

SOLOMON ISLANDS WATER AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

SOLOMON ISLANDS WATER AUTHORITY

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SOLOMON ISLANDS WATER AUTHORITY

DIRECTORS' REPORT

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Water Authority (the "Authority") as at 31 December 2019 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

Directors

The names of the Directors in office at the date of this report and any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Mr Carson Korowa (Chairman)
Mr Trevor Palmer
Ms Cynthia Wickham
Mr Donald Marahare
Mr John Belande
Mr David Patternot
Ms Gloria Hong

State of affairs

In complying with the Solomon Islands Water Authority Act and the State Owned Enterprises Act of 2007, the Directors hereby submit the financial statements of the Authority consisting of the statement of financial position as at 31 December 2019, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Authority for the year then ended.

Principal activities

The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands. There was no significant change in the nature of this activity during the financial year.

Results

The total comprehensive income for the year was SBD 2,343,181 (2018: SBD 5,403,263).

Dividends

The Directors recommend that no dividends be declared and proposed for the year (2018: SBD Nil)

Reserves

The Directors acknowledge that no transfer be made to or from reserves.

Receivables

The directors took reasonable steps before the Authority's financial statements were made out to ascertain that action had been taken in relation to writing off of all known bad debts and allowance made for impairment losses.

At the date of this report, the Directors are not aware of any circumstances which would render the above assessment inadequate to any substantial extent.

Non-Current Assets

The Directors took reasonable steps before the Authority's financial statements were made out to ascertain whether any non-current assets were unlikely to be realised in the ordinary course of business compared to their values as shown in the accounting records of the Authority. Where necessary these assets have been written down or adequate provision has been made to bring the values of such assets to an amount that they might be expected to realise. The Directors also took reasonable steps to assess useful life of items of property, plant and equipment to reflect the current use of assets as shown in the accounting records of the Authority.

As at the date of this report, the Directors are not aware of any circumstances which would render the values attributed to non-current assets in the Authority's financial statements misleading.

SOLOMON ISLANDS WATER AUTHORITY

DIRECTORS' REPORT (continued)

Going concern

In the opinion of the Directors, the Authority is a going concern.

Unusual circumstances

The results of the operations of the Authority during the financial year have not, in the opinion of the Directors, been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

Other circumstances

As at the date of this report:

- (a) No charge on the assets of the Authority has been given since the end of the financial year to secure the liabilities of any other person;
- (b) No contingent liabilities have arisen since the end of the financial year for which the Authority could become liable; and
- (c) No contingent liabilities or other liabilities of the Authority have become or are likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Authority to meet its obligations as and when they fall due.

As at the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the Authority's financial statements, which would render any amounts stated in the financial statements to be misleading.

Directors' benefits


Since the beginning of this financial year, no Director has received or become entitled to receive a benefit (other than those included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements or received as the fixed salary of a full-time employee of the Authority) by reason of a contract made by the Authority with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

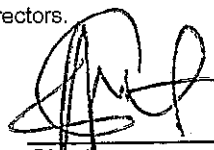
Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Authority, the results of those operations, or the state of affairs of the Authority in subsequent financial years.

Dated at HONIARA this 25th day of March 2020.

For and on behalf of the Board and in accordance with a resolution of the Directors.


Director


Director

SOLOMON ISLANDS WATER AUTHORITY

STATEMENT BY DIRECTORS

In the opinion of the Directors:


- (a) the accompanying statement of profit or loss and other comprehensive income of the Authority is drawn up so as to give a true and fair view of the results of the Authority for the year ended 31 December 2019;
- (b) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity for the year ended 31 December 2019;
- (c) the accompanying statement of financial position of the Authority is drawn up so as to give a true and fair view of the state of affairs of the Authority as at 31 December 2019;
- (d) the accompanying statements of cash flows of the Authority is drawn up so to give a true and fair view of the cash flows of the Authority for the year ended 31 December 2019;
- (e) at the date of this statement there are reasonable grounds to believe the Authority will be able to pay its debts as and when they fall due; and
- (f) all related party transactions have been adequately recorded in the books of the Authority.

Dated at HONIARA this 25th day of March 2020.

For and on behalf of the Board and in accordance with a resolution of the Directors.



Director



Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON ISLANDS WATER AUTHORITY TRADING AS SOLOMON WATER

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of the Authority pursuant to Solomon Islands Water Authority Act 1992 contracted KPMG (Fiji) which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Solomon Islands Water Authority ("the Authority"), which comprise the statement of financial position as at 31st December 2019, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 26.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31st December 2019, 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 (IFRS).

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code)*, the Solomon Islands Water Authority Act 1992 and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – comparative information

I draw attention to Note 25 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. My opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statement

Management and Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as the Management and Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management and Directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management and Directors either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

The Management and Directors are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditors' report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with management and directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

I also provide management and directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguard.

Report on Other Legal and Regulatory Requirements

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion:

- i) proper books of account have been kept by the Authority, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and
- ii) to the best of my knowledge and according to the information and explanations given to me the financial statements give the information required by Solomon Islands Water Authority Act (Cap. 130), State Own Enterprises Act 2007 and Public Finance and Audit Act (Cap. 120), in the manner so required



