



**REPORT OF THE AUDITOR-GENERAL  
OF THE SOLOMON ISLANDS  
ON THE  
SOLOMON ISLANDS GOVERNMENT  
2014 NATIONAL ACCOUNTS**

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## **Foreword from the Auditor-General**

I am pleased to present this Report to Parliament covering the results of audits performed on the 2014 National Accounts and the accounts and records of selected ministries.

I have changed my reporting format so that I provide report to Parliament according to each type of audit entity. As such this report is for the Solomon Islands Government. During 2017 I released a number of reports relating to performance and special audits. I will release separate reports for the Provincial Governments and the SOEs and SAs. I believe in this way Members of Parliament and the public will have available to them detailed information about each type of entity being audited by my office. The readers of my reports will therefore read in detail issues identified during my audits as well as responses from management of those entities.

### **Results of audits**

I am concerned that the continued lack of ministries to have their accounts and records in order results in continued disclaimer. There is a correlation between poor record keeping and financial performance and results.

Management need regular reporting of operations and finances in order to monitor progress, identify opportunities and prevent and correct problems. Adequate internal information promotes strong governance.

### **Acknowledgements**

I thank my officers for their professional work and ministries for their cooperation.

I acknowledge the donor partners, especially the Department of Foreign Affairs and Trade (DFAT) and PASAI for their support to my office during the conduct of the 2014 audit.



Peter Lokay  
Auditor-General

23 November 2017

## **Executive Summary**

### **Mandate**

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

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

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

This report to Parliament focuses on the Solomon Islands Government National Accounts for 2014.

### **Lack of accountability by public officers**

The lack of accountability and transparency for the actions of decision makers and public officers continues to be an issue for the Solomon Islands Government. There have been no dismissals, disciplinary actions or charges laid as a result of the management letters issued by this Office.

### **Disclaimed audit certificate**

Solomon Islands Government financial statements continue to be certified by the Auditor-General with modified audit opinions due to lack of supporting documents and inadequate internal processes of the MOFT and line ministries. These problems were so significant in many Ministries that the Auditor-General was unable to form an opinion on the financial statements and issued a disclaimer of opinion.

This is a serious concern because there is a lack of accountability and transparency of the financial affairs of the government. The lack of reliable financial information indicates weak governance within the SIG.

### **Financial Statements**

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

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

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

The Auditor-General received two financial statements of the Solomon Islands Government during the reporting period. The Auditor-General issued a disclaimer of opinion on the financial statements for 2014.

**Dates of signing and opinions of SIG Financial Statements**

| Financial Year | Date signed by Permanent Secretary and Accountant General | Date certified by Auditor-General | Opinion     |
|----------------|---|-----------------------------------|-------------|
| 2012           | 28/10/2013  | 10/4/2014                         | Disclaimer^ |
| 2013           | 31/10/2014  | 23/8/2016                         | Disclaimer^ |
| 2014           | 30/06/2015  | 26/9/2017                         | Disclaimer^ |

^Refer to Glossary for meaning of audit opinion types.

**Key findings and overall conclusion**

The Auditor General issued a disclaimer of opinion due to:

- Not having been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion in accordance with International Standards on Auditing (ISA); and
- Not meeting the reporting requirements under PFMA and IPSAS Cash Basis.

**Key internal control issues**

The Office of the Auditor-General (OAG) completed the audit of SIG 2014 Financial Statements and found that the SIG has inadequate control over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- Missing supporting documents for procurement, expenditure and imprests;
- Bank reconciliations not performed or not completed;
- Lack of interface reconciliations in key revenue systems;
- Lack of interface reconciliations in payroll system;
- Financial statements not prepared in accordance with PFMA 2013 and Interim Financial Instructions 2014;
- Financial statements not prepared in accordance with Cash Basis IPSAS;
- Inadequate supporting documentation for some assets and liabilities;
- Incorrect classification of debt; and
- Lack of financial statements for special funds.

The main internal control failures disclosed during the audit in ministries involved the:

- failure to manage standing and special imprests;
- lack of action for recovery of non-acquittals;
- Bank reconciliations of operational bank accounts not performed;
- line ministry cashbooks not properly maintained;
- lack of evidence of properly prepared or reviewed bank reconciliations;
- lack of records and documents;
- lack of proper filing system;

- lack of verification of daily revenue collection;
- lack of segregation of duties in key institutional functions and controls.
- Revenue and Tax systems inputs does not interface
- Missing revenue and payment vouchers;
- Improper payment of payroll allowances
- Accountable officer financial statements not provided;
- Monthly financial reports not submitted in timely manner;
- Accountable officers financial statements not provided to Accountant General and Auditor General;
- Statement of commitment by head not submitted to MOFT;
- No audited statement of special funds available;
- Inconsistency in disclosure of special funds;
- No policy for fixed assets;
- Lack of control over interface between payroll and general ledger systems;
- Lack of fixed asset registers;
- Non-compliance with procurement regulations

## 1. Introduction

### Mandate

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

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

The *Public Financial Management Act (PFMA) 2013* and Interim Financial Instructions (IFI) 2014 commenced from 1 January 2014. The new financial reporting framework mandated under section 77 of the Act requires that the annual financial statements of SIG include:

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

The FI require that the SIG financial statements be prepared under the Cash Basis IPSAS reporting framework. This is a cash based framework, but some of the requirements of the PFMA describe accrual based statements.

The 2014 SIG financial statements were submitted to the Auditor-General in two separate sets of financial statements. One set was presented in accordance with most of the disclosures required under the Act (with some disclosures absent as the information was not available to MOFT to allow the disclosures to be prepared), and the second set was prepared under the Cash

Basis IPSAS accounting standard. Neither set of financial statements complies with both the PFMA and the IFI.

The audit report of the 2014 SIG financial statements is detailed in Chapter 2 of this report.

### **Audit objectives and scope**

An audit pursuant to s.108 (3) of the Constitution, s.35 (1) of the Public Finance and Audit Act [Cap 120] and s.77 of the PFM Act was conducted on the SIG 2014 Financial Statements (FS) and financial systems and internal controls in order to form an opinion on the 2014 financial statements. Later chapters of this report provides the results of the audits of the accounts and records in the line ministries which were performed to assess the effectiveness of managements' internal controls, assets management and the preparation of financial information that underlie the production of financial statements.

The primary objective was to obtain reasonable assurance whether the 2014 Financial Statements were materially correct and included adequate disclosures.

