



**SOLOMON
GOVERNMENT**

ISLANDS

**ANNUAL REPORT OF THE AUDITOR-
GENERAL
2010**

Reported by:

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Forward by the Auditor-General



At the Parliamentary Accounts Committee hearing into the 2011 Budget, I noted comments made by the Deputy-Leader of the Opposition that he could count on the fingers of one hand the number of people who wanted my office to be effective. He further added that there were powerful people aligned against my Office.

I hope he is wrong in this estimation. I hope most of the people in the Solomon Islands would want the Auditor-General's Office to be effective. Because in striving to improve the level of accountability and transparency in the expenditure of public monies, my Office is protecting the interests of almost everyone in the country.

The only people who would not want the Auditor-General to be effective are those people who benefit from a lack of accountability and who would prefer to keep their dealings with public monies hidden from the public view.

These powerful people who are committed to thwarting the effectiveness of the Auditor-General are committed to preventing accountability and transparency.

As I said, I hope the Deputy Leader of the Opposition is wrong in his estimation, but there have been signs that perhaps he is not.

Auditor Generals' Offices throughout the world need two things to be effective. They must be independent and adequately resourced.

Solomon Islands Audit Office's need of these requirements are highly demanded to improve on its state of ineffectiveness for many years. Independence can only be guaranteed by appropriate legislation. Legislation to guarantee the independence of the Auditor-General's Office was drafted in 2008 and has been floating in a legislative void since time, vainly waiting for support and sponsorship in successive Cabinets but finding only a lack of interest in most quarters and entrenched opposition from a few areas. The people of the Solomon Islands must ask themselves why have Governments which have spoken eloquently and often about the need to fight corruption and to provide accountability have shown no interest in passing a piece of legislation which will help improve accountability to fight corruption.

The other area which is required for my Office to be effective is resources. This includes staff to do the audits we can do and money to pay audit firms to do the audits we can't.

I currently have 14 auditors from an establishment of 32. This is almost a 60% vacancy rate. Since the public service salary freeze of 2009 I have not been able to engage a single employee, even for positions which are not reserved. I have not been able to promote a single employee. I have not even been able to temporarily promote someone into a higher duties role.

In an Office which has been working hard for 8 years to develop our staff, with significant assistance gratefully received from RAMSI, this has been catastrophic. As our staff members are developed to a point where they are effective at a senior level, they are highly marketable to positions where they can earn much more than I am able to pay them. In 2010 we lost our two most senior staff members to higher paying positions outside. I may have been able to retain them if I was able to pay them what they are

worth, by promoting them to positions in our hierarchy that reflected the work that they were doing.

Complete inaction on the part of the Ministry of Public Service and /or the Public Service Commission on any of the staffing submissions my office has made has left me in an untenable position. I have not even had a personal secretary since 2009, but I have had no response from the Ministry of Public Service to my attempts to engage one.

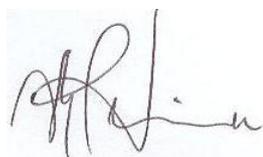
To ensure that the Office can continue to develop and to get all the audits done that have to be done, I have again had to seek help from RAMSI which is funding the engagement of eight recent graduates, under contract for a year.

The professional skills of the Office are still developing and we do not have the resources or the capability to undertake some of the more complex audits. Also, as in many countries, the financial statements of important government enterprises gain more credibility if they are audited by commercial auditing firms. Currently I have engaged international reputable audit firms and one local firm to undertake the audits of the Central Bank, the National Provident Fund, the Water and Electricity Authorities and the Postal Corporation. In my budget submission I asked for sufficient funds to pay for all of these contracted audits. The funding I was given was half a million dollars short of what was required. If all of these audits are completed on time then I will need to seek funds through contingency warrant to be able to pay for the last few audits of the year.

I have been in this Office for almost two years and I have had to continually struggle to find the necessary support.

In most countries an effective Auditor-General is regarded as a key mechanism for ensuring accountability and transparency. The citizens of the Solomon Islands must support the need for the Audit Office to provide assurance of proper accountability and transparency of, especially public funds.

I am so grateful for the Accountability Program under RAMSI that has been providing the right and proper Technical Advisors who have contributed enormously to development of the Audit Office.

A handwritten signature in black ink, appearing to read 'Edward Ronia', is positioned above the printed name.

Edward Ronia
Auditor-General for the Solomon Islands

18 April 2011

Chapter 1 – Assurance Services

Introduction

The Auditor-General is required under the *Public Finance and Accountability Act CAP 120* to examine and report on the national accounts produced by the Ministry of Finance and Treasury (MOFT) on behalf of the Solomon Island Government annually. He is also required to audit the accounts of the nine provincial governments. The main objectives of these audits are to provide assurance to the people of the Solomon Islands that the expenditure of Governments funds is accurately reported and to provide advice to the public bodies concerned to help them improve the systems they use to record, collate and report on their financial transactions.