Peter Lokay
Auditor-General
15th April 2020

Office of the Auditor-General
Honiara, Solomon Islands

SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 SBD	2018 SBD
Continuing operations			
Revenue from contracts with customers	5	95,077,730	93,072,965
Other income	6	13,261,138	21,784,539
		<u>108,338,868</u>	<u>114,857,504</u>
Expenses			
Corporate expenses	7	(21,941,166)	(17,276,959)
Depreciation and amortisation		(9,160,264)	(16,610,996)
Salaries and employee benefits	8	(31,021,973)	(26,389,110)
Impairment of financial assets		1,010,014	(812,038)
Repairs and maintenance		(12,358,347)	(14,438,636)
Tools and uniforms		(389,428)	(1,272,362)
Utilities		(30,395,892)	(31,215,533)
Water treatment		(1,360,855)	(1,414,623)
Other expenses		-	(26,821)
		<u>(105,617,911)</u>	<u>(109,457,078)</u>
Finance income	9 (a)	19,791	294,325
Finance costs	9 (b)	(397,567)	(291,488)
Net profit for the year		<u>2,343,181</u>	<u>5,403,263</u>
Other comprehensive income		-	-
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>2,343,181</u>	<u>5,403,263</u>

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	Capital Contribution SBD	Asset Revaluation Reserve SBD * Restated	Retained Earnings SBD * Restated	Total SBD
Balance at 1 January 2018		59,625,874	142,169,998	13,827,885	215,623,757
<i>Total comprehensive income for the year</i>					
Profit for the year		-	-	5,403,263	5,403,263
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	5,403,263	5,403,263
Balance at 31 December 2018		59,625,874	142,169,998	19,231,148	221,027,020
Restatements					
Restated balance at 1 January 2019	25	-	(35,935,656)	23,864,993	(12,070,663)
		59,625,874	106,234,342	43,096,141	208,956,357
<i>Total comprehensive income for the year</i>					
Profit for the year		-	-	2,343,181	2,343,181
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	2,343,181	2,343,181
Balance at 31 December 2019		59,625,874	106,234,342	45,439,322	211,299,538

* - Refer Note 25


The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 SBD	2018 SBD * Restated
Assets			
Current assets			
Cash and cash equivalents	10	9,366,569	39,807,562
Trade receivables	11	15,827,135	12,900,313
Contract assets	12	2,783,803	3,594,524
Debt securities	15	10,000,000	6,574,465
Inventories	13	8,460,042	13,551,086
Other receivables and prepayments	14	3,196,280	1,605,058
		<u>49,633,829</u>	<u>78,033,008</u>
Non-current assets			
Property, plant and equipment	16	279,386,783	256,209,853
Intangibles	17	248,888	85,559
Right-of-use assets	18 (i)	2,770,649	-
		<u>282,406,320</u>	<u>256,295,412</u>
		<u>332,040,149</u>	<u>334,328,420</u>
Total assets			
Liabilities			
Current liabilities			
Contract liabilities	12	908,877	230,004
Lease liabilities	18 (ii)	950,344	-
Trade and other payables	19	15,858,666	20,073,002
Deferred revenue	20	3,028,969	3,028,969
Employee benefits liability	21	1,379,099	1,648,099
Payable to related parties	24 (e)	720,464	720,464
		<u>22,846,419</u>	<u>25,700,538</u>
Non-current liabilities			
Lease liabilities	18	1,893,974	-
Deferred revenue	20	96,000,218	99,029,187
Payable to related parties	24 (e)	-	642,338
		<u>97,894,192</u>	<u>99,671,525</u>
		<u>120,740,611</u>	<u>125,372,063</u>
Total liabilities			
Equity			
Capital contribution	22	59,625,874	59,625,874
Asset revaluation reserve		106,234,342	106,234,342
Retained earnings		45,439,322	43,096,141
Total equity		<u>211,299,538</u>	<u>208,956,357</u>
Total equity and liabilities		<u>332,040,149</u>	<u>334,328,420</u>

* - Refer Note 25

Signed for and on behalf of the Board of Directors.


Director


Director

The statement of financial position is to be read in conjunction with the notes to the financial statements.

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2019**

	Note	2019 SBD	2018 SBD
Operating activities			
Net profit		2,343,181	5,403,263
Adjustment to reconcile profit to net cash flows			
Non-cash:			
Amortisation of deferred revenue	6	(3,028,969)	(11,589,335)
Amortisation of discount on interest free loan	9 (b)	217,037	217,037
Allowance for doubtful debts	4 (i)	(1,010,014)	812,038
Depreciation and amortisation of assets	16, 17, 18	9,160,264	16,610,996
Interest expense on lease liability	9 (b)	180,530	-
Inventory obsolescence	7	893,783	-
Loss on disposal of property, plant and equipment	7	63,492	-
Movements in employee benefit liabilities		(269,000)	(239,624)
Working capital adjustments:			
Non-cash:			
(Increase) / decrease in trade receivables		(317,302)	771,451
(Increase) / decrease in other receivables		(1,591,222)	715,478
(Increase) / decrease in contract assets		810,721	296,007
Decrease / (increase) in inventory		4,197,261	(4,492,372)
Increase / (decrease) in trade and other creditors		301,396	(1,452,457)
Increase / (decrease) in contract liabilities		678,873	-
Net cash flows from operating activities		12,630,031	7,052,482
Investing activities			
Acquisition of plant and equipment	16	(37,687,681)	(25,624,752)
Proceeds from sale of plant and equipment		193,500	-
Purchase of intangible assets	17	(426,882)	-
Investment in debt securities	15	(3,425,535)	-
Net cash flows used in investing activities		(41,346,598)	(25,624,752)
Financing activities			
(Repayment) / proceeds of related party borrowings	24 (e)	(642,338)	1,119,595
Payment of lease liabilities	18 (a) (ii)	(1,082,088)	-
Net cash flows (used in) / from financing activities		(1,724,426)	1,119,595
Net decrease in cash and cash equivalents		(30,440,993)	(17,452,675)
Cash and cash equivalents at the beginning of the year		39,807,562	57,260,237
Cash and cash equivalents at end of year		9,366,569	39,807,562

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Reporting entity

Solomon Islands Water Authority (the "Authority") is a state owned enterprise established under the Solomon Islands Water Authority Act 1993. The address of the Authority's registered office is Mendana Avenue, Honiara, Solomon Islands.