### **Glossary and acronyms**

#### **Glossary**

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

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

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

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

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

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<sup>1</sup> INTOSAI website [www.intosai.or/about-us.html](http://www.intosai.or/about-us.html) accessed 7 December 2016

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

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

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

### **Audit opinion definitions**

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

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

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

*Table 1: Audit opinion definitions*

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

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

### **Emphasis of matter paragraphs**

In some of the Auditor-General’s audit opinions, international auditing standards require him to issue an emphasis of matter paragraph. This is not the same as a qualification but the Auditor-General is required to alert readers of the financial statements to any matters which may not

result in modification to the financial statements but are important issues that the Auditor-General wishes to bring to the readers' attention

### Risk ratings

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

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

Table 2: Risk ratings

### Acronyms

|         |  |
|---------|--|
| AAG     | Assistant Accountant General                             |
| CTB     | Central Tender Board                                     |
| DFAT    | Department of Foreign Affairs and Trade                  |
| FMSS    | Financial Management Services                            |
| IFRS    | International Financial Reporting Standards              |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IPSAS   | International Public Sector Accounting Standards         |
| ISSAIs  | International Standards of Supreme Audit Institutions    |
| MALD    | Ministry of Agriculture and Livestock Development        |
| MCCA    | Ministry of Communication and Aviation                   |
| MCIE    | Ministry of Commerce, Industry and Employment            |
| MCT     | Ministry of Culture and Tourism                          |
| MDPAC   | Ministry of Development Planning and Aid Coordination    |
| MECM    | Ministry of Environment, Conservation and Meteorology    |
| MEHRD   | Ministry of Education and Human Resources Development    |
| MFAET   | Ministry of Foreign Affairs and External Trade           |

|       |   |
|-------|---|
| MFMR  | Ministry of Fisheries and Marine Resources                        |
| MFR   | Ministry of Forestry and Research                                 |
| MHA   | Ministry of Home Affairs  |
| MHMS  | Ministry of Health and Medical Services                           |
| MID   | Ministry of Infrastructure Development                            |
| MJLA  | Ministry of Justice and Legal Affairs                             |
| MLH   | Ministry of Lands and Housing                                     |
| MMERE | Ministry of Mines, Energy and Rural Electrification               |
| MNURP | Ministry for National Unity, Reconciliation and Peace             |
| MOFT  | Ministry of Finance and Treasury                                  |
| MP    | Member of Parliament  |
| MPGIS | Ministry of Provincial Government and Institutional Strengthening |
| MPNS  | Ministry of Police and National Security                          |
| MPS   | Ministry of Public Service  |
| MRD   | Ministry of Rural Development                                     |
| MTB   | Ministerial Tender Board  |
| MWYC  | Ministry of Women, Youth and Children's Affairs                   |
| NJ    | National Judiciary  |
| NP    | National Parliament   |
| OAG   | Office of the Auditor-General                                     |
| OGG   | Office of the Governor-General                                    |
| OPMC  | Office of the Prime Minister and Cabinet                          |
| PASAI | Pacific Association of Supreme Audit Institutions                 |
| PCAM  | Procurement and Contract Administration Manual                    |
| PFMA  | Public Financial Management Act 2013                              |
| PHC   | Pidgin Holding Company  |
| SAI   | Supreme Audit Institution   |
| SDA   | Special Duty Allowance  |
| SHOP  | Small Holder Oil Palm   |
| SIPA  | Solomon Island Ports Authority                                    |
| STL   | Solomon Telekom Limited   |

## 2: National Government

### Overview

Under Section 77 of the PFM Act 2013, the Solomon Islands Government (SIG) has the following obligation to prepare and provide financial statements to the Office of the Auditor-General for auditing:

*'(2) The accounts shall be sent to the Auditor-General as soon as practicable after the end of the financial year to which they relate but, in any event, not later than three months after the end of that year.*

*(3) The Auditor-General shall, after auditing the accounts pursuant to subsection (3) of section 108 of the Constitution lay copies of them, together with his report as required under subsection (4) before the Parliament'*

### Key findings and overall conclusion

The Auditor General issued a disclaimer of opinion due to:

- Not having been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion in accordance with International Standards on Auditing (ISA); and
- Not meeting the reporting requirements under PFMA and IPSAS Cash Basis.

The OAG completed the audit of SIG 2014 Financial Statements and found that the SIG has inadequate control over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

#### ***Missing supporting documents for procurement, expenditure and imprests***

There were missing supporting documents for procurement, expenditure and imprests for 2014 financial year. Extensive testing of payments across the ministries was carried out and of the sample of 1030 payments valued at \$668,742,000, 173 payment vouchers worth \$202,459,000 were not located. This is 17% of the Payment Vouchers sampled and 30% of the value of the sample.

As a result, I was unable to verify the completeness and accuracy of the payments.

#### ***Bank reconciliations not performed or not completed***

OAG performed a review of the system generated printouts titled SIG Bank Reconciliation Report contained in the financial statements working paper file and observed that several key bank accounts do not reconcile and many bank accounts have large values of unadjusted differences dating back as far as the beginning of 2011. The unadjusted differences total hundreds of millions of dollars. In addition, many bank accounts controlled by the ministries have not been reconciled, or there was no evidence of independent check of reconciliations performed.

***Lack of interface reconciliations in key revenue systems***

It was noted that there were no interface reconciliations in revenue systems, where the cashier prepared an excel spreadsheet and a revenue officer entered the amount into AX as journal to process the revenue transaction batch without checking the correctness of the spreadsheet or the data input to ensure accuracy in AX input.

Accordingly, I was not able to determine the accuracy of receipts and revenue in the AX ledgers.

***Lack of interface reconciliations in payroll system***

OAG noted that there was lack of interface reconciliations in the payroll system between Aurion and AX for each pay run.

As a result, I was unable to verify payroll expenditure in the general ledger.

***Financial statements not prepared in accordance with PFMA 2013 and Interim Financial Instructions 2014***

The PFMA, section 77 requires a set of Statements to be disclosed. In addition, the Interim Financial Instructions 2014 section P2. 3.1 require that the financial statements be prepared according to Cash Basis IPSAS.

Both Cash Basis IPSAS and the PFMA statements are required by Solomon Islands law. As this set of financial statements is not in accordance with the requirement to apply Cash Basis IPSAS, this set of financial statements is not in compliance with the accounting and presentation and disclosure laws of the Solomon Islands.

***Financial statements not prepared in accordance with Cash Basis IPSAS***

OAG noted that the financial statements were not prepared fully in accordance with Cash Basis IPSAS. The following were identified as needing to be addressed to improve presentation and disclosure:

- The Statement of Receipts and Payments does not include all cash received and paid and all bank balances of SIG.
- Figures in the column Payments by Third Parties are not actually paid by Third Parties but through the MOFT general ledger. These figures should be in the Controlled column. MOFT has not identified amounts that have been paid directly by donors and NGOs.
- Additional information required to be disclosed under PFMA s77 should be disclosed as Notes.
- Need to disclose donor funds received and not expended that may only be used for certain purposes. Need to disclose the amounts and the purposes.
- Need to disclose the change in format of financial statements under the new PFMA requirements.
- The title of the Consolidated Statement of Receipts and Payments incorrectly suggest that financial statements are consolidated. There is only a Note disclosure that they are not consolidated.
- Note 13 Undrawn Grant Facilities contains incorrect information. The amount of \$940,453,000 should not be disclosed because not only is it an estimate, but the

conditions for receipt of the moneys have not been fulfilled, so receipt of the moneys is not assured.

***Inadequate supporting documentation for some assets and liabilities***

OAG noted that there is inadequate supporting documentation for some assets and liabilities. I am not able to confirm the balance sheet amounts as they appear in the 2014 Financial Statements.

***Incorrect classification of debt***

OAG noted that Solomon Telekom Limited (STL) Compensation Special Fund was an actual debt as at 31 December 2014, therefore this should have been classified as Debt and not a Contingent Liability.

***Lack of financial statements for special funds***

Section 22 of the PFMA requires financial statements to be prepared for Special Funds, and that they are submitted to the Auditor General for audit. Only the Civil Aviation Special Fund financial statements have been presented to the Auditor General. However, the receipts and payments in the Civil Aviation Special Fund financial statements differ materially from the amounts disclosed in the Statement of Special Funds. Accordingly, I was not able to verify the accuracy of the balances as they appear in the Statement of Special Funds.