Accounts of the Solomon Islands Government

The Auditor-General issued a disclaimer of opinion on the 2009 Financial Statements just as in previous years but there was again a significant improvement in the reliability of the figures and of the systems supporting the statements. The issues that resulted in the accounts being disclaimed for this period included:

- A significant proportion of original procurement documents were not able to be located and so OAG was not able to verify a large portion of expenditure;
- The statements were not prepared in accordance with recognised accounting framework, and

- Internal controls within the expenditure and revenue processes still do not provide sufficient assurance as to the veracity of recording of transactions for both the line Ministries and the Ministry of Finance and Treasury.

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

Background to SIG Accounts and Audit Approach



Auditor, Rhoda Tavalu working on the SIG Accounts audit

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

The Permanent Secretary submitted the signed Annual Accounts for 2009 in July 2010. This meant that the 2009 Annual Accounts have been submitted for audit within the legislative requirements.

Audits of Ministries

Although transactions are processed by the Ministry of Finance and Treasury, all of the Ministries have responsibilities to ensure they have adequate internal control over the initiation of those transactions. As part of the audit of the 2009 SIG Financial Statements, the OAG tested the initiation and documentation of transactions that was undertaken by Ministries as well as the

processing by the MOFT. An additional objective of this work, aside from verifying the financial statements, is to provide recommendations to the various Ministries that will assist them to improve their internal control procedures.

Summary of findings

During the audit of the 2009 Solomon Islands Government financial statements, Office of the Auditor General (OAG) identified several weaknesses in the internal controls among the ministries. These are listed below:

- Failure to manage standing and special imprests;
- Lack of action for recovery of non-acquittals;
- Bank reconciliations not performed;
- Cashbooks not properly maintained;
- Lack of evidence of preparer and reviewer of bank reconciliation;
- Lack of records and documents;
- Lack of proper filing system;
- Required tender processes not followed;
- Lack of verification of daily revenue collection;
- Lack of PSRS rental waiver for staff accommodation; and
- Lack of division of responsibility in key institutional functions and controls.

All of these internal control weaknesses do not apply to all ministries but they are common and often significant. Because of the pervasiveness of these weaknesses stated it is not possible for the Auditor-General to form an opinion on the financial statements of the Solomon Islands Government for 2009.

Table 1, below, provides a summary of ministries and audit cycles that were covered during the year:

Table 1 Audit coverage of Ministries in 2010

	Ministry	Audit cycle covered for 2009	Timeframe
1.	Agriculture and Livestock Development	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account ▪ Payroll 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010 ▪ Nov 2010
2.	Education and Human Resources Development	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account ▪ Payroll 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010 ▪ Nov 2010
3.	Finance and Treasury	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account ▪ Payroll ▪ Revenue 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010 ▪ Nov 2010 ▪ Oct 2010
4.	Foreign Affairs, External Trade and Immigration	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010
5.	Office of the Governor General	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010
6.	Health and Medical Services	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account ▪ Payroll 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010 ▪ Nov 2010
7.	Infrastructure Development	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account ▪ Revenue 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010 ▪ Oct 2010
8.	National Parliament	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010

9.	Forestry and Research	<ul style="list-style-type: none"> ▪ Imprest ▪ Procurement and expenditure ▪ Bank account ▪ Revenue 	<ul style="list-style-type: none"> ▪ July 2010 ▪ July – Aug 2010 ▪ Sept 2010 ▪ Oct 2010
10.	Office of the Prime Minister and Cabinet	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account • Payroll 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010 • Nov 2010
11.	Police, National Security and Correctional Services	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account • Payroll 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010 • Nov 2010
12.	Provincial Government and Institutional Strengthening	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
13.	Lands, Housing and Survey	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account • Revenue 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010 • Oct 2010
14.	Development Planning and Aid Coordination	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
15.	Culture and Tourism	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
16.	Commerce, Industry and Employment	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
17.	Communication and Aviation	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account • Revenue 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010 • Oct 2010
18.	Fisheries and Marine Resources	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account • Revenue 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010 • Oct 2010

19	Public Services	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
20	Justice and Legal Affairs	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account • Payroll 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010 • Nov 2010
21	Home Affairs	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
22	National Unity, reconciliation and Peace	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
23	Mine, Energy and Rural Electrification	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account • Revenue 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010 • Oct 2010
24	National Judiciary	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
25	Women, Youth and Children Affairs	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
26	Rural Development and Indigenous Affairs	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010
27	Environment, Conservation and Meteorology	<ul style="list-style-type: none"> • Imprest • Procurement and expenditure • Bank account 	<ul style="list-style-type: none"> • July 2010 • July – Aug 2010 • Sept 2010

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

OAG has noted that most of the ministries have gradually improved in their performance in attempting to comply with the legislation, Financial Instructions and General Orders as compared to past audits. Furthermore, officers are beginning to realize the importance of the Auditor-General fulfilling his Constitutional mandate through the induction programs organized by IPAM. This means they are more ready to address the issues raised in previous audits.

Ministries need to continue to diligently implement audit action plans in order to provide a positive outcome for future audits. Proper implementation of specific audit action plans will greatly increase the likelihood that the Auditor-General will be in a position to provide an audit opinion rather than a disclaimer in future audits and will also enable the OAG to reduce the resources needed to complete the audit of Ministries. .