The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands. There were no significant changes in the nature of this activity during the year.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Board of Directors on 25 March 2020

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis except where stated otherwise.

(c) Functional and presentation currency

The financial statements are presented in Solomon Bokolo Dollars, rounded to the nearest dollar, which is the Authority's functional currency.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Depreciation rates Note 3(g)

3. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below and have been consistently applied to all years presented, except for the changes discussed below.

(a) Changes in accounting policies

The Authority initially applied IFRS 16 *Leases* from 1 January 2019. A number of other interpretations and amendments are also effective 1 January 2019 but they do not have a material effect on the Authority's financial statements.

The Authority applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

i) Definition of a lease

Previously, the Authority determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Authority now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(i).

On transition to IFRS 16, the Authority elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Authority applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ii) As a lessee

As a lessee, the Authority leases assets including property and offices. The Authority previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Authority. Under IFRS 16, the Authority recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Authority allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Authority has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Authority classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Authority's incremental borrowing rate as at 1 January 2019 (see Note 3(ii)). Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Authority's incremental borrowing rate at the date of initial application;
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Authority has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Authority used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Authority:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-asset at the date of initial application; and
- used hindsight when determining the lease term.

iii) As a lessor

The Authority is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Authority does not have any leases where it acts as a lessor.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

iv) Impact on transition

On transition to IFRS 16, the Authority recognised right-of-use assets and lease liabilities of SBD 3,745,876.

When measuring lease liabilities, the Authority discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied was 5.5%.

	1 January 2019 SBD
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Authority's financial statements	4,519,471
Discounted using the incremental borrowing rate at 1 January 2019	3,745,876
Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognised at 1 January 2019.	<u>3,745,876</u>

(b) Foreign currencies

Transactions in foreign currencies are initially recorded by the Authority at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(c) Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Authority recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Water sales	Customers obtain control of water when the goods are delivered to and have been accepted by using the water at their premises. Invoices are generated on a monthly basis and are usually payable within 30 days. No discounts are provided to the customers.
Installation	<p>The Authority charges for service and waste water installation in order to provide water to customers'. This is an up-front fee that the customer pays in order to receive water at their premises.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(c) Revenue (continued)

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Survey	<p>The Authority charges survey fees when a customer applies for a new connection and which relates to the Authority performing a survey to determine whether it will be able to provide water services to the customer based on water pressure and/or land issues in the area where the customer is located. This is charged to customers in order to provide water to their premises. This is an up-front fee.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and is allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Plumbing and investigation	<p>The Authority charges plumbing and investigation fee when a customer requests for plumbing works to be carried out after the water meter to their homes.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and is allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Standing and unmetered	<p>The Authority charges standing fees on a monthly basis which relates to account maintenance and administration. Additionally, the Authority also charges unmetered fees to all domestic and commercial customers on a monthly basis regardless of the usage. The charges are for cases where meters are faulty, connections are connected without a meter due to meter shortages in the stores, meters buried because of landslides or deposits or meters are faulty. These charges continue until the meter is replaced with a functional meter.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and is allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Reconnection, disconnection, meter testing, service amplification and water and sewer main extension	<p>The Authority charges reconnection fees to reconnect a disconnected customer. Disconnection fee is charged to disconnect services on customer request or due to unpaid balances. The Authority charges meter testing fee when customers request for their meters to be tested to determine if it is working properly. Service amplification fees are charged when customers request for the current smaller sized pipes to be replaced with larger sized pipes due to increase demand. The Authority also charges water and sewer main extension fees when customers request to extend the current waste water service line or to divert the line from its current location.</p> <p>The Authority recognises revenue when the related service is provided to the customer i.e. point-in time.</p>

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Authority has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(d) Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as debt securities, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income on the statement of profit or loss and other comprehensive income.

(e) Government grants

When the Authority receives grants of non-monetary assets, the asset and the grant are recorded as nominal amounts and released to profit and loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset.

(f) Income taxes

The Income and Revenue of the Authority is not subject to taxation under the Solomon Islands Water Authority Act 1993.

(g) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and accumulated impairment losses, if any. Costs include expenditure that is directly attributable to the acquisition of the items.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised in profit or loss.

Subsequent measurement

The cost of replacing part of a component of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the Authority and its costs can be measured reliably. The cost of day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised.

The impairment accounting policy for goodwill and intangible assets with indefinite lives similarly applies to other non-financial assets, including property, plant and equipment.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Water systems and plant and equipment were revalued by Deloitte (Australia) in 2015. Due to the specialised nature of the assets, the depreciated replacement cost approach was used to assess the fair value of the majority of the water infrastructure assets and the market approach was used to value a small number of mobile plant assets.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(g) Property, plant and equipment (continued)

Depreciation

Depreciation is calculated using straight line method subject to the particular asset using rates as follows:

Buildings	2.50% - 5.56%
Water systems	1.27% to 50%
Plant and equipment	5.56% to 50%
Furniture and fittings	16.67% to 20%
Motor vehicles	16.67% to 33.33%

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. Refer to Note 16(a) for the changes in estimates for useful life of assets by the Authority during the year.

(h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

(i) Leases

The Authority has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Authority assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Authority uses the definition of a lease in IFRS 16.

The policy is applied to contracts entered into, on or after 1 January 2019.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Authority allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Authority has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(i) Leases (continued)

Policy applicable from 1 January 2019 (continued)

i. As a lessee (continued)

The Authority recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Authority by the end of the lease term or the cost of the right-of-use asset reflects that the Authority will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Authority's incremental borrowing rate. Generally, the Authority uses its incremental borrowing rate as the discount rate.