**Detail audit findings and recommendations**

**Main SIG bank accounts not reconciled**

**Risk assessment - Critical**

There is no evidence that the main SIG bank accounts have been systematically reconciled and checked. This is a fundamental accounting control to ensure that all cash transactions have been recorded in the ledger and that unauthorised transactions have not occurred in the bank accounts. Without this control there is no assurance that the general ledger is complete and accurate.

OAG performed a review of the system generated printouts titled SIG Bank Reconciliation Report contained in the financial statements working paper file and observed that several key bank accounts do not reconcile and many bank accounts have large values of unadjusted differences dating back as far as the beginning of 2011. The unadjusted differences total hundreds of millions of dollars. For the accounts which are unreconciled, it is not known the value of unadjusted differences. There could be hundreds of millions more in unadjusted differences still to be identified.

Accounts with unreconciled balances:

| GL Ac | Account Name  | General Ledger Balance | Unreconciled Difference |
|-------|---|------------------------|-------------------------|
| 8231  | SIG Creditors   | -47,630,975.80         | -93,977.00              |
| 8247  | Prov. Govt SP UNCDDF Deposit  | 445,323.12             | -0.90                   |
| 8248  | HSSP Development Swap – AUD (Difference partially due to AUD SBD exchange rate) | 12,100,946.54          | 11,380,633.95           |
| 8260  | CBSI - SIG Revenue Account  | 121,473,956.10         | 14,189,317.76           |
| 8290  | Sub Treasury Bank A/c Gizo  | 717,447.06             | 1,970.00                |
| 8292  | Sub Treasury Bank A/c Auki  | 275,588.02             | 637.00                  |
| 8297  | Provincial Revenue Holding Account - Gizo                                       | 9,443,701.91           | 69,880.72               |

Table 1: Accounts with Unreconciled Balances

The amount of the unreconciled difference is not significant on its own because there may be large value offsetting unadjusted debit and credit entries to be identified. Of particular concern is that the unreconciled balance accounts include the high transaction volume accounts SIG Creditors and SIG Revenue Account.

The following are the accounts with identified unadjusted differences which dated back before 2014 and as far as early 2011:

| GL Ac | Account Name                              | Bank Statement | Unmatched Debits      | Unmatched Credits     | Balance        |
|-------|---|----------------|-----------------------|-----------------------|----------------|
| 8231  | SIG Creditors                             | 18,329,745.15  | 64,761,462.50         | 130,628,206.45        | -47,536,998.80 |
| 8237  | ANZ - National Transport Fund             | 25,798,559.66  | 4,278,830.52          | 9,823,210.38          | 20,254,179.80  |
| 8238  | CBSI - National Transport Fund            | 61,510,858.94  | 0                     | 10,000,000.00         | 51,510,858.94  |
| 8241  | Payroll Bank Account                      | 3,452,180.52   | 3,262,876.12          | 9,985,203.83          | -3,270,147.19  |
| 8247  | Prov Govt SP UNCDDF Deposit               | 445,324.02     | 0                     | -0.90                 | 445,324.02     |
| 8248  | HSSP Development Swap - AUD               | 718,295.91     | 2,016.68              | 0                     | 720,312.59     |
| 8251  | Mekem Strong Solomon Islands Fisheries    | 2,734,891.87   | 4,863,952.61          | 5,038,870.23          | 2,559,974.25   |
| 8252  | SIG Funded Development Project Account    | 62,759,651.50  | 14,570.64             | 5,672,517.07          | 57,101,705.07  |
| 8254  | SI Integrated Framework for Trade         | 45,239.75      | 35,539.24             | 137,070.28            | -56,291.29     |
| 8258  | NZ Aid Budget Support                     | 32,202,092.46  | 342,759.86            | 3,351,189.84          | 29,193,662.48  |
| 8260  | CBSI - SIG Revenue Account                | 168,407,289.47 | 113,419,739.11        | 174,542,390.24        | 107,284,638.34 |
| 8261  | CBSI - SIG Debt Servicing Account         | 291,702,619.46 | 2,578,060.63          | 4,114,466.34          | 290,166,213.75 |
| 8274  | Solomon Islands Airport Service Charge    | 8,583,009.29   | 232,570.01            | 0                     | 8,815,579.30   |
| 8275  | EU SI Economic Recovery                   | 171,845,645.03 | 10,554,815.36         | 0                     | 182,400,460.39 |
| 8290  | Sub Treasury Bank A/c Gizo                | 705,322.06     | 10,655.00             | 500                   | 715,477.06     |
| 8292  | Sub Treasury Bank A/c Auki                | 267,406.02     | 7,545.00              | 0                     | 274,951.02     |
| 8294  | MFMR Observer Account                     | 266,700.81     | 533,431.00            | 57,823.28             | 742,308.53     |
| 8297  | Provincial Revenue Holding Account - Gizo | 9,351,935.70   | 21,885.49             | 0                     | 9,373,821.19   |
|       |   |                | <b>204,920,709.77</b> | <b>353,351,447.94</b> |                |

Table 2: Bank Accounts with identified / unidentified unadjusted differences

The identified and unidentified unadjusted differences mean that the general ledger is inaccurate. Hundreds of millions of dollars of transactions either have not been recorded or have been recorded incorrectly. The degree of misstatement in the financial statements is not able to be assessed until these transactions are investigated and the relevant correcting

accounting entries made. Accordingly, the Auditor General will not be able to express an opinion on the financial statements.

Several of the SIG bank accounts had no transactions for the 2014 year. These need to be investigated as to whether they are dormant. If so, the funds need to be transferred to SIG Revenue account in CBSI.

In addition, there was a lack of evidence to determine whether three foreign currency bank accounts were adjusted for the exchange rate as at 31 December 2014. The bank accounts with foreign currencies are in the table below.

| GL Ac | Account Name                          | General Ledger Balance | Unreconciled Balance |
|-------|---------------------------------------|------------------------|----------------------|
| 8248  | HSSP Development SWAP - AUD           | 12,100,946.54          | 11,380,633.95        |
| 8307  | CBSI – GAVI Funding Account - US      | 3,091,407.25           | 2,686,432.90         |
| 8245  | Civil Aviation Offshore Account - AUD | 3,072,056.26           | 2,588,821.81         |

Table 3: Bank Accounts with Foreign Currency

The Forestry Licence Performance Bond of \$24,750,000 (GL A/C 8305) should be included in the liability deposits, and disclosed as funds which are not available for use by SIG.

This magnitude of unadjusted differences also casts doubt on budgetary control. It is possible that significant budget overruns have occurred in some line items or even some Heads of Expenditure and not been identified. SIG may have been operating in budget deficit. Bank reconciliations and prompt follow up adjustment of differences identified are essential measures for ledger, accounting and budget control.

In addition, without accurate records of cash balances and cash flows, management cannot manage SIG cash effectively. There is a risk that cash will not be available when needed, or that excess cash is being held in non-interest bearing accounts because the actual cash balances and unrepresented cheques are not known. Prompt, frequent and accurate preparation of bank reconciliations is necessary for effective and efficient cash flow management.

#### **Recommendation 1**

OAG recommends that:

- MOFT urgently commence a project to complete all bank reconciliations and process differences identified;
- MOFT seek donor assistance to catch up this essential task if need be because of the essential nature of the task to economic governance;
- MOFT ensure that bank reconciliations are kept up to date in future, with high volume bank accounts being reconciled daily; and
- The status of bank reconciliations become a management report monitoring item to ensure this task continues to be priority and is continuously monitored by senior management.