The key weakness that will prevent the Auditor-General being able to form an opinion on financial statements in the future, if it is not remedied, is not what happens when transactions are being processed, but what happens afterwards. The inadequacy of filing of transaction documentation often puts auditors in a position where they are unable to confirm that validity of the transaction. OAG auditors cannot verify that a transaction is correctly accounted for if it is not possible to find the documentation that supports it.

SIG National Accounts

As noted above, the Auditor-General was unable to form an opinion on the financial statements provided by MOFT. This means that the figures produced in those statements cannot be relied upon in making decisions. For example, the difficulty in finding documentation to support all payments means that an amount may have been classified incorrectly or transactions may even be

fraudulent. As a result, individual items in the SIG accounts may be materially incorrect. It is possible to verify the total amount of money that has passed through the SIG bank account, however, and Table 2 below, which outlines the Solomon Islands Government revenue and expenditure for 2009, provides these overall figures along with a broad breakdown of the reported classification of expenditure. The fact that the Auditor-General could not form an opinion on the SIG Financial Statements means that this breakdown should be viewed with some scepticism.

A comprehensive report on the outcome of the audits in the Ministries that led to the completion of the sign-off on the National Accounts will be included in the separate report on the 2009 National Accounts, to be issued early in 2011.

Table 2 – Summary of Reported 2009 SIG Revenue and Expenditure

Summary of 2009 SIG Revenue and Expenditure	
Revenue – IRD	\$916,878,504
- Customs	\$371,738,948
- Others	\$186,934,410
- Budget Support	\$138,044,566
- Donors	\$116,908,705
	\$1,730,505,133
Expenditure – Personal Emoluments	\$511,391,797
- Office Expense, Transport, Travel, Repair & Maintenance & Utility Cost	\$278,151,598
- Purchase of Supplies & Services	\$153,314,460
- Grants, Training, Subscriptions & Conferences	\$255,932,392
- Debt Servicing Charges	\$119,846,274
- Specialist Costs	\$132,380,510
	\$1,451,017,030
Net Surplus	\$279,488,103

Audits of Provincial Governments

2010 was a challenging year for the Provincial Government Audit Branch, but it did manage to achieve most of its objectives.

In 2010, the OAG began visiting each province twice a year. The goal was to provide more timely management letters designed to strengthen the internal controls and record-keeping in each of the provinces.

The first visits took place in May and June 2010, and included all nine provinces. During those visits the OAG audited the transactions for the year

ended 31 March 2010 and issued management letters on its findings. The key control deficiencies reported are summarised in Table 1 below.

The second visits were scheduled to take place in November and December 2010. Their purpose was to complete the audits of the financial statements for the year ended 31 March 2010 and to do interim testing of transactions for the period April to September 2010. Management letters were again issued on audit findings.

Only four provinces were audited in the November and December period – Central, Choiseul, Isabel, and Western. This was because the other five provinces still had not submitted their financial statements for the year ended 31 March 2010. For these provinces, audits of the transactions for the April to September 2010 period were conducted in early 2011 even though some provinces still had not managed to submit their financial statements.

The audit reports issued in 2010 on provincial government financial statements from all provinces were disclaimers of opinion. The Auditor-General was not able to provide an opinion on the financial statements because:

- The statements were not prepared in accordance with an acceptable accounting framework; and
- The internal controls over the recording and controlling of accounting transactions were poor, and there was an absence of sufficient audit evidence to support transactions and accounts.

Steps are being taken to improve the situation. To deal with the first point the Ministry of Provincial Government and Institutional Strengthening (MPGIS) has announced that the provinces will be moving to a more appropriate and achievable accounting framework, the International Public Sector Accounting

Standards – Cash Basis (IPSAS-Cash), for their financial statements for the year ended 31 March 2011. Officers from the OAG have assisted in the training of representatives from all nine provinces.

To address the second issue, audit management letters are identifying specific areas where the controls and the record-keeping need to be strengthened, and MPGIS is providing ongoing training.

The status of all Provincial Government financial statements is provided in Table 3.

Table 4, below, summarises the key findings in terms of control deficiencies across all provinces.

Findings in relation to individual provinces

Central Province

For the Year Ended 31 March 2009

The Auditor-General received signed financial statements on Central Province 2009 accounts and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

OAG audited the financial transactions for the year ending 31 March, 2010 and issued a management letter on the findings. Central Provincial Government did not respond to the letter.

The Auditor-General received signed financial statements on the 2010 accounts and issued a disclaimer of opinion thereon.

Overall Conclusion

Overall, OAG believes that the Central Province has made some improvement during the year – the number of issues identified and the severity of the issues were somewhat less.

Choiseul Province

For the Year Ended 31 March 2009

The Auditor-General received signed financial statements on Choiseul Province 2009 accounts and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier summarising the issues that arose during the audit and the ground for the disclaimer.

For the Year Ended 31 March 2010

The OAG audited the financial transactions for the year ending 31 March 2010 and issued a management letter on the findings. Choiseul Provincial Government responded to the letter. Management 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 2010 accounts and issued a disclaimer of opinion thereon.