The Authority determines its incremental borrowing rate by obtaining interest rates from its financial institution and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Authority is reasonably certain to exercise, lease payments in an optional renewal period if the Authority is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Authority is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Authority's estimate of the amount expected to be payable under a residual value guarantee, if the Authority changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Authority presents right-of-use assets and lease liabilities in the statement of financial position.

Short term leases and leases of low-value assets

The Authority has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Authority recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(i) Leases (continued)

Policy applicable from 1 January 2019 (continued)

ii. As a lessor

The Authority does not have any leases where it acts as a lessor.

Policy applicable before 1 January 2019

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement.

Authority as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Authority is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

Authority as a lessor

Leases in which the Authority does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(k) Financial instruments

i. Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(k) Financial instruments (continued)

ii. Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Authority makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Authority's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated -- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for de recognition are not considered sales for this purpose, consistent with the Authority's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

(k) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest (continued)

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- Terms that limit the Authority's claim to cash flows from specified assets (e.g. non recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expenses, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Authority's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Authority has transferred substantially all the risks and rewards of the asset, or (b) the Authority has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Authority has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Authority continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Authority also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Authority has retained.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(k) Financial instruments (continued)

iii. Derecognition (continued)

Financial liabilities

The Authority derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Authority also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Modifications of financial assets

If the terms of a financial asset are modified, the Authority evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Authority recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

v. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Authority currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

vi. Impairment

The Authority recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Authority measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12 month ECL:

- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience and informed credit assessment and including forward looking information.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Authority considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Authority in full, without recourse by the Authority to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(k) Financial instruments (continued)

vi. Impairment (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Authority is exposed to credit risk.

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive); and
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the customers or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a receivable by the Authority on terms that the Authority would not consider otherwise;
- it is probable that the customer will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Authority determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Authority's procedures for recovery of amounts due.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(l) Inventories

Inventories are valued at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

A provision for stock obsolescence is established where there is objective evidence that the Authority will not be able to collect the cost of inventory due to obsolescence or damage. Provision is raised on a specific basis based on the condition of the inventory. The carrying amount of inventories is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. When an inventory item is uncollectable, it is written off against the allowance account.

(m) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

Property, plant and equipment	Note 3(g)
Intangible assets	Note 3(h)

The Authority assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Authority estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Authorities of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Authority bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Authority's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Authority estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(n) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

(o) Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(p) Employee entitlements

Provisions are made for wages and salaries, incentive payments and annual leave estimated to be payable to employees at balance date on the basis of statutory and contractual requirements.

i. Defined contribution plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Authority deducts and pays 5 per cent of the employees' gross salaries and contributes 7.5 per cent of employee's gross salaries to the Solomon Islands National Provident Fund. Obligations for contributions are recognised as employee benefit expense in profit or loss in the period during which services are rendered by employees.

ii. Short term benefits

Short-term employee benefit are measured on an undiscounted basis and are expensed in the profit or loss as the related services is provided.

(q) Trade and other payables

Liabilities for trade creditors and other amounts are at cost (inclusive of Consumption Tax where applicable) which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Authority. Amounts payable that have been denominated in foreign currencies have been translated to local currency using the rates of exchange ruling at the end of the financial period.

(r) Grants

An unconditional grant related to an asset is recognised in profit or loss as other income when the grant becomes receivable.

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Authority for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Significant accounting policies (continued)

(s) Comparative figures

Comparative figures have been amended where necessary, for changes in presentation in the current period.

(t) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Authority has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Authority's financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of a Material (Amendments to IAS 1 and IAS 8).

4. Financial risk management

Overview

The Authority has exposure to the following financial risks:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

This note presents information about the Authority's exposure to each of the above risks and the Authority's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management policies are established to identify and analyse the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Authority's Board oversees how management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Solomon Water. The Board is assisted in their oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and processes, the result of which is reported to the Board.

The above risks are limited by the Authority's financial management policies and procedures as described below:

**SOLOMON ISLANDS WATER AUTHORITY
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4. Financial risk management (continued)

(i) Credit risk

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Authority's receivables from customers, cash at bank and debt securities.

The carrying amount of financial assets and contract assets represents the maximum credit exposure.

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows:

	2019 SBD	2018 SBD
Impairment (reversal) / loss on trade receivables and contract assets arising from contracts with customers	(1,010,014)	812,038

Trade receivables and contract assets

Customer credit risk is managed subject to the Authority's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and water services disconnected where domestic and commercial accounts are outstanding greater than 30 days.

An impairment analysis is performed at each reporting date collectively for all customer accounts. The calculation is based on actual incurred historic data. The maximum exposure to credit risk at the reporting date is disclosed in Note 4. The Authority evaluates the concentration of risk with respect to trade receivables as high.

Expected credit loss assessment for trade receivables and contract assets

The Authority uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December.

	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit impaired
	SBD	SBD	SBD	SBD
31 December 2019				
Current (not past due)	23.37%	6,543,865	1,529,310	5,014,555
31 - 60 days past due	38.40%	2,668,425	1,024,639	1,643,786
61 - 90 days past due	57.49%	1,956,916	1,124,936	831,980
More than 90 days past due	56.71%	19,258,493	10,921,679	8,336,814
		<u>30,427,699</u>	<u>14,600,564</u>	<u>15,827,135</u>
31 December 2018				
Current (not past due)	25.65%	5,049,793	1,295,272	3,754,521
31 - 60 days past due	42.14%	7,459,959	3,143,627	4,316,332
61 - 90 days past due	63.08%	3,757,487	2,370,223	1,387,264
More than 90 days past due	75.13%	13,843,158	10,400,962	3,442,196
		<u>30,110,397</u>	<u>17,210,084</u>	<u>12,900,313</u>

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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4. Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

Expected credit loss assessment for trade receivables and contract assets (continued)

Loss rates are based on actual credit loss experience over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Authority's view of economic conditions over the expected lives of trade receivables. Scalar factors are based on actual and forecast GDP growth rates.

