

## **Office of the Auditor General**

Last week I described why we exist what our mission was, what values we believed in for our staff and the operation of the office, what we are working to achieve and some of the challenges that we are faced with.

This week I want to talk about what kind of audits we do and how we do them.

### **Financial statement audits**

When the Auditor General was established under the Constitution, it was intended that he look at the accounts and records of the government so that he can report to the Parliament on whether or not the government has properly collected and spent the people's money.

The Parliament needed to know this because it passes laws to allow the government to collect money in the form of taxes and fees and wants to be satisfied that the government has done that according to what the Parliament intended.

This also means that when the Auditor General does his work, he also needs to check to see that government officials are obeying the laws when they collect and spend money. This is known as the assurance part of the audit where we are sure the Parliament that the laws have been obeyed. New line

The other part of the audit is to check that the financial report is accurate – that means we can rely on the numbers that are published in the report. To rely on those numbers, we need to know that they are supported by evidence which shows that the amounts collected or spent are properly described.

### **Performance audits**

Over the last few decades the role of the Auditors General all over the world has expanded to also look at how well government programs operate and deliver the services intended by those programs. These are known as performance audits or "value for money audits".

They are called "value for money audits" because they are looking at the efficiency of those programs and whether or not they actually deliver the services intended to the planned standard.

In many countries the Auditor General has moved away from financial statement audits which he contracts out to private firms, and focuses mainly on performance audits.

In Solomon Islands the office of the Auditor General is still very heavily involved in financial statement audits because it is still the primary role set out by the Constitution and there are not many local audit firms who could take on these tasks.

The Auditor General does in fact outsource the financial statement audits of the larger State Owned Enterprises such as SIEA and SIWA among others, but this is because these agencies report using complicated international reporting standards which our staff are still learning to audit.

These audit firms are mainly based overseas and are very expensive. As the Office skills its staff in financial statement audits, we hope to be able to start doing these audits by the Auditor General.

The Auditor General audits three levels of government – National, Provincial and the Honiara City Council, as well as all government owned businesses and agencies. In addition, the Office audits the accounts of the SI National Provident Fund.

### **Public Accounts Committee**

In addition to the audits carried out by the Auditor General, he is also the Secretary to the Parliamentary Public Accounts Committee which has been established by the Parliament to conduct hearings into the Budgets before they are presented to the Parliament for debate and passage, as well as review the Auditor General's audit reports that have been submitted to Parliament for consideration.

This is an unusual arrangement compared to other countries, but it does provide a valuable link between the Auditor General and the Public Accounts Committee.

This Office continues to work with the Committee and has been providing assistance to the Committee's staff to better support the Parliamentary members of the Committee when they are conducting hearings.

The hearings of the Committee are very important not only for the Members of the Parliament to be better informed when debating Committee's reports, but also because they are broadcast nationally and are recorded in the written records of the Parliament known as Hansard.

### **International Auditing Standards**

When the Auditor General does his work, he is required to follow a set of standards that have been set by the International Association of Supreme Audit Institutions (INTOSAI) which represents all the Auditors General around the world.

These standards guide him on how to plan the audits, how to do the testing of the government's records, how to report the audit findings from the testing to the Parliament, and how his staff are to apply proper skills in doing their work and acting in a professional manner.

Solomon Islands has adopted those standards and the Office is training its staff on how to comply with those standards.

### **Audit of the National Accounts**

The Auditor General audits 25 Ministries and two Offices every year which employ over 6000 offices and are responsible for administering some \$3 billion every year.

Obviously, it is just not possible to audit all the records of all the agencies and ministries every year with a small team. Instead, the audit standards provide for auditors to adopt what we call a "risk based approach" whereby we select a sample of records to check to see if there are any errors or lack of compliance with the law.

If these sample is properly selected, we are able to them estimate how much error will be in the records that we have not looked at.

If there are a lot of errors the Auditor General will not have enough evidence to be able to say that the financial statements are accurate or public monies have been properly collected or spent. In these cases, the Auditor General issues a "Disclaimer Opinion" which means that he is unable to form an opinion on how reliable the statements are.

The National Accounts of the Solomon Islands have always been given a Disclaimer Opinion by the Auditor General due to the problems of missing documents and non-compliance with the laws. The Office is working with the Ministry of Finance to help improve its record keeping and compliance with the laws so that the financial statements become more reliable.

### **Audits of Provincial and Local Governments**

The Auditor General audits nine Provincial Governments every year. Although the sizes of these governments are much smaller than the national government, they are spread over the whole of Solomon Islands and often have limited communications.

The Auditor General has been issuing Disclaimer Opinions on the financial statements of the provincial governments but there has been great improvement in financial reporting since the Office recommenced its audits of provincial governments in 2006. Much of the improvement has been due to the work done by the Ministry of Provincial Government and the donor funded Provincial Governance Strengthening Project (PGSP).

However there is much more to be done and this Offers is working with the Ministry, the PGSP and the provincial governments to strengthen the administration of public monies and reporting on them.

The Auditor General also audits the Honiara City Council which faces many challenges in a rapidly growing city and finances.

### **Audits of Government Agencies**

The Auditor General audits eight State Owned Enterprises and six statutory authorities responsible for providing public services such as utilities (electricity and water), communications (radio and post), finances (central bank and National Provident Fund), transport and port facilities, tourism and tertiary education.

Unlike the audits of governments, the agencies use a different financial statement reporting system which requires more technical skills by our auditors. The larger agencies produce high-quality financial statements which the Auditor General is able to issue what is known as an "Unqualified Opinion" which means we can trust the amounts in the statements, and that the agencies have complied with the laws.

The smaller agencies continue to be challenged by the reporting requirements and this office provides as much assistance as it can to accounting staff to produce reliable and complete records.

Next week we will describe some of the issues that come out of our audits and these sorts of recommendations we make to improve reliability and completeness of the records and financial statements, as well as describe some of our performance audit report findings.