Overall Conclusion

Overall, OAG believes that Choiseul Provincial Government has made some notable improvements during the year – the number of issues identified and the severity of the issues were noticeably less.

Guadalcanal Province

For the Year Ended 31 March 2009

The Auditor-General did not receive signed financial statements on Guadalcanal 2009 accounts until late December 2010. He was unable to issue a disclaimer of opinion until 2011. In 2010, though, the Auditor-General issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

OAG audited the financial transactions for the year ending 31 March 2010 and issued a management letter on the findings. The Guadalcanal Provincial Government did not respond to the letter.

The Auditor-General has not yet received signed financial statements on the 2010 accounts.

Overall Conclusion

Overall, OAG believes that the Guadalcanal Provincial Government has not made much improvement during 2010. Many of the matters identified in previous years are still recurring, and there has not been a noticeable reduction in the severity of those matters.

Isabel Province

For the Year Ended 31 March 2009

The Auditor-General received signed financial statements on Isabel Province 2009 accounts and issued a disclaimer of opinion thereon. The Auditor-General

also issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

The OAG audited the financial transactions for the year ending 31 March 2010 and issued a management letter on the findings. The Isabel Provincial Government did not respond to the letter.

The Auditor-General received signed financial statements on the 2010 accounts and issued a disclaimer of opinion thereon.

Overall Conclusion

Overall, OAG believes that the Isabel Provincial Government has made some notable improvements during the year – the number of issues identified and the severity of the issues were noticeably less.

Makira-Ulawa Province

For the Year Ended 31 March 2009

The Auditor-General received signed financial statements on the Makira-Ulawa 2009 accounts and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

OAG audited the financial transactions for the year ending 31 March 2010 and issued a management letter on the findings. The Makira-Ulawa Provincial Government responded to the letter after it had been finalised. The management response included the actions the Makira-Ulawa Provincial

Government had taken and planned to take in relation to the recommendations.

The Auditor-General did not receive signed financial statements for the 2010 and thus was not able to issue an audit report on them. The financial statements were ultimately received in 2011.

Overall Conclusion

Overall, OAG believes that the Makira-Ulawa Provincial Government has made some notable improvements during the year – the number of issues identified and the severity of the issues were noticeably less.

Malaita Province

For the Year Ended 31 March 2009:

The Auditor-General did not receive signed financial statements on Malaita 2009 accounts until 2011. Thus the Auditor-General was unable to issue a disclaimer of opinion until 2011. The Auditor-General issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

OAG audited the financial transactions for the year ended 31 March 2010 and issued a management letter on the findings. Malaita Provincial Government did not respond to the management letter.

The Auditor-General received signed financial statements on Malaita 2010 accounts and issued a disclaimer of opinion thereon.

Overall Conclusion

Overall, OAG believes that the Malaita Provincial Government has not made much improvement during 2010 with many of the matters identified in

previous years still recurring. There has not been a noticeable reduction in the severity of those matters.

Renbel Province

For the Year Ended 31 March 2009

The Auditor-General received signed financial statements on the Renbel 2009 accounts and issued a disclaimer of opinion thereon. He also issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

OAG audited the financial transactions for the year ending 31 March 2010 and issued a management letter on the findings. Renbel Provincial Government responded to the letter in 2011. The response 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 the 2010 accounts and issued a disclaimer of opinion thereon.

Overall Conclusion

Overall, OAG believes that the Renbel Provincial Government has made some improvement during the year – the number of issues identified and the severity of the issues were somewhat less.

Temotu Province

For the Year Ended 31 March 2009

The Auditor-General received signed financial statements on the Temotu Province 2009 accounts and issued a disclaimer of opinion thereon. He also

issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

OAG audited the transactions for the year ending 31 March 2010 and issued a management letter on the findings. Temotu Provincial Government responded to the letter explaining the actions the Provincial Government had taken and planned to take regarding the recommendations.

The Auditor-General has not yet received signed financial statements for the 2010 accounts.

Overall Conclusion

Overall, OAG believes that Temotu Provincial Government has made some improvement during the year – the number of issues identified and the severity of the issues were somewhat less.

Western Province

For the Year Ended 31 March 2009

The Auditor-General received signed financial statements for the Western Province 2009 accounts. He issued a disclaimer of opinion thereon. He also issued a one page report to the Premier summarising the issues that arose during the audit.

For the Year Ended 31 March 2010

OAG audited the financial transactions for the year ending 31 March 2010 and issued a management letter on the findings. Western Provincial Government did not respond to the letter.

The Auditor-General received signed financial statements on the 2010 accounts and issued a disclaimer of opinion thereon.

Overall Conclusion:

Overall, OAG believes that Western Provincial Government has made some improvement during the year – the number of issues identified and the severity of the issues were somewhat less.