Movements in the allowance for impairment in respect of trade receivables and contract assets

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows.

	2019 SBD	2018 SBD
Balance at 1 January	17,210,084	16,961,844
Amounts written off	(1,599,506)	(563,798)
Net remeasurement of loss allowance	(1,010,014)	812,038
Balance at 31 December	<u>14,600,564</u>	<u>17,210,084</u>

Cash and cash equivalents

The Authority held cash and cash equivalents of SBD 9,342,069 (2018: SBD 39,783,062). Cash and cash equivalents are held with banks which are rated AA- and B+, based on Standards & Poor's ratings.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects short term maturities of the exposures. The Authority considers that its cash have low credit ratings of the counterparties.

The amount of impairment allowance at 31 December 2019 is \$Nil (2018: SBD 151,871).

Debt securities

The Authority held debt investment securities of SBD 10,000,000 at 31 December 2019 (2018: SBD 6,574,465). The debt investment securities are held with institutions which are rated B+ based on Standards & Poor's credit ratings. In relation to debt investment securities held with these institutions, the Authority monitors changes in credit risk by tracking published external credit ratings but when external credit ratings are not available or published, the Authority monitors changes in credit risk by reviewing available press and regulatory information.

Impairment on debt investment securities held with banks has been measured on the 12 month expected loss basis. The Authority considers that its cash have low credit ratings of the counterparties.

The Authority did not recognise an impairment allowance against debt securities as at 31 December 2019 (2018: SBD Nil)

(ii) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

The Authority ensures that it has sufficient cash on hand to meet operational expenses including the servicing of financial obligations but this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date, based on contractual undiscounted payments.

**SOLOMON ISLANDS WATER AUTHORITY
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4. Financial risk management (continued)

(ii) Liquidity risk (continued)

31 December 2019

Trade and other payables
Payable to related parties
Lease liabilities

Carrying amount	Contractual cash flows		
	Less than 1 year	1 - 2 years	More than 2 years
15,858,666	15,858,666	-	-
720,464	937,500	-	-
2,844,318	1,082,088	1,643,497	711,798
<u>19,423,448</u>	<u>17,878,254</u>	<u>1,643,497</u>	<u>711,798</u>

31 December 2018

Trade and other payables
Payable to related parties

20,073,002	20,073,002	-	-
1,362,802	937,500	937,500	-
<u>21,435,804</u>	<u>21,010,502</u>	<u>937,500</u>	<u>-</u>

(iii) Market risk

Currency risk

The Authority is exposed to currency risk to the extent that there is a mismatch between the currencies in which purchases, and borrowings are denominated and the respective functional currencies. The Authority does not have significant exposure to currency risk.

Interest rate risk

Interest rate risk is the risk that a change in interest rates will impact net interest costs and borrowings.

The Authority has invested in debt securities with Bred Bank. These are at a fixed interest rate during the term of the instruments.

Given the fixed nature of interest rates described above, the Authority has a high level of certainty over the impact on cash flows arising from interest income. Accordingly, the Authority does not require simulations to be performed over impact on net profits arising from changes in interest rates.

Furthermore, for those financial assets and financial liabilities which are not carried at fair value, their carrying amount is considered a reasonable approximation of fair value.

SOLOMON ISLANDS WATER AUTHORITY
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	2019 SBD	2018 SBD
5. Revenue from contracts with customers	89,438,819	86,739,828
Water sales	4,889,841	5,158,712
Standing and unmetered		
Reconnection, disconnection, meter testing, service amplification, water & sewer main extension	749,070	1,174,425
	<u>95,077,730</u>	<u>93,072,965</u>
6. Other income	4,978,404	-
ADB contribution in kind	3,028,969	11,589,335
Amortisation of deferred revenue	793,294	101,747
Bad debts recovered	150,471	3,441,825
Miscellaneous income	4,310,000	3,000,000
Solomon Islands Government - CSO grant	-	3,651,632
Stock write-backs	<u>13,261,138</u>	<u>21,784,539</u>
7. Corporate expenses	294,167	221,602
Advertising	2,595,235	-
Asset write-off (Refer Note 16 (b))	67,725	66,777
Accounting fees	461,150	214,600
Auditors' remuneration	32,736	60,714
Bank fees and charges	55,600	53,000
Board allowances	8,565,291	6,452,814
Consultant fees	845,101	701,547
Insurance	893,783	-
Inventory obsolescence	827,553	1,608,272
Lease rentals	91,080	20,096
Legal fees	63,492	-
Loss on sale of fixed assets	1,063,726	1,419,822
Other expenses	1,568,421	2,085,771
Printing, freight and stationery	2,464,495	2,108,721
Software training and computer consumables	1,339,699	1,244,786
Telephone	711,912	1,018,437
Travel and transport	<u>21,941,166</u>	<u>17,276,959</u>
8. Salaries and employee benefits	12,150,830	11,126,665
Wages and salaries, including leave benefits	7,382,526	5,152,508
Key management personnel - short term benefits	532,306	386,101
Key management personnel - Superannuation contributions	1,849,553	1,214,568
Superannuation contributions	9,106,758	8,509,268
House rentals and allowances	<u>31,021,973</u>	<u>26,389,110</u>

**SOLOMON ISLANDS WATER AUTHORITY
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9. Finance income and finance costs

	2019	2018
	SBD	SBD
(a) Finance income		
Interest income	19,791	21,400
Realised foreign exchange gain	-	272,925
	<u>19,791</u>	<u>294,325</u>
(b) Finance cost		
Amortisation of discount - SIEA loan	217,037	217,037
Interest expense - lease liability	180,530	-
Realised foreign exchange loss	-	74,451
	<u>397,567</u>	<u>291,488</u>

10. Cash and cash equivalents

Cash at bank	9,342,069	39,783,062
Cash on hand	24,500	24,500
Cash and cash equivalents as per statement of cash flows	<u>9,366,569</u>	<u>39,807,562</u>

11. Trade receivables

Trade receivables	30,427,699	30,110,397
Provision for impairment of receivables	<u>(14,600,564)</u>	<u>(17,210,084)</u>
	<u>15,827,135</u>	<u>12,900,313</u>

Movements in the provision for impairment of receivables were as follows:

Opening balance	(17,210,084)	(18,901,590)
Charge for the year	(253,813)	(375,963)
Utilised	2,863,333	2,067,469
	<u>(14,600,564)</u>	<u>(17,210,084)</u>

12. Contract balances

Contract balances have arisen from IFRS 15 *Revenue from contracts with Customers*.