#### **Management response**

*Agree with findings. MOFT will review the recommendations and put in place processes clearing bank recs issues*

## Responsible Officer and Implementation Date

The responsible officer is AAG FMSS and the implementation date is course of 2018

## Ministry bank accounts

### Risk assessment - High

Some Ministry bank accounts have received funds from sources other than through the SIG general ledger.

| Ministry  | Account Name                             | Account Number    | Comments   |
|-----------|--|-------------------|--|
| Forestry  | Forestry Department                      | 4213357 (ANZ)     | Receives fund from external donors   |
| Forestry  | Forestry Department Project – Seed Trust | 19093280405 (BSP) | Has banked funds from sales of seeds into bank account rather than into MOFT bank account                    |
| Fisheries | SPC Account                              | 4443541 (ANZ)     | Receives fund from Forum Fisheries Agency and deposits those into its bank account rather than MOFT account. |

Table 4: Ministry Bank Accounts not accounted for through SIG General Ledger

Transactions are being conducted outside of the official systems which create the risk that SIG funds may not be used for the purposes intended, and Parliament is not able to scrutinise all transactions of the government. There is no full accountability and transparency of government transactions.

These Ministries do not maintain cash books and do not perform bank reconciliations, so it is not known how much has been received or expended through these accounts. The transactions from these funds have not been processed through the general ledger, and therefore are not included in the financial statements figures.

Other Ministries maintain bank accounts for Standing Imprests, Projects and special purposes, but also do not perform bank reconciliations. Although it is understood that these are usually for imprests and project funds that have been received from MOFT, there is a risk that funds have been received from external to SIG, similar to Fisheries and Forestry, and the transactions have not been processed through the SIG general ledger.

The “Ministry” bank accounts are not included in the SIG financial statement Cash and Cash Equivalents balance. Cash Basis IPSAS requires that all receipts, payments and cash balances of the government are included in the financial statements, not just those that are in the general ledger.

This means that Cash and Cash Equivalents, Revenue/ Receipts and Expenditure/ Payments are misstated in the SIG financial statements. The materiality of the misstatement cannot be assessed due to the lack of key controls of cash books and bank reconciliations. There is also a risk of undetected fraud and corruption due to the lack of control over the bank accounts.

The lack of control over SIG funds through Ministry bank accounts is so pervasive that there is a risk of material mis-statement of the SIG annual accounts such that the Auditor General is unable to form an opinion on the truth and fairness of the accounts. This issue has been reported for over 10 years. The Auditor General will need to express qualified or disclaimers of

opinion on the SIG financial statements until these bank accounts are brought under proper accounting control.

### **Recommendation 2**

OAG recommends that MOFT:

- Close all Ministry bank accounts other than standing imprest bank accounts and use only the main SIG expenditure system;
- Require and ensure that all standing imprest account balances are brought to nil at 31 December each year;
- Take oversight control of all Ministry bank accounts;
- Issue a directive to all banks operating in the Solomon Islands that bank accounts are not to be opened in the name of the government or a Ministry without the approval of the Permanent Secretary etc. as per PFMA;
- Require that all receipts be processed through the SIG general ledger and central bank accounts; and
- Review all bank statements and reconciliations for all bank accounts every month.

### **Management response**

*MOFT has no knowledge of the existence of some ministry bank accounts but will check on the ministries concern how and why those banks were opened. MOFT further agree to the recommendations*

### **Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation is 31 December 2017*

### **Payment supporting documentation**

#### **Risk assessment - High**

OAG conducted extensive testing of payments across 18 Ministries for the 2014 financial year. As in previous years, a significant proportion of supporting documentation could not be located for audit. Of the sample of 1,030 payments: \$668,742,000, 173 payment vouchers: \$202,459,000 could not be located. This is 17% of payment vouchers sampled and 30% of the value of the sample.

OAG cannot verify that payments were authorised, payments were for the correct amount and were correctly classified. There is a risk that the payments with missing supporting documentation were processed without any supporting documentation at the time of processing.

The lack of supporting documentation for such a significant proportion of payments means that the Auditor General is unable to form an opinion on the truth and fairness of expenditure/ payments in the SIG financial statements. There is a risk of undetected fraud or corruption. This is an issue that has been reported for over 10 years.

### **Recommendation 3**

OAG recommends that MOFT:

- Prevent payment documentation being removed from the batch and from the payment processing area – if someone needs information it should be photocopied from within the

processing area or storage area and the originals retained with the batch and within the processing/ storage area;

- Print a payment authorisation list before cheques/ EFTs are released and the authorised signatories check that all supporting documents match the payments listed and sign the listing. The listing should be retained in date order as evidence of authorisation of release of payment and evidence that payment document existed and was checked at the time payment was released.

#### **Management response**

*MOFT does not think that the missing supporting documents or PVs has any fraudulent intent but mainly a product of poor filing system and process. MOFT agrees with OAG recommendations for improvements to the filing processes*

#### **Responsible Officer and Implementation Date**

*The responsible officer is AAG Payments and Procurements and the target date for implementation is 31 December 2017.*

#### **Imprests (Advances)**

#### **Risk assessment - High**

There is a significant lack of control over imprests. The amount outstanding has been increasing significantly each year.

| <b>Year</b> | <b>Outstanding amount \$</b> |
|-------------|------------------------------|
| 2009        | 30,316,000                   |
| 2010        | 46,713,000                   |
| 2011        | 70,691,000                   |
| 2012        | 88,054,000                   |
| 2013        | 101,955,000                  |
| 2014        | 118,206,000                  |

*Table 5: Amount outstanding of Imprests*

As can be seen from the table above, the amount outstanding has increased by almost 400% over the past 5 years.

OAG understands that plans are underway to implement an automated system to track imprests. While this is expected to be easier to administer than the current Excel spreadsheet method, the key to controlling imprests is in ensuring that imprests are retired on time and with full supporting documentation. An automated system alone will not make this happen. Follow up disciplinary action is required to enforce the requirement to acquit imprests.

The amounts expended under these imprests have not been recorded under the appropriate expenditure code, so Supplies and Consumables and Capital Expenditure are understated. Some line items may have overspent the budget and not been detected because the imprest expenditure was not allocated. Also, there has been no accountability for these funds, so there is a significant risk of fraud or corruption.

As a large proportion of the balance has been outstanding a long time, there is doubt about how much of this balance will be able to be actually recovered or recorded in the proper expenditure

accounts. Also, almost all of this would have actually have been expended by 31 December 2014, and therefore is not actually a receivable, but expenditure waiting to be allocated to the correct account. The Imprests component is over 8% of Assets disclosed in the Balance Sheet and could be considered to be material.

#### **Recommendation 4**

OAG recommends that:

- Documentation supporting expenditure and reimbursement of imprests be pursued as a priority to prevent the problem worsening;
- Particular emphasis be placed on recovering imprest acquittals before year end to ensure expenditure is coded to the correct accounts and to minimise the amount outstanding as imprests;
- Imprests not be granted to officers who have existing outstanding imprests;
- The recoverability of Imprests be reviewed and consideration be given to disclosing impairment of this balance (refer IPSAS 29 para 67 and 75);
- Apply s79 (2) and s80 of PFMA if recovery is not possible; and
- That MOFT under PFMA 82 further explore and make regulations in FIs in respect of public accounts for recovery action and to recommend for write off of outstanding imprests/ advances that are more than 5 years old.