Table 3 Status of Audits at 31 December 2010 – Provincial Government

Province	Last statements issued	Date of signing by Province	Date of signing by AG
Central	2009/10	2010	18/11/2010
Choiseul	2009/10	2010	18/11/2010
Guadalcanal	2008/09	2010	Not yet finalised
Isabel	2009/10	2010	Not yet finalised
Makira/Ulawa	2008/09	2010	22/4/2010
Malaita	2009/10	2010	Not yet finalised
Rennell and Bellona	2009/10	2010	Not yet finalised
Temotu	2008/09	2010	22/4/2010
Western	2009/10	2010	18/11/2010

Table 4: 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	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
Payments									
Missing, unsupported and/or unauthorised payment vouchers	X		X		X	X	X	X	X
Payroll									
Poor control over employee attendance			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	

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
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
Bank Accounts									
Incomplete bank reconciliations	X	X	X	X	X	X	X	X	X
Not all bank accounts accounted for						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

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
Trade Payables									
Poor control over trade payables (e.g., no payables register, delayed NPF and PAYE remittances)	X		X	X	X	X	X		X
PAYE and NPF contribution and remittance delayed						X			
Investment									
Limited management oversight of investment arm		X	X	X	X	X	X		X

Chapter 2 Audits of Economy and Effectiveness

Introduction

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

In 2010 the OAG introduced a new program to undertake performance audits of Solomon Islands Government (SIG) organisations. The objective of the program is to improve the efficiency and effectiveness of the administration of SIG operations and entities by undertaking independent performance audits and assurance reviews for the information of parliament and the SIG executive.

Performance audits examine governance arrangements, information systems, performance measures, monitoring systems and legal compliance. All performance audits are conducted in accordance with international auditing standards and the audit reports are to be tabled in parliament. The OAG conducts performance audits pursuant to the provisions of section 108 of the Constitution, as read with sections 35(1)(d), 35(1)(e) and 39(3) of the Public Finance and Audit Act [Cap 120].

Performance audit has many techniques and procedures which are similar to financial audit but there are also some significant differences between the two. The objective of our first few performance audits is not just to complete the audit and prepare a useful and relevant report but also to expose our staff to the performance audit methodology.

Audit of Government Motor Vehicles

The first performance audit undertaken was on the management by the government of its motor vehicle fleet. Six ministries were reviewed in the performance audit: the Ministry of Infrastructure Development; the Ministry of Finance and Treasury; the Ministry of Public Service; the Ministry of Communication and Aviation; the Ministry of Police, National Security and Correctional Service; and the Ministry of Rural Development. Fieldwork for the audit was conducted in the period June to October 2010 with the report scheduled for finalisation by April 2011. The audit disclosed many significant issues in the manner in which ministries operated their motor vehicle fleets. The lack of adequate systems and processes, as well as documentation to evidence and support key management activities was a major concern.



Team Leader Vincent Tapidaka participating in vehicle usage survey

The report will be issued for consultation to the auditee ministries early in 2011. The evidence gathered suggests there is significant waste and inefficiency in management of the Government motor vehicle fleet and the audit report will make a number of recommendations to provide a framework for SIG ministries to enhance their motor vehicle management arrangements.

Teacher Absenteeism

The second performance audit, to be completed in 2011, will be on teacher absenteeism in SIG primary schools. Teacher absenteeism has been identified as a significant factor in restricting the success of education in the Solomon Islands. Anecdotal evidence suggests there are many teaching days lost and pupils quickly become disillusioned when they often arrive at school to find they have no teacher.

Planning for this audit has been commenced. The objective of the audit will be to review the extent of and reasons behind absenteeism and to identify possible solutions to alleviate teacher absenteeism in SI primary schools. The audit will examine the administrative effectiveness of the SI education system in managing teacher absenteeism and in modifying teaching arrangements and policies to minimise absenteeism.

Chapter 3 Audits of State-Owned Enterprises (SOEs) and Statutory Authorities

Introduction

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

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



Adviser Jonathan Warrington working with financial statement team leader, Jenny Tura

Aside from the entities covered by the SOE Act, there are a number of other authorities, institutions and commissions which are required to provide audited financial statements to the Parliament. The Auditor-General is normally the auditor for these entities as well.

There are also various donor-funded projects which are required to provide financial statements to donors, to provide assurance that the donated monies have been spent in accordance with the project terms of reference. The Auditor-General is often required to provide an audit opinion on these statements.

Objectives of Financial Statements Audit

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

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

Detailed below are the financial statements audits completed in 2010 along with the opinion type and reason for each audit opinion issued by the Auditor General.

Unqualified Audit Opinions

For each of the financial statement listed below the Auditor-General was able to issue an unqualified audit opinion stating that the financial statements presented fairly in all material respects.

Central Bank of Solomon Islands year ended 31/12/09

This was set of financial statements that complied with the International Financial Reporting Standards (IFRS).

Solomon Islands National Provident Fund year ended 30/6/10

This was set of financial statements that complied with the International Public Sector Reporting Standards.

Domestic Maritime Support (Sector) Project year ended 31/12/09

This was a statement of cash receipts and payments.

Solomon Islands Emergency Assistance Project year ended 31/12/09

This was a financial statement that complied with the International Public Sector Accounting Standards –Cash Basis.

Solomon Islands Road Improvement Project year ended 31/12/09

This was a financial statement that complied with the International Public Sector Accounting Standards –Cash Basis.