Contract assets	2,783,803	3,594,524
Contract liabilities	<u>(908,877)</u>	<u>(230,004)</u>
	<u>1,874,926</u>	<u>3,364,520</u>

The contract assets primarily relate to the Authority's rights to consideration for services provided but not billed at the reporting date on water sales. The contract assets are transferred to receivables when the billing cycle is completed and Authority has issued an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers for water sales and new meter connections for which revenue is recognised at a point in time when the services has been rendered. This will be recognised as revenue when the services are rendered to the customers, which is expected to occur in the subsequent period.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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13. Inventories

	2019	2018
	SBD	SBD
Stores and consumables	9,353,825	13,540,451
Provision for inventory obsolescence	(893,783)	-
	<u>8,460,042</u>	<u>13,540,451</u>
Goods in transit	-	10,635
	<u>8,460,042</u>	<u>13,551,086</u>
<u>Provision for inventory obsolescence</u>		
Balance at 1 January	-	-
Provision recognised during the year	(893,783)	-
Balance at 31 December	<u>(893,783)</u>	<u>-</u>

14. Other receivables and prepayments

	2019	2018
	SBD	SBD
Other debtors	946,070	515,952
Prepayments	2,250,210	1,089,106
	<u>3,196,280</u>	<u>1,605,058</u>

15. Debt securities

	2019	2018
	SBD	SBD
Term deposits	<u>10,000,000</u>	<u>6,574,465</u>

The interest rate on term deposits is 1% (2018: 1%). The deposit has a maturity of 180 days (2017: 180 days). The Authority broke the debt security before the maturity date subsequent to year end.

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16. Property, plant and equipment

	Water Systems SBD	Land and Buildings SBD	Machinery, Equipment and Computers SBD	Motor vehicles SBD	Furniture and Fittings SBD	Work in Progress SBD	Total SBD
Cost							
Balance at 1 January 2018	267,893,430	9,989,166	10,609,171	9,790,920	459,982	23,686,255	322,428,924
Additions	36,585,940	303,990	784,953	673,535	-	37,706,889	76,055,307
Reclassifications	-	-	-	-	-	(47,372,510)	(47,372,510)
Balance at 31 December 2018	304,479,370	10,293,156	11,394,124	10,464,455	459,982	14,020,634	351,111,721
Opening balance adjustment	(3,923,825)	(28,394)	-	-	-	505,840	(3,446,379)
Balance at 1 January 2019	300,555,545	10,264,762	11,394,124	10,464,455	459,982	14,526,474	347,665,342
Additions	-	-	-	1,900,070	-	35,787,611	37,687,681
Disposals	-	-	(605,471)	(504,545)	-	-	(1,110,016)
Reclassifications	(2,804,324)	-	-	-	-	(932,722)	(3,737,046)
Transfers	15,910,755	12,723,417	989,533	-	402,656	(30,026,361)	(2,595,235)
Write-off (Refer Note 16(b))	-	-	-	-	-	(2,595,235)	-
Balance at 31 December 2019	313,661,976	22,988,179	11,778,186	11,869,980	862,638	16,759,767	377,910,726
Depreciation							
Balance at 1 January 2018	21,784,781	584,345	2,639,697	5,876,314	346,524	-	31,231,661
Depreciation	12,167,538	142,564	2,934,427	1,216,356	28,365	-	16,489,250
Balance at 31 December 2018	33,952,319	726,909	5,574,124	7,092,670	374,889	-	47,720,911
Opening balance adjustment	31,877,376	2,935,854	5,693,247	3,143,008	85,093	-	43,734,578
Balance at 1 January 2019	65,829,695	3,662,763	11,267,371	10,235,678	459,982	-	91,455,489
Depreciation	7,072,073	511,102	89,261	245,629	7,459	-	7,925,524
Disposals	3,031	-	(413,569)	(446,532)	-	-	(857,070)
Balance at 31 December 2019	72,904,799	4,173,865	10,943,063	10,034,775	467,441	-	98,523,943
Carrying amounts							
At 31 December 2018	270,527,051	9,566,247	5,820,000	3,371,785	85,093	14,020,634	303,390,810
At 1 January 2019	234,725,850	6,601,999	126,753	228,777	-	14,526,474	256,209,853
At 31 December 2019	240,757,177	18,814,314	835,123	1,825,205	395,197	16,759,767	279,386,783

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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16. Property, plant and equipment (continued)

(a) Change in estimate

In accordance with its policy, the Authority reviews the estimated useful lives of its property, plant and equipment on an ongoing basis. During the year, the Authority conducted a review of the depreciation policy and estimated useful lives of its property, plant and equipment. This review indicated that the actual lives of various categories of property, plant and equipment were either longer or shorter than the estimated useful lives used for depreciation purposes in the Authority's financial statements. It also indicated that the depreciation policy for certain items of property, plant and equipment were under the diminishing-value method while for some were under straight-line method of depreciation. As a result, effective 1 January 2019, the Authority changed its depreciation policy to straight-line method of depreciation for all items of property, plant and equipment and changed its estimates of the useful lives of various categories of property, plant and equipment to better reflect the estimated periods during which these assets will remain in service (refer to Note 3(g)). The effect of this change in estimate reduced the 2019 depreciation expense for the Authority by a net amount of SBD 1,187,668, hence leading to an increase in profit before tax of the same amount for the Authority.