#### **Management response**

*Some of the recommendations are already being addressed with current imprest policies with regards to prompt recovery for non-retirement so is ongoing. Recovery of unrecoverable or unidentifiable outstanding imprests has been considered. MOFT agrees with recommendation and will bring a proposal to management for consideration and approval including consideration of IPSAS 29.*

#### **Responsible Officer and Implementation Date**

*The responsible officer is AAG Imprests and the target date for implementation to be reflected in 2018 financial statements.*

#### **On lent loan - SIPA**

#### **Risk assessment - High**

The On Lent Loan to SIPA has been materially misstated because the actual loan amount was less than originally agreed, and SIPA made an early lump sum repayment. Neither of these amounts had been taken into account in calculations of loan or interest amounts by SIG or SIPA. OAG understands that Debt Management Unit is aware of this.

As this is a material misstatement, it would be the subject of an audit qualification.

Also On-lent Loans are assets of SIG, but are not included in the Balance Sheet. The PFMA requires a statement of all assets and liabilities. It does not state that the statement is only to include those that are in the general ledger, or those that are not in other statements.

#### **Recommendation 5**

OAG recommends that:

- The On Lent Loan balance and interest amounts be corrected in both SIG and SIPA financial statements; and
- The On Lent Loans be included in the Balance Sheet as Non-Current Assets.

**Management response**

*MOFT is of the view the settlement amount has been agreed to in the deed of settlement after verification by both parties and is final. DMU has advised that SIG has no longer an on lent loan with after the last settlement. On lent loans has been shown as notes to the accounts as a separate statement consistent with the PFMA. Will need further discussion with OAG and DMU/MOFT.*

OAG understands that there was an overpayment by SIPA and it was disclosed in their records therefore SIG and SIPA have to sort this out.

**On lent loan is materially misstated**

**Risk Rating: High**

OAG noted that the on lent loan to Solomon Islands Ports Authority was calculated incorrectly by SIG. OAG noted that was materially misstated.

The calculations have been provided to MOFT by OAG.

**Recommendation 6**

OAG recommends that MOFT:

- Correct that balances in the general ledger and in the Financial Statements, and monitor future calculations.

**Management response**

*No response from management on this recommendation*

**Responsible Officer and Implementation Date**

**Statement of public debt**

**Risk assessment - High**

The Statement of Public Debt includes nearly \$1 billion of debt. However, the Balance Sheet does not include these and only has a total of \$55 million liabilities. Excluding the Public Debt liabilities from the Balance Sheet materially distorts the disclosure of liabilities in that statement.

The PFMA requires a statement of all assets and liabilities. It does not state that the statement is only to include those that are in the general ledger, or those that are not in other statements.

Some of the figures in the Statement of Public Debt do not agree to the schedules provided by the Debt Management Unit. The closing balance in the financial statement is \$970,202 while the DMU record states \$859,790.94 (difference of \$110,411.06). Audit also noted that DMU did not record promissory notes worth \$107,059.00. The net mis-statement was \$3,352.06. Therefore the financial statements figures are incorrect.

**Recommendation 7**

OAG recommends that:

- Public Debt be included in the Balance Sheet;
- The Public Debt and other liability figures and disclosures be checked by Debt Management Unit within the context of the financial statement disclosures; and
- DMU and FMSI to work together to get the final figures of public debts in the financial statements.

**Management response**

*MOFT agrees to the reformat of the Balance sheet to show ALL assets and liabilities*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation to be reflected in 2017 financial statements*

**Contingent liabilities****Risk assessment - High**

The Statement of Contingent Liabilities/ Note 17 do not disclose the fact that several SOE's/ Statutory Authorities disclose Going Concern Notes stating that they rely upon continuing support from SIG for continuing in business.

The STL Compensation Special Fund is included in Contingent Liabilities. This amount is an actual debt as at 31 December 2014, not a Contingent Liability. The whole amount should be disclosed as Debt. This understated the debt figure by \$13,379,000 in 2014.

**Recommendation 8**

OAG recommends that:

- The Contingent Liabilities Note include disclosure of the details of the SOEs and Statutory Authorities which publicly claim continuing support from SIG to remain viable; and
- The Solomon Telekom debt be removed from contingent liabilities and classified as debt.

**Management response**

*MOFT agrees to the reclassification STL from Contingent to actual debt. However on the matter of assumed perpetual obligation of SIG to the survival of SOE will require management input on it*

**Responsible Officer and Implementation Date**

*The responsible officer is DMU/AAG FMSS and the target date for implementation to be reflected potentially in 2017 financial statements*

**Misclassification as grant****Risk assessment – Moderate**

Community Services Obligations and Solomon Telekom Limited Compensation payments have been misclassified as Grants. One is to equalise the non-commercial component of essential services, and the other is repayment of debt under an agreement to compensate for breach of a legal agreement. Community Services Obligations should be shown as a separate line item in the Statement of Receipts and Payments and the STL Compensation Payment should be included with debt payment.

Misclassification of the Community Service Obligations is material in nature as this is a significant government service that readers of the financial statements would want clear information about.

**Recommendation 9**

OAG recommends that:

- Classification of these items is corrected in the financial statements.

**Management response**

*MOFT agrees to the correction*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation to be reflected in 2017 financial statements*

**Misclassification of debt proceeds and repayments****Risk assessment - High**

Under Cash Basis IPSAS, all cash receipts and payments must be disclosed separately in the Statement of Receipts and Payments. The cash received from Treasury Bills issued during the year and the repayments of these Bills have been netted off within the line item Interest. OAG noted that even within the general ledger that issuance and proceeds transactions were misclassified.

These transactions were over \$13,379,000 million and the lack of separate disclosure of these receipts and payments materially mis-states the Statement of Receipts and Payments, in particular the lack of disclosure of debt proceeds.

**Recommendation 10**

OAG recommends that:

- The general ledger transaction's for treasury bill issuance and redemption be corrected; and
- The proceeds and repayments of these debts are disclosed within the Statement of Receipts and Payments.

**Management response**

*Will be discussed with management before a response is issued*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS*

**Statements not included and accountable officer financial statements****Risk assessment - High**

The Interim Financial Instructions 2014 require the SIG financial statements to include a Cash Flow Statement. This has not been included, but is not relevant for cash accounting.

PFMA s77 requires a statement of commitments outstanding and a statement of public stores and other assets. These have not been included. These statements are to be compiled from the financial statements submitted by accountable officers.

However, few accountable officers have submitted financial statements. Similarly, there is only one amount included in the Statement of Arrears of Revenue, although it is expected that there would be significant amounts in other revenue areas where there are payment arrears e.g. income tax. This is due to lack of information provided by accountable officers.

Accountable officers are not being held accountable for the resources under their control. Central government management does not have oversight of these functions to monitor, control and improve processes and use of public resources in achieving delivery of public services.

There is a lack of accountability and transparency of outstanding commitments, public stores and other assets and arrears of revenue. Parliament is not able to scrutinise these amounts and

the public is not informed. The Auditor General will not be able to form an opinion on these required disclosure items.

Beginning to collate information on assets and stores is essential to eventually being able to move towards accrual accounting.

**Recommendation 11**

OAG recommends that:

- The Permanent Secretary issue instructions for the preparation of monthly and annual financial statements by accountable officers, and that accountable officers be trained in their duties in preparing these;
- A project be established to collate information on public stores and other assets from expenditure records and donor/ development records from recent years; and
- The statements of outstanding commitments and public stores and other assets are included as notes to the financial statements.