Solomon Islands Rural Development Program year ended 31/12/09

This was a statement of cash receipts and payments.

Qualified Audit Opinion

One of the audits conducted by the OAG in 2010 resulted in a qualified audit opinion.

Honiara City Council year ended 31/12/08

A qualified audit opinion was issued because the Council did not present an actual to budget comparison in its Statement of Cash Receipts and Expenses. Except for this matter the Statement of Cash Receipts and Payments presented fairly in all material respects.

Disclaimer of Opinion

An auditor will sometimes find that he cannot form an opinion. This may be because the accounting systems do not have sufficient internal control to be able to rely on the reports that come out of them, because the auditee does not have good enough



Mary Oldom and Devilsyn Devi hard at work

filing systems to allow the auditor to find supporting documentation for the transactions he tests or because the statements are not prepared in accordance with an acceptable framework. There are many variables involved in the preparation of a set of financial statements and if they are not prepared in accordance with a

recognised accounting framework it is not possible for the users of the statements to rely on them.

In 2010 the Auditor-General conducted audits of the following financial statements but declined to issue an audit opinion because he was unable to obtain sufficient appropriate evidence to form an opinion:

Solomon Islands Airlines year ended 31/12/09

Solomon Islands College of Higher Education year ended 31/12/09

Solomon Islands Printers Limited year ended 31/12/08

Solomon Islands Broadcasting Corporation year ended 31/12/08

Commodities Export Marketing Authority year ended 31/12/08

Solomon Islands Postal Corporation year ended 31/12/08

Solomon Islands Ports Authority years ended 30/09/2006, 2007 and 2008

The OAG reported a wide variety of issues in relation to the systems and procedures which these entities use to prepare financial statements. The reasons for the inability to form an opinion general related to the fact that most public entities had limited capacity to maintain books and records and prepare financial statements

There were many internal control weaknesses, as well as frequent lack of compliance with control requirements that did exist. Combined with insufficient accounting knowledge and experience, this meant that many entities are not yet capable of maintaining an effective accounting system to produce reliable financial or performance information.

Overall Assessment

The SOE Act requires State-owned enterprises to produce, within three months of the end of the financial year, 'audited consolidated financial statements for that financial year consisting of statements of financial position, profit and loss, changes in financial position, and such other statements as may be necessary to show separately the financial position of the State Owned Enterprise and each of its subsidiaries and the financial results of their operations during that financial year'.

The State-owned enterprises are not meeting this requirement and unless specific action is taken to upgrade the accounting skills available to them, it is likely that they will never be able to comply with this section of the Act.

The inability to produce auditable financial statements is the catalyst for a cycle or deterioration in the accountability process. If no action is taken to develop the capacity of the SOEs to manage their accounting systems and produce useful financial reports from those systems, the situation will quickly deteriorate to the point where no financial statements are produced. If no financial statements are produced and therefore no audits are undertaken, then accounting capacity and internal controls systems of the entities will decline and more and more funds will be wasted through inefficiency or misappropriation.

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

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

Contracting Out Audits

The Office of the Auditor-General is itself still in a developmental phase and does not have sufficient qualified and experienced staff to conduct all of the audits of the financial statements of SOEs and other statutory bodies itself. A number of these

audits are contracted to local and international accounting firms. Table 5 below shows the audits currently contracted out, and to whom they are contracted.

Table 5 Contracted Audits

AUDITEE	AUDIT FIRM
Central Bank of the Solomon Islands	Deloitte PNG
Solomon Islands National Provident Fund	Deloitte PNG
Solomon Islands Water Authority	KPMG Fiji
Solomon Islands Electricity Authority	KPMG Fiji
Solomon Islands Postal Authority	Morris & Sojnocki Accountants

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

The Table 6 below shows the status of all financial statement audits at 31 December 2010.

Table 6 Status of Financial Statements (at 31 December 2010)

Auditee	Last Financial Statements	Sign Off by Auditee	Sign Off by Auditor-General
Commodities Export Marketing Authority	2008	1/11/2010	3/11/2010
Solomon Islands Broadcasting Corporation	2008	Not yet signed off	Not yet signed off
Solomon Islands Electricity Authority	2008	Not yet signed off	Not yet signed off
Solomon Islands Water Authority	2008	Not yet signed off	Not yet signed off
Central Bank of Solomon Islands	2009	11/5/2010	11/5/2010
Solomon Islands Provident fund	2010	Not yet signed off	Not yet signed off
Development Bank of Solomon Islands	2006	Not yet signed off	Not yet signed off
Investment Corporation of Solomon Islands	2003	Not yet signed off	Not yet signed off
Solomon Island Airlines Limited	2009	8/9/2010	9/9/2010
Solomon Islands Port Authority	2006-2008	8/1/2010	11/1/2010
	2009	Not yet signed off	Not yet signed off
Solomon Islands Postal Corporation	2006-2008	17/7/2010	19/7/2010
Solomon Islands Printers Limited	2008	30/11/2009	11/5/2010
Solomon Islands Colleague of Higher Education	2009	6/12/10	9/12/10
Solomon Islands Visitors Bureau	2007	7/8/2009	Not yet signed off
	2008	Not yet signed off	Not yet signed off.

