporate Plan 2015-2020.

7.1. Fully Independent

7.1.1. Progress of new Audit Bill

A Bill to replace the provisions of the *Public Finance and Audit Act [Cap 120]* to reflect modern audit practices and public financial management with regard to the role of the Auditor-General has been in planning and consultation since 2007. A draft Bill is ready for discussion with and vetting by the Attorney General's Chambers. It is proposed that the final stages of consultation will be completed in early 2017 so that the Bill may be tabled in Parliament in the second half of 2017.

7.1.2. Protected OAG Budget

OAG does not have independence in setting of its operational budget or staffing levels. Although the post of Auditor-General is mandated in the Constitution, the lack of independence of the budget allocation is a potential threat to the independence of the Auditor-General in that the Auditor-General is required to negotiate with the Ministry of Finance and Treasury for the annual budget allocation, and with the Ministry of Public Service for approval to advertise, recruit and promote staff – two organisations which are subject to audit by the Auditor-General.

The lack of adequate funding and appropriate numbers of qualified and experienced audit staff, and the time taken to obtain approvals from the Ministry of Public Service and the Public Service Commission, hamper the efficiency and effectiveness of the operations of the Office of the Auditor-General and thus the fulfilment of the duties and responsibilities of the Auditor-General.

7.1.3. Scheme of Service managed by OAG

OAG needs a Scheme of Service for the audit staff to provide terms and conditions of employment that are more flexible than the general public sector. OAG continuously loses trained and experienced auditors to the private sector, which means that new graduate auditors need to be recruited and trained to replace them. A Scheme of Service would reduce the rate of turnover of professional audit staff in OAG, and improve efficiency and effectiveness of the audit operations and reporting.

7.1.4. Own Premises

OAG has been provided with its own premises in Mud Alley to replace the one used to be situated on the site that is now occupied by MoFT. OAG now has a permanent base and office which is being developed to provide the facilities required by a professional Office of the Auditor-General. Facilities developed to date include a dedicated training room and storage facilities.

The official residence of the Auditor-General is not habitable and not available for occupancy by this Constitutional post holder. Continuing reliance on the Public Service Rental Scheme for the Auditor-General diminishes the value of his remuneration and suggests that the government does not value the post of Auditor-General. This matter links into the issue of real and perceived independence of the Auditor-General, in that he is beholden to agencies for provision of his terms and conditions of service from agencies which he is required to audit.

7.1.5. Active participation in international organisations particularly PASAI and INTOSAI

The Auditor-General attended the 18th PASAI Congress in Vanuatu in October 2015. The Auditor-General was not able to attend PASAI and INTOSAI events during 2016 due to work commitments in Honiara.

A PASAI advocate conducted a workshop in Honiara for members of the Parliamentary Estimates Committee and the Public Accounts Committee on external scrutiny of audit reports in the Pacific context in September 2015.

The Auditor-General and officers of OAG continue to receive bulletins and updates from INTOSAI and PASAI. OAG has received support from PASAI for audit staff to attend workshops and participate in development activities which are described in the section Compliance with ISSAIs below.

7.2. Effective reporting

7.2.1. Public Accounts Committee – Budget Estimates Hearings

The Auditor-General is the Secretary to the Public Accounts Committee and the Office of the Auditor-General provides the secretariat support. This consumes considerable resources of OAG in attending hearings and preparing the reports of the Public Accounts Committee.

The following table shows the Budget Estimates Hearings of the Public Accounts Committee that OAG provided secretariat support to.

2014	2015	2016
2014 Supplementary Appropriation Hearings April 2014	2015 Appropriation Hearings March-April 2015	2015 and 2016 Supplementary Appropriation Hearings May 2016
		2016 Mid-Year Budget Review September-October 2016
	2015 Supplementary Appropriation Hearings	2017 Appropriation Hearings November – December 2016

7.2.2. Public Accounts Committee – Hearings into Reports of the Auditor-General

The Public Accounts Committee undertook hearings into the 2014 Auditor-General's Report to Parliament and the 2014 National Transport Fund Report in July 2015.

7.2.3. Accountability and Transparency/ Anti-Fraud and Corruption Activities

The Auditor-General regularly attends the Integrity Group Forum meetings to share developments and intelligence with other Solomon Islands Government integrity organisations.

The Auditor-General attended the RSPIF High Level Anti-Corruption Meeting in August 2015 along with other key integrity representatives of Office of the Ombudsman Solomon Islands, Leadership Code Commission, Department of Public Prosecutions, Attorney General and the Public Service Commission. The purpose of the meeting was to devise a means of assessing the treatment of cases between disciplinary and criminal proceedings between responsible agencies. This activity has continued throughout 2016 but has been constrained by the demand on the officers involved.

OAG participates in the annual march to raise awareness on International Anti-Corruption Day.

The Auditor-General speaks at forums, meetings and in the media throughout the year to raise awareness of key stakeholders and the public of work being done to improve accountability and transparency within the Solomon Islands public sector.

7.3. Compliance with ISSAIs

7.3.1. Performance Measurement Framework Review

INTOSAI has developed a Performance Measurement Framework (PMF) for voluntary assessment by SAIs of their development against the International Standards of Supreme Audit Institutions, which include the International Auditing Standards, and other best practice measures. This is a very comprehensive model, and so PASAI developed a PMF-Lite for use by smaller SAIs. Solomon Islands OAG trialled the PMF-Lite during 2016, with the assistance of PASAI and the Cook Islands.

The initial review field work was undertaken in June 2016. The draft report was prepared during a workshop in Tonga in November 2016. The PMF final report is being finalised at the time of preparation of this report.