**Management response**

*MOFT agrees with recommendation*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS/ Director SIGAS and the target date for implementation to be reflected in 2018 financial statements*

**Monthly financial reports not submitted in timely manner**

**Risk Rating: High**

The PFMA 2013 section 76 (1) requires that “Every accountable officer for a Government agency shall submit monthly financial reports to the Accountant-General as soon as practicable but no later than the end of the period specified in, by this Act”.

Of the 28 Ministry Accounts sign-offs looked at, Audit found that:

12 Ministries have submitted once only;

5 Ministries have submitted twice only;

1 Ministry has submitted five times only; and

2 Ministries have submitted six times each only.

In total 20 Ministries have participated out of 28 Ministries.

The lack of these reports increases the risk of inappropriate management decision making due to lack of information, the risk of budget over spending and reduced accountability by Accountable Officers for their actions.

**Recommendation 12**

OAG recommends that:

- MOFT put in place a robust monitoring mechanism to monitor timeliness of submission of monthly financial reports.

**Management response**

*MOFT agrees with finding will work to strengthen enforcement of this requirement*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation to be reflected in 2018 financial statements*

**Accountable officers FS not provided to Accountant General and Auditor General****Risk Rating: High**

PFMA s77 (2), Submission of annual accounts and financial reports states:

*“Every accountable officer for a Government agency shall, within a period of four months after the end of each financial year, prepare sign and transmit to the Accountant General and the Auditor General in respect of the past financial year and in respect of the heads, revenues and monies for which the accountable officer is responsible, annual financial statements according to standards set by the Minister”.*

OAG noted that MOFT is currently finalising the Financial Statements of all accountable officers to send to the Auditor General. It is noted that there is a breach of the PFMA which requires the financial statements to be submitted to the Auditor-General within four months after the end of each financial year as it is now beyond the timeline required by the Act for the ministries’ financial statements to be submitted to the Auditor-General.

These reports are also needed to provide information for some of the disclosures required in the SIG financial Statements under the PFMA. These statements could not be prepared by MOFT as these reports had not been submitted to MOFT.

The lack of these reports reduces the degree of accountability of Accountable Officers for their actions.

**Recommendation 13**

OAG recommends that:

- MOFT to monitor the timeliness of the submission of the reports and financial statements of all accountable officers to the Accountant General and the Auditor-General to ensure that they meet the timeline set by the PFMA;
- MOFT prepare policies and procedures to guide the Accountable Officers in the preparation of these reports;
- Make it compulsory for all government accountants to attend IPSAS Cash trainings; and
- Make it a requirement that IPSAS Cash Basis accounting standard be updated and provided to accountants.

**Management response**

*MOFT agrees to the findings and recommendations and work to improve compliance with the PFMA*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation to be reflected in 2018 financial statements*

## Statement of commitment by head not submitted to MOFT

**Risk Rating: High**

Audit noted that the Statement of Commitments by Head was not provided for in the 2014 FS. It was noted that a report could be produced from the AX System of what has been cancelled but these might not be accurate because they needed to be verified by the responsible Ministry to determine whether the services/products/projected were received or completed but were not paid for by year end of 2014.

MOFT was deleting outstanding Purchase Orders rather than looking at whether the goods and services were received, but were not paid as at 31 December. Deleting these does not remove the actual commitment. Rather this hides any problem there may be with over commitment, and increases the expenditure to be met from the following year's budget for goods and services received the previous year.

Commitments by Head reports produced from the Ministry of Finance AX System, may not be accurate which could be misleading for budgetary purposes.

### **Recommendation 14**

OAG recommends that;

- MOFT to put in place a robust monitoring mechanism to ensure that all submissions of Commitments by Head from responsible Ministries are verified and submitted in time to Ministry of Finance and Treasury; and
- MOFT cease the practice of deleting all Purchase Orders at year end.

### **Management response**

*PFMA does not define commitment so MOFT may have to come up with policy in this area.*

### **Responsible Officer and Implementation Date**

*DAG Technical will look into this.*

### **Controlled entities**

**Risk assessment - High**

The list of controlled entities does not include Honiara City Council and the Provincial Governments. When SIG prepares consolidated financial statements, it is understood that these entities will be consolidated as well as the SOEs, SAs and therefore would be controlled entities. This needs further investigation as to whether they are different sovereign entities and would not be consolidated. OAG understands that they are controlled entities of SIG, but will seek further advice on this subject.

### **Recommendation 15**

OAG recommends that:

- A determination be made as to whether Honiara City Council and the Provincial Governments are in fact controlled entities of SIG, and if so, that they be disclosed in the controlled entities note;

- The percentage interests held in each controlled entity are disclosed as better disclosure; and
- MOFT seek legal clearance on the issue of controlled entities in regards to HCC and the Provincial governments.

**Management response**

*MOFT will seek clarification both legal and financial*

**Responsible Officer and Implementation Date**

*DAG – Technical 2018*

**Special funds**

**Risk Assessment - High**

Financial Statements for Special Funds have not been prepared and submitted for audit as required by Section 38(1)(a)(v) and (2)(a) of the Public Finance and Audit Act, other than the Aviation Special Fund. Also the Disaster Relief Special Fund is not included in Note 10 and the Statement of Special Funds, and the receipts and payments of this Fund are not included in the SIG financial statements.

Under note 10 - Aviation Special Fund, the cash receipts disclosed was \$13,667,000 while the signed 2014 financial statement by CAASI disclosed \$8,781,268 which is a variance of \$4,885,732. In addition, cash payments from 2014 SIG financial statement disclosed \$12,408,000 and signed 2014 financial statement from CAASI showed \$7,746,319 which is a variance of \$4,661,681. This revealed that there is no proper reconciliation performed between Ministry of Finance and Treasury and Civil Aviation Authority of Solomon Islands.

One or both of the accounting records and financial statements are materially incorrect. Lack of proper reconciliation of aviation special fund increases the risk of misappropriation, fraud, misuse, conflict of interest, abuse of fund and misstatement of the financial statements.

The lack of financial statements for the Special Funds means that there is lack of transparency and accountability for these funds. Parliament will not be able to scrutinise their activity and the public will not be informed. The Auditor General will not be able to form an opinion on Note 10/ Statement of Special Funds.

**Recommendation 16**

OAG recommends that:

- Special purpose financial statements be prepared on a Cash Basis for each special fund each year and submitted to the Auditor-General for audit before the SIG financial statements are prepared and submitted;
- The SIG financial statements include all Special Funds receipts and payments and cash balance; and
- The SIG financial statements specifically disclose the receipts, payments and cash balances that relate to Special Funds as not being part of the Consolidated Fund and being allocated for special purposes in accordance with the Cash Basis IPSAS Standard.

**Management response**

*MOFT agrees to the recommendations*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation to be reflected in 2017 financial statements*

**No audited statements of special funds available****Risk Rating: High**

Section 100 of the Constitution of the Solomon Islands requires the Parliament to make provision for the establishment of special funds, which shall not form part of the Consolidated Fund. The receipts, earnings and accruals of Special Funds established under this section and the balance of such funds at the close of each financial year shall not be paid into the Consolidated Fund but shall be retained for the purpose of those funds. Section 38(1)(a)(v) and (2)(a) of the Public Finance and Audit Act requires the officers administering the special funds to prepare and submit to Auditor General the signed statement of special funds but it was noted that no signed statement of special funds were submitted and audited which is a breach of the Public Finance and Audit Act except for statement of aviation special fund.