Chapter 4 The Office of the Auditor- General

The Auditor-General

Edward Ronia was appointed to the office of Auditor-General in 2009 as provided for under Section 108 of the Constitution. He continued to hold this constitutional office throughout 2010.

A New Audit Act

As noted in the previous Annual Report, the Auditor-General is seeking new legislation which would significantly improve the independence of the Auditor-General and prescribe more fully his responsibilities and powers. The Bill which was drafted in late 2008 is still with the Office of the Attorney-General and has not yet been presented to the Parliament.

The Bill has been subject to much revision in consultations between the OAG and the Attorney-General's Office and it is hoped that it will be in a satisfactory state to go before Parliament in the 2011 session. If the Bill is passed largely in its current form, it will provide the independence to the Auditor-General that he requires to enable him to be effective in his role, and demonstrate some commitment on the part of the Government to its stated objective of strengthening the Office of the Auditor-General.

RAMSI Assistance to the OAG



**Assurance Branch Staff
farewelling adviser John Crook
at the OAG Xmas Party**

The Regional Assistance Mission to the Solomon Islands, through its Accountability Program has provided considerable support to the OAG since 2003. This support continues and the Office had five advisers for much of 2010. In 2010 the advisers largely took a coaching and mentoring role, providing assistance for

the more senior local audit staff in particular to take on more and more responsibility for their audit and management work.

One technical adviser who left late in 2009, Mr Robert Cohen, and another who left in 2010, Mr Gerard Djian, were replaced. Another adviser position, filled by Mr John Crook, finished towards the end of 2010 and for 2011 there will be only four advisers.

Staff of the OAG

In 2010 the OAG staffing levels declined significantly. The Ministry of Public Service did not respond to formal requests to promote staff or put them into acting positions and two of our most senior officers left and as did two University-qualified accountants who were engaged as contractors. After a period as contractors it was planned to engage them as permanent officers but the restriction on public service recruitment came into effect. These restrictions were then lifted, but despite the best efforts of the OAG to engage these officers, the Public Service Commission has not given its permission. In the early 2010 these two officers both left the OAG, because it had been unable to give them a permanent position, leaving the Office with just two auditors with accounting degrees. This was a major loss to the Office.

Most of the staff in the Office hold a Diploma in Accounting or Finance from the Solomon Islands College of Higher Education and most are studying for their



Staff singing the farewell song for adviser John Crook at the OAG Xmas Party.

accounting degree through one of the two universities that provides a facility to do so in the Solomon Islands. Most students need to go to Fiji or PNG to complete their degrees and the Office is encouraging this through supporting applications for scholarships through the

National Training Council. One of two applicants supported by the Office was successful in winning a scholarship for 2010 and another two who were not supported were also successful.

Professional Standards

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

Involvement in International Audit Organisations

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

Overseas Visits

A number of officers travelled overseas in 2010.

In May 2010, the Auditor-General attended a two-day conference that was hosted by INTOSAI (International Organisation of Supreme Audit Institutions) in the Austrian Parliament on Strengthening External Public Audit in the INTOSAI regions.

The Auditor-General attended the International Association of Supreme Audit Institutions four-yearly congress in South Africa in November 2010.

The Deputy Auditor-General, Mr Peter Johnson, attended the Pacific Association of Supreme Audit Institutions' (PASAI) annual congress in Kiribati on behalf of the Auditor-General.

The Deputy Auditor-General was also the leader of a PASAI working group which developed a Performance Audit Manual for the region. This group met once in Auckland and once in Nadi, Fiji.

Audit Manager, Mr Randall Noda was part of a different working group which was developing a training course for intermediate auditors. This group met twice in Auckland.

Performance Audit Adviser, Mr Peter Robinson was part of a working group which is developing a manual on report writing. This group met once in Fiji. The working group visits were all funded by donors to PASAI.

The Auditor-General was invited to an audit seminar in China and took two staff with him, Ms Gerbera Maqiti Oso and Ms Minnie Ora. This trip was funded by the Chinese Government which is providing assistance to raise the level of Government auditing in the Pacific.

Relationship with Parliament

The Parliamentary Accounts Committee met once in 2010, to consider the Supplementary Estimates. No meetings were held to review audit reports.

Anti-corruption Task Force

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

In 2010 the Task Force met once and then political impetus that supported it dissipated in the run up to the 2010 election. No further meetings were held and no draft policy was developed.

In September 2009, at the invitation of ADB/OECD Anti-Corruption Initiative for Asia and Pacific, the Auditor General attended the 14th Steering Group Meeting and Regional Seminar on Political Economy of Corruption as an observer in Manila, Philippines. In 2010 he was extended similar invitation by ADB/OECD Anti-Corruption Initiative for Asia and Pacific to attend the 15th Steering Group Meeting and Regional Seminar on Criminalisation of Bribery in Kuala Lumpur Malaysia.

Many Pacific Island countries have become members of ADB/OECD Anti-Corruption Initiative for Asia and Pacific. Solomon Islands have been attending as an observer.