(b) Asset write-off

During the year, the Authority reviewed its Capital Work in Progress listing for all on-going projects and noted that the Work in Progress in relation to Mataniko project will not continue and needs to be written-off.

17. Intangible assets	2019 SBD	2018 SBD
Cost		
Balance at 1 January	452,808	452,808
Additions during the year	426,882	-
Balance at 31 December	<u>879,690</u>	<u>452,808</u>
Accumulated amortisation		
Balance at 1 January	367,249	245,501
Amortisation expense during the year	263,553	121,748
Balance at 31 December	<u>630,802</u>	<u>367,249</u>
Carrying amount as at 31 December	<u>248,888</u>	<u>85,559</u>

18. Leases

As a lessee

The Authority leases assets including office spaces and land for its depot and water source and storage locations. Information about leases for which the Authority is a lessee is presented below.

(i) Right-of-use assets	2019 SBD
Balance at 1 January	3,745,876
Additions during the year	-
Depreciation charge during the year	(975,227)
Balance at 31 December	<u>2,770,649</u>

(ii) Lease liabilities

Maturity analysis - contractual undiscounted cash flows	
Less than one year	1,082,088
One to five years	1,768,560
More than five years	586,735
Total undiscounted liabilities at 31 December 2019	<u>3,437,383</u>

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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18. Leases (continued)

As a lessee (continued)	2019
(ii) Lease liabilities (continued)	SBD

Lease liabilities included in the statement of financial position at 31 December

Current	950,344
Non-current	1,893,974
	<u>2,844,318</u>

Amounts recognised in profit or loss

Interest on lease liabilities	180,530
Variable lease payments not included in the measurement of lease liabilities	827,553
	<u>1,008,083</u>

Amounts recognised in the statement of cash flows

Total cash outflow for leases	<u>1,082,088</u>
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Real estate lease

The Authority leases buildings for its office space, customer service and bill-pay centre while land is leased for depots, warehouses, borehole and reservoir sites.

The lease for office space, customer service and bill-pay centre typically run for a period of two years with an option to renew the lease for an additional period as per the lease agreements after the end of initial lease term. The leases for land typically run for a period of fifteen to seventy-five years with no option to renew lease as per the lease agreements.

	2019	2018
	SBD	SBD
19. Trade and other payables		
Trade payables	-	1,670,118
Other payables	10,366,210	9,565,231
Water deposits	5,492,456	8,837,653
	<u>15,858,666</u>	<u>20,073,002</u>

20. Deferred Revenue

Donor Funds Received for Capital Projects and Unspent

Australian Government Department of Foreign Affairs and Trade	-	1,257,542
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Donor Funds Received for Capital Projects and Spent

Australian Government Department of Foreign Affairs and Trade	12,511,770	11,494,598
Japan International Cooperation Agency	81,917,549	84,472,324
Solomon Islands Government	4,599,868	4,833,692
	<u>99,029,187</u>	<u>100,800,614</u>

As disclosed in the statement of financial position:

Current	3,028,969	3,028,969
Non-current	96,000,218	99,029,187
	<u>99,029,187</u>	<u>102,058,156</u>

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	2019	2018
	SBD	SBD
21. Employee benefit liability		
Annual leave	486,099	727,066
Long service benefit	560,257	629,442
Long service leave	332,743	291,591
	<u>1,379,099</u>	<u>1,648,099</u>
Balance at the beginning of year	1,648,099	1,887,723
Net movement during the year	(269,000)	(239,624)
Balance at the end of year	<u>1,379,099</u>	<u>1,648,099</u>
22. Contributed capital		
Contributed capital	<u>59,625,874</u>	<u>59,625,874</u>

Capital represents Government's contribution on the establishment of Solomon Islands Water Authority.

23. Commitments and contingent liabilities

Contingent liabilities

Three former employees of the Authority have filed complaints in the Trade Disputes Panel claiming compensation for unfair dismissal. The Authority is defending the claims which are still pending. The Directors are defending this case and are confident that they will successfully defend this case and accordingly, no liability have been recorded.

24. Related party transactions

(a) Directors

The names of persons who were directors of Solomon Islands Water Authority at any time during the financial year are as follows:

Mr Carson Korowa (Chairman)
Mr Trevor Palmer
Ms Cynthia Wickham
Mr Donald Marahare
Mr John Belande
Mr David Patternot
Ms Gloria Hong

(b) Controlling entities

The ultimate parent of the Authority is the Solomon Islands Government. The Government has control over the Authority.

	2019	2018
	SBD	SBD
(c) Compensation of key management personnel		
Short term employee benefits	7,382,526	5,152,508
Superannuation contributions	532,306	386,101
	<u>7,914,832</u>	<u>5,538,609</u>

**SOLOMON ISLANDS WATER AUTHORITY
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24. Related party transactions (continued)

(d) Transactions with related parties

Transactions with related parties during the year ended 31 December 2019 with approximate transaction value are summarised as follows:

	2019 SBD	2018 SBD
<u>Controlling entity</u>		
Solomon Islands Government - CSO grant	4,310,000	3,000,000
<u>Directors</u>		
Directors remuneration and expenses	55,600	53,000

(e) Amount owed to related parties

Current		
Solomon Islands Electricity Authority	720,464	720,464
Non-current		
Solomon Islands Electricity Authority	-	642,338
	720,464	1,362,802

The Debt Agreement with Solomon Islands Electricity Authority is an interest free loan over 8 years, repayable in equal monthly instalments which commenced on 1 January 2013. If default of payment occurs at any time a default interest rate of interest, being the daily Business Index Rate published by the three main banks in Honiara, will be applied to the period of default.