Non-compliance with s38(1)(a)(v) and (2)(a) of the Public Finance and Audit Act and PFMA s24 and s25 increases the risk of fraud, abuse, conflict of interest, misappropriation and misstatement of the statement of special funds.

**Recommendation 17**

OAG recommends that:

- Every special funds administered by the Ministries concerned comply with s38 (1)(a)(v) and (2)(a) of the Public Finance and Audit Act;
- Comply with PFMA s24 and s25;
- Line ministries administering special funds should have better understanding of IPSAS Cash Basis Standard;
- If a Ministry is abusing the use of special funds then MOFT jointly administer the fund with the Ministry; and
- Suspected misappropriations are referred to relevant authorities for further investigation.

**Management response**

*MOFT agrees with findings of non-compliance with PFMA. However some of the Special funds operate under their own legislations and may limit MOFTs oversight of these funds*

**Responsible Officer and Implementation Date**

*AAG Technical. Not possible to set a target date*

**Inconsistency in disclosure of special funds****Risk Rating: High**

OAG discovered that Note 10 (Special Funds) to the SIG financial statements for the year ended 31 December 2014 as prepared in accordance with IPSAS Cash Basis does not disclose the cash receipts and cash payments for Disaster Relief Special Fund. This is inconsistency in the disclosure of special funds for the audited period.

Lack of proper and fully disclosure of special funds increases the risk of misappropriation, misuse, abuse, misconduct, conflict of interest and misstatement of the statement of special funds.

**Recommendation 18**

OAG recommends that:

- Disaster Relief Special Fund shall be included in Note 10 (Special Funds) for proper and consistent disclosure of all the special funds;
- MOFT to further investigate if other ministries are administering special funds without the knowledge of MOFT; and
- Request the ministry responsible to prepare financial statements for the Disaster Relief Special Fund.

**Management response**

*The Disaster Special Fund sits outside of MOFT or SIGs FMIS. Ministries have not responded positively to MOFT request for reports and information*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation is 31 December 2017*

**Presentation of two sets of financial statements****Risk assessment - High**

The recent practice of preparing two sets of financial statements – one for Cash Basis IPSAS and one for PFMA – does not actually comply with the financial reporting requirements for the Solomon Islands Government. The PFMA, s77 requires a set of Statements be disclosed. Some of these have terminology which is consistent with accrual accounting. The Interim Financial Instructions 2014 is subordinate legislation under the PFMA and therefore also has the weight of law. The Interim Financial Instructions 2014 require the financial statements to be prepared in accordance with Cash Basis IPSAS.

As both Cash Basis IPSAS and the PFMA statements are required by Solomon Islands law, if one set of financial statements complied with only one set of requirements, then the Auditor General could not certify that it was in compliance with the accounting and presentation and disclosure laws of the Solomon Islands.

Cash Basis IPSAS recognises that significant work need to go into preparing for transition to accrual financial statements, as well as the benefits of greater disclosure to accountability and transparency. The second part of the standard encourages additional disclosures by way of Notes to the financial statements.

The compulsory first part of the standard states that additional disclosures must be by way of Notes:

*The section is in IPSAS Cash Basis financial reporting standards, “1.3.5 states “When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraphs 1.3.4(a) or 1.3.4(c), such information should be disclosed in the notes to the financial statements.”*

This means until such time as SIG adopts accrual accounting standards, the Statements described in the PFMA that are not Cash Basis IPSAS need to be shown as Notes. Some of these

Statements will need to be disclosed as Notes even under accrual accounting financial statements.

**Recommendation 19**

OAG recommends that:

- The financial statements are combined into one set that complies with Cash Basis IPSAS with the additional PFMA Statements disclosed as Notes to the financial statements.

**Management response**

*MOFT agrees to combine PFMA and IPSAS statements*

**Responsible Officer and Implementation Date**

*The responsible officer is AAGFMSS / DAG Technical and the target date for implementation is 31 December 2017*

**Note 3 cash at year end and cash at bank reconciliation**

**Risk assessment - High**

Cash receipts and cash payments of some asset and liability accounts have not been taken up in the Statement of Receipts and Payments. The Statement of Receipts and Payments is incomplete because these receipts and payments should have been included in there. (Payments to acquitted imprests, moneys received as deposits, etc.) Cash Basis IPSAS requires that all receipts and payments be included in the Statement of Receipts and Payments, including those for assets, liabilities and “suspense” items, etc. Unpresented cheques are a bank reconciliation item and should be reflected in the bank account balance in the financial statements.

This reconciling item is material compared to the net Increase in Cash because, if these amounts were included in the Statement of Receipts and Payments properly, the balance of Increase in Cash would decrease by 21% to \$106,767,000.00. Also this reflects poor presentation and may confuse readers of the financial statements.

**Recommendation 20**

OAG recommends that:

- All receipts and payments are included in the Statement of Receipts and Payments, including prepayments and acquitted imprests.

**Management response**

*Recommendations noted*

**Responsible Officer and Implementation Date**

*The responsible officer is AAG FMSS and the target date for implementation to be reflected in 2017 financial statements*

**Differences between supplementary appropriation budget and AX system**

**Risk Rating: High**

OAG noted that the difference between Original and final budget were made up of supplementary appropriation budgets. OAG reconciled the figures and noted there were still differences between original and final budgets.

OAG consulted an officer from the budget unit to provide any supplementary appropriation, but no further appropriations have been provided.

The financial statements may be materially incorrect and show some items of expenditure as being within budget when they were actually over-expended.

**Recommendation 21**

OAG recommends that:

- The financial statements budget figures be supported by copies of the actual appropriations acts, and there should be a working paper which demonstrates the calculation of each figure.

**Management response**

*Budget adjustments come from budget unit so AX and budget information should be the same.*

**Responsible Officer and Implementation Date**

*The responsible officer is AAGFMSS/ Budget Unit and the target date for implementation is 31 December 2018 FS*

**Errors noted on the signed 2014 SIG accounts**

**Risk Rating: Moderate**

Audit reviewed the MOFT signed 2014 SIG Accounts Financial Statement and found a number of errors.

| # | WP Ref   | Error noted     | Page No | Auditor's Comments  |
|---|--|-----------------|---------|---|
| 1 | Note 10. Special Funds (the those) last line of the paragraph.   | Refer to WP Ref | 11      | Auditor noted (the those) in the sentence. Should it be omitted?        |
| 2 | Note 15. Original and Final Budget & comparison of final budget & actual amounts (being were) last paragraph in second last line | Refer to WP Ref | 14      | Auditor noted (being were) in the sentence. Should the word be omitted? |