The results of the PMF-Lite review will be incorporated in OAG's Strategic Plan, with prioritised action plans developed as the basis for future capacity development and institutional strengthening.

7.3.2. TeamMate

OAG acquired the audit working paper documentation and management software TeamMate in 2014.

OAG appointed TeamMate Champions to drive and facilitate the implementation and training within OAG. To date a comprehensive database of checklists, test programs, questionnaires and other documents has been compiled within TeamMate for use in either all or specific audit types. Use of these will enhance OAGs compliance with the International Standards of Supreme Audit Institutions (ISSAIs).

Use of TeamMate will also facilitate easier audit supervision and management. As more audits are completed in TeamMate, future audits will become more efficient as system documentation and specific audit programs for auditees can be rolled over into the next year's TeamMate file.

Auditor utilisation of TeamMate has become stronger during 2016, and it will continue to be a focus of OAG in order to strengthen the quality of audit work performed.

7.3.3. PASAI Sub-regional Audit Support

OAG participated in Round 5 of the PASAI Sub-regional Audit Support program. Auditors from OAG shared knowledge and experience with PASAI facilitators and auditors from Tuvalu and Kiribati while conducting:

- the financial statements audit of Solomon Islands Postal Corporation for the 2014 financial year and
- the interim audit of the Honiara City Council for the period 2011 to 2013. The results of these audits are included elsewhere in this report.

7.4. Professional Staff

7.4.1. Establishment and Staffing Levels

The following table depicts the staffing of OAG against the approved establishment positions at the time of preparing this report.

Department	Establishment	Filled	Vacant
Executive	2	1	1
Corporate Governance Financial Audit Branch	7	6	1
Government Financial Audit Branch	10	10	0
Performance Audit Branch	7	6	1
Provincial Government Branch	4	4	0
Corporate Services	8	8	0
Total	38	35	3

The three vacant positions are:

- Deputy Auditor-General
- 1 Principal Auditor position
- 1 Senior Auditor Position

Recruitment activity has been undertaken to fill the position of Deputy Auditor-General. At the time of preparation of this report, the outcome of the recent recruitment activity had not been decided.

7.4.2. Staff Movements

During the period 2014 to 2016, four auditors left the Office to go to other positions. One auditor is on suspension.

Six auditors have recently been recruited. Four have commenced duty in the past few weeks, and another two will commence duty when they have served their period of notice with their current employers. No other audit staff were recruited during the years 2014 to 2016.

OAG still lacks sufficient audit staff, but is constrained by the budget and recruitment freeze imposed by SIG.

High turnover of audit staff is a problem for many SAIs. OAG needs to maintain focus on recruitment and training and development to ensure there are sufficient and appropriately skilled and experienced staff to undertake the broad audit work load of OAG.

7.5. Training and Development

Of the 26 OAG auditors currently on staff, 14 are now degree qualified or higher. Of the remainder, 12 have substantially completed their degrees and are working towards finalising. OAG auditors have benefited from significant donor support to undertake tertiary studies both overseas and within the Solomon Islands in order to achieve this qualification rate.

During 2015, three OAG auditors completed the OAG Leadership Development Program.

OAG actively seeks out opportunities for training and development of all staff. Staff participate in internal on-the-job training and workshops, as well as having the opportunity to attend externally run workshops and courses.

The following table summarises the formal training attended by OAG officers during 2016:

Date	Description	Location	No. of Days	No. of participants
30 April – 8 May 2016	PASAI TeamMate Workshop	New Zealand	9	5
April/ May 2016	Public Sector Management	Honiara	4 weeks	1
May 2016	Certificate IV in Government (Investigations)	Honiara	10	10
28 May – 4 June 2016	Symposium on Asset Management	Fiji	8	1
14 -25 June 2016	PASAI IPSAS Cash Workshop	Fiji	8	4
6 Aug– 4 Sep 2016	Audit of Government Receipts Workshop	India	1 month	1
8 Aug – 25 Oct 2016	Pacific Islands Leadership Program	Hawaii & Taiwan	3 months	1
3 Sep – 11 Sep 2016	PASAI Communication Workshop	Vanuatu	9	1
6 – 14 Sep 2016	Seminar workshop	Sydney	8	1
Sep/ Oct 2016	Project Management	Honiara	4 weeks	1
20 – 27 Nov 2016	Auditing the Management of Public Assets Workshop	PNG	7	1
Nov 2016	CPA Bridging Course	Honiara		1
Nov 2016	TeamMate Workshop	Brisbane	5	2
5 – 9 Dec 2016	PASAI Internal Audit Workshop	Honiara	5	2

7.6. Effective Management Support

7.6.1. Deputy Auditor-General

As stated above, the key position of Deputy Auditor-General has been vacant since Robert Cohen's contract ended at the end of June 2016. However, before I commenced Office, while Robert Cohen was acting Auditor-General, there was no replacement for the role of Deputy Auditor-General. This has seriously constrained the day to day management and operations of OAG.

The position of Deputy Auditor-General was advertised earlier this year and interviews have been conducted. The selection panel is still deliberating at the time of preparation of this report.

The Auditor-General has made it a priority to fill this position as it is essential to the effective management and operation of OAG. However, it is likely that candidates from within the Solomon Islands will not have the level of skills and experience necessary to undertake the full scope of responsibilities of this position. If this transpires, the Auditor-General will be seeking assistance from

donor partners to develop the capacity of the successful candidate, in addition to in-house training and development.

7.6.2. Corporate Services

The administration staffing complement of OAG is now complete, with the appointment of an experienced and qualified Corporate Services Manager earlier in 2016 and the recent recruitment of Senior Administration Officer, Executive Personal Secretary and a Security Officer.