25. Restatement

During the year, the Authority discovered that items of statement of changes in equity and balance sheet as outlined below have been erroneously reported in the financial statements for the year ended 31 December 2018 as a result of numerous errors as follows. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following table summarizes the impacts on the Authority's financial statements.

- i. The method of calculation for depreciation under diminishing-value method was incorrect, which resulted in incorrect depreciation expenses in prior years and as a result, the carrying amount of fixed assets was overstated by SBD 42,820,100 and retained earnings understated by SBD 29,778,230. As a consequence, the assets under the revaluation model for which asset revaluation reserve was recognised have been overstated by SBD 35,935,656, while the donor-funded assets recognised as deferred income has been overstated by SBD 36,662,674.
- ii. The Authority had disposed off assets in prior years however this was not reflected in the financial statements and general ledger, and as a result, property, plant and equipment was overstated SBD 2,426,835 while retained earnings have been overstated by the same amount.
- iii. In prior years, the Authority acquired leasehold land and had not been depreciating the land over the lease term. As a consequence, the depreciation expenses for the related leasehold lands have not been recognised in the retained earnings over the years and retained earnings was overstated by SBD 2,574,317 while fixed assets was overstated by the same amount.
- iv. In prior years, inventory recorded in the financial statements was understated by SBD 665,863 due to the costing method of the Authority being not in accordance with IAS 2, *Inventories*, which required all costs incurred to bring the inventory to its present location to be allocated to inventory. The costs of freight and duty was not included in the costs of inventory and was recognised as expense. As a consequence, retained earnings have been understated by the same amount.

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FOR THE YEAR ENDED 31 DECEMBER 2019**

25. Restatement (continued)

- v. The Authority has been using a land at White River and has not been paying for the rental over the prior years. During the year, the Authority was entered into an agreement with the landowners for arrangement of formal lease agreements and compensation for land use for prior years. The Authority did not record for liability for the use of land over the prior years. As a consequence, other payables has been understated by SBD 819,778 while retained earnings has been overstated by the same amount.
- vi. There were certain expenses which was under-accrued for in prior years by the Authority by SBD 1,398,464 which resulted in understatement of expenses and trade and other payables by the same amount. As a consequence, retained earnings have been understated by the same amount.
- vii. The Authority discovered that in prior years, depreciation for items recorded in Work in Progress was erroneously calculated by SBD 505,840, and depreciation for an asset recorded in water system class of asset was erroneously calculated by SBD 134,454 and as a result, depreciation expenses was overstated by SBD 640,294 and fixed assets understated by the same amount.

Statement of changes in equity

Statement of changes in equity	Impact of correction of error			
	As previously reported SBD	Re- classifications SBD	Adjustments SBD	As restated SBD
31 December 2018				
Capital contribution	59,625,874	-	-	59,625,874
Asset revaluation reserve	142,169,998	-	(35,935,656)	106,234,342
Retained earnings	19,231,148	-	23,864,993	43,096,141
Total equity	221,027,020	-	(12,070,663)	208,956,357

Statement of financial position

Statement of financial position	Impact of correction of error			
	As previously reported SBD	Re- classifications SBD	Adjustments SBD	As restated SBD
31 December 2018				
Assets				
Current assets				
Cash and cash equivalents	47,705,278	(7,897,716)	-	39,807,562
Trade and other receivables	16,494,837	(3,594,524)	-	12,900,313
Contract assets	-	3,594,524	-	3,594,524
Debt securities	-	6,574,465	-	6,574,465
Inventories	12,885,223	-	665,863	13,551,086
Other receivables and prepayments	1,174,231	430,827	-	1,605,058
Receivable from related parties	433,287	(433,287)	-	-
	78,692,856	(1,325,711)	665,863	78,033,008
Non-current assets				
Property, plant and equipment	303,390,812	-	(47,180,959)	256,209,853
Intangibles	85,559	-	-	85,559
	303,476,371	-	(47,180,959)	256,295,412
Total assets	382,169,227	(1,325,711)	(46,515,096)	334,328,420

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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25. Restatement (continued)

Statement of financial position (continued)

	Impact of correction of error			As restated SBD
	As previously reported SBD	Re- classifications SBD	Adjustments SBD	
31 December 2018				
Liabilities				
Current liabilities				
Contract liabilities	-	230,004	-	230,004
Trade and other payables	15,337,631	2,517,129	2,218,242	20,073,002
Deferred revenue	11,589,335	-	(8,560,366)	3,028,969
Employee benefits liability	1,648,099	-	-	1,648,099
Payable to related parties	5,010,345	(4,289,881)	-	720,464
	33,585,410	(1,542,748)	(6,342,124)	25,700,538
Non-current liabilities				
Deferred revenue	127,131,495	-	(28,102,308)	99,029,187
Payable to related parties	425,302	217,036	-	642,338
	127,556,797	217,036	(28,102,308)	99,671,525
Total liabilities	161,142,207	(1,325,712)	(34,444,432)	125,372,063
Equity				
Capital contribution	59,625,874	-	-	59,625,874
Asset revaluation reserve	142,169,998	-	(35,935,656)	106,234,342
Retained earnings	19,231,148	-	23,864,993	43,096,141
Total equity	221,027,020	-	(12,070,663)	208,956,357
Total equity and liabilities	382,169,227	(1,325,712)	(46,515,095)	334,328,420

There are no adjustments made to the statement of profit or loss and other comprehensive income and statement of cash flows for the year ended 31 December 2018.

26. Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Authority, the results of those operations, or the state of affairs of the Authority in future financial years