The Auditor General has recommended to the Prime Minister's Office the need for Solomon Islands to become a member. To date no responses have been received. As evidenced by many of the audit reports, corruption is rife in Solomon Islands and should not be ignored but must be seriously addressed.

Outsourced Audit

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

OAG Finances

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

Financial Statements

The OAG has prepared 2010 financial statements under the International Public Sector Accounting Standards – Cash Basis (IPSAS-Cash). This is not a requirement but provides an example to other public sector entities as to what such statements

should look like, because the Government is moving towards using ISPAS-Cash as a basis for financial reporting by non-trading entities.

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

Appendix 1 Unaudited Annual Accounts

For the year ended 31 December 2010

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

	Notes	31 December 2010			2009	
		Budget	Treasury account	Payments by external third parties	Treasury account	Payments by external third parties
		\$	\$	\$	\$	\$
Receipts						
Allocations/ Appropriations	2	6,192,361	4,328,231	Unknown	3,099,065	Unknown
		<u>6,192,361</u>	<u>4,328,231</u>		<u>3,099,065</u>	<u>-</u>
External assistance – Multilateral agencies	3					
Regional Assistance Mission to Solomon Islands				475,000	-	475,000
					-	
Total receipts			<u>4,328,231</u>	<u>475,000</u>	<u>3,099,065</u>	<u>475,000</u>
Payments						
Wages, salaries and employee benefits	4	1,298,613	1,191,798	475,000	1,001,708	475,000
Other allowances		534,820	471,306		404,862	-
Operating payments	5	3,165,045	2,148,223		1,157,854	-
Learning and development		284,087	195,526		258,373	-
Repairs and maintenance		635,921	72,372		88,444	-
Capital payments		273,875	248,646		187,825	-
Total payments		<u>6,192,361</u>	<u>4,328,231</u>	<u>475,000</u>	<u>3,099,065</u>	<u>475,000</u>

Office of the Auditor-General
Statement of comparison of budget and actual amounts
For the year ended 31 December 2010
Budget approved on the bash basis

	Actual amounts	Final budget	Difference: Actual amount and final budget
	\$	\$	\$
Receipts			
Allocations/Appropriates	4,328,231	6,192,361	1,864,130
Total receipts	<u>4,328,231</u>	<u>6,192,361</u>	<u>1,864,130</u>
Payments			
Wages, salaries and employee benefits	1,191,798	1,298,613	106,815
Other allowances	471,306	534,820	63,514
Operating payments	2,148,223	3,165,045	1,016,822
Learning and development	195,526	284,087	88,561
Repairs and maintenance	72,732	635,921	563,189
Capital payments	248,646	273,875	25,229
Total payments	<u>4,328,231</u>	<u>6,192,361</u>	<u>1,864,130</u>
Net cash flows	-	-	-

Notes to the financial statements

1. Accounting policies

Basis of preparation

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

The accounting policies have been applied consistently throughout the period.

Reporting entity

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

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

External assistance

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

Reporting currency

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

Foreign currency transactions

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

Note 2. Allocations/Appropriations

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

Note 3. External assistance – Multilateral agencies

Payments by external third parties

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

Regional Assistance Mission to Solomon Islands

- The Office has five adviser positions which were funded for various periods of time during the 2010 financial year. Two of these positions are in-line and three are advisor roles. At the time of publishing the unaudited annual accounts, the non-cash benefit to the Office of the Auditor-General for the five positions was not available because it has commercial significance and is confidential. An estimate has been calculated based on the cost of filling these positions with local staff. This basis has been chosen because eventually these positions will be filled by local staff at specific public service employment levels.

Note 4. Wages, salaries and employee benefits

	2010			2009	
	Budget	Treasury Account	Payments by external third parties	Treasury Account	Payments by external third parties
	\$	\$	\$	\$	\$
Wages and salaries	1,204,516	1,107,801	445,000	965,466	445,000
National Provident Fund	94,097	83,997	30,000	36,242	30,000
Other Allowances	534,820	471,306	0	404,862	0
	<u>1,833,433</u>	<u>1,663,104</u>	<u>475,000</u>	<u>1,406,570</u>	<u>475,000</u>

Note 5. Operating payments

	2010		2009
	Budget	Treasury Account	Treasury Account
	\$	\$	\$
Contracted audit fees	2,146,545	1,601,488	689,498
Office expenses	173,039	167,941	122,783
Utilities	309,265	102,706	107,633
Staff travel costs	322,500	187,492	176,721
Other Operating Costs	213,696	88,596	61,219
	<u>3,165,045</u>	<u>2,148,223</u>	<u>1,157,854</u>

Note 6. Original and final approved budget

During the year there was one appropriations for which the actual expenditure exceeded the authorised expenditure by a total of \$1,488. The Office did not make use of the virements called for in the Financial Instructions 2010 to deal with cases where it wished to spend more than the authorised amounts. As such, this payment was unauthorised. It should be noted that the Office did not exceed its overall budget and that the submission of the necessary virements would have ensured that expenditure did not exceed the budget of any individual head of expenditure.

Note 7. Authorised date

The annual accounts were authorised for publication on 18 April 2011 by Edward Ronia, Auditor-General.