Table 6: Showing Errors Noted under IPSAS Cash Basis 2014 SIG Financial Statements

| # | WP REFERENCE   | Error Noted  | Page No: | Auditor's Comments   |
|---|--|--|----------|--|
| 1 | Contents to the Financial Statements (Notes to the Financial Statements)             | 13-20  | 2        | 13-21  |
| 2 | SIG Comparative Statement of Rev & Exp For the year ended 31.Dec.2014 [Cash Inflows] | Note 3 Taxation<br>Note 4 Licenses & Fees<br>Note 9 Special Funds<br>Note 5 Other Receipts | 5        | Taxation is Note 4<br>Licenses & Fees is Note 5<br>Special Funds is Note 10<br>Note 9 is Capital Expenditure<br>Other Receipts is Note 6 |

|   |  |  |              |   |
|---|--|--|--------------|---|
| 3 | <i>SIG Balance Sheet Statement As at Year Ended 2014 [Non-Current Liabilities]</i><br><br><i>The notes disclosed on pages 13 to 20 form part of the financial statements.</i>                                      | <i>Note 16 Non-Current Liabilities</i><br><br>←Refer | 7            | <i>Should Note 16 beside Domestic Debt – CBSI Restructured Bonds</i><br><br><i>Actually noted pages 13 to 21.</i> |
| 4 | <i>Cash at Bank [Deposit Accounts (refer Note X)]</i>  | ←Refer   | 15           | <i>Audit noted refer to Note X??</i>  |
| 5 | <i>10. Special Funds [ the those] first paragraph last line</i>  | ←Refer   | 17           | <i>Audit noted “ the those” — should either word be struck out.</i>   |
| 6 | <i>14. Controlled Entities [Telecommunication Commission Solo5mon Islands]</i><br><i>15. Original and Final Budget and Comparison of Budget and Actual Amounts [ being were] second line of the last paragraph</i> | ←Refer<br><br>←Refer                                 | 19<br><br>19 | <i>Audit noted “Solo5mon” Should be “Solomon” Audit noted “being were”</i>  |

*Table 7: Showing Errors Noted under PFMA 2014 SIG Financial Statement*

Furthermore, it has been noted that the 2014 SIG ACCOUNTS FS excel spreadsheet maybe different to the actual signed copy.

The errors noted without quality control (review) can create an avenue for misleading information resulting in misinformed decision making by management.

**Recommendation 22**  
OAG recommends that:

- An electronic copy of the financial statements to be signed 2014 SIG ACCOUNTS FS be sent to OAG for FS overview assessment; and
- The mapping of the 2014 SIG ACCOUNTS FS is better documented for audit trail.

**Management response**

*Findings noted and will work to rectify them*

**Responsible Officer and Implementation Date**

*The responsible officer is AAGFMSS/ Budget Unit and the target date for implementation is 2018 FS*

**Presentation and disclosure – Cash Basis IPSAS**

**Risk assessment – High**

The following details have been identified as needing to be addressed to improve presentation and disclosure to comply with Cash Basis IPSAS:

**1.3.4 (b) – states “An entity must prepare and present general purpose financial statements which include Accounting policies and notes”.**

The Statement of Receipts and Payments does not include all cash received and paid and all bank balances of SIG. MOFT needs to identify and capture all of the Ministry bank accounts to be able to ensure compliance with this standard.

**1.3.4 (c) of IPSAS Cash Standard states, “when the entity makes publicly available its approved budget, a comparison of the budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance” furthermore 1.3.24 states that “ Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns of the face of the statement of cash receipts and payments: (a) Total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately a sub classification of the sources and uses of total payments using a classification basis appropriate to the entity’s operations”.**

The figures in the column Payments by Third Parties are not actually paid by third parties but through the MOFT general ledger. These figures should be in the Controlled column. On the other hand, MOFT has not identified amounts that have been paid directly by donors and NGO’s. It is recommended that just after the end of each financial year that MOFT ask donors and NGO’s to report details of actual amounts paid for the purposes of financial statement reporting, and that these amounts be recorded in the Third Party Payments column.

**1.3.5 of IPSAS Cash Basis Standards states “when an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraphs 1.3.4(a) Or 1.3.4(c), such information should be disclosed in the notes to the financial statements”.**

The additional information required to be disclosed under PFMA s77 should be disclosed as Notes.

**1.4.7 of IPSAS Cash Basis Standard states “An entity should disclose the following if not disclosed elsewhere in information published with the financial statements:**  
**(a) The domicile and legal form of the entity, and the jurisdiction within which it operates;**  
**(b) A description of the nature of the entity’s operations and principal activities;**  
**(c) A reference to the relevant legislation governing the entity’s operations, if any; and**  
**(d) The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any)”.**

The wording of this could be expanded and formalised. Suggest refer to example at page 1571 of the Standard.

**1.4.9 of IPSAS Cash Basis Standard states “An entity should disclose in the notes to the financial statements together with a commentary, the nature and amount of:**  
**(a) Significant cash balances that are not available for use by the entity;**  
**(b) Significant cash balances that are subject to external restrictions; and**  
**(c) Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities”.**

Need to disclose donor funds received and not expended that may only be used for certain purposes. Need to disclose the amounts and the purposes.

**1.4.13 of IPSAS Cash Basis Standard states “the presentation and classification of items in the financial statements should be retained from one period to the next unless:**

**(a) A significant change in the nature of the operations of the entity or a review of its financial statements presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or**

**(b) A change in presentation is required by a future amendment to this Standard”.**

Need to disclose the change in format of financial statements for different disclosures under new PFMA requirements.

**1.4.23(b) of IPSAS Cash Basis Standard states “Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed and repeated when it is necessary for a proper understanding of the information: (b) whether the financial statements cover the individual entity or the economic entity”.**

The Consolidated Statement of Receipts and Payments incorrectly suggests that the financial statements are consolidated. Even though there is a Note disclosure that they are not consolidated, this word should be removed from the title of this Statement.

**1.6.5 of IPSAS Cash Basis Standard states “A controlling entity, other than a controlling entity identified in paragraphs 1.6.7 and 1.6.8, should issue consolidated financial statements which consolidates all controlled entities, foreign and domestic, other than those referred to in paragraph 1.6.6**

SIG will need to work towards being able to prepare consolidated financial statements. This will require obtaining interim financial reports from controlled entities with different balance dates (all of them). These challenges are in addition to being able to identify and eliminate inter-party transactions and balances.

**1.9.8 of IPSAS Cash Basis Standard states “Subject to the requirements of paragraph 1.9.17, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:**

**(a) The original and final budget columns;**

**(b) The actual amounts on a comparable basis; and**

**(c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes”**

The presentation of budget to actual is required to “present separately for each level of legislative oversight”. The budget estimates are presented to Parliament separately as Recurrent Estimates and Development Estimates. The financial statements used to show the budget to

actual comparison separately for each of recurrent and development. This needs to be done again.

The differences between budget and actual are not adequately disclosed because of significant underspending of donor sponsored development projects. The actual to budget variances for the recurrent budget are not visible. This disclosure will be particularly important in the years when the government operates in budget deficit. This change in disclosure is considered to have a material impact on accountability and transparency, and on the value of information to the readers of the financial statements.

**1.9.8(c) of IPSAS Cash Basis Standard states ““Subject to the requirements of paragraph 1.9.17, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:**

**(c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes”**

The reasons for variances between budget and actual are not adequately described. Development expenditure was below budget due to lack of capacity to implement the projects. The revenue from donors is under budget because SIG was not able to spend the funds already received, and therefore the next tranche of funding was not payable. The significant information that is not known is the recurrent budget variances because they are hidden by the development budget variances. As stated above, these need to be disclosed in separate statements, and the reasons for variances between budget and actual disclosed separately for recurrent and development.

**1.9.33 of IPSAS Cash Basis Standards states “An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget”**

**1.9.37 of the Standard states “An entity shall disclose in the notes to the financial statements the period of the approved budget”**

**1.9.39 of the Standard states “An entity shall identify in notes to the financial statements the entities included in the approved budget”.**

Information about the basis of the budget has not been fully disclosed.

**1.10.18 of the Standard states “The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at the reporting date to fund future operations when, and only when, the amount of loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately in the reporting currency:**

**(a) Total external assistance loans; and**

**(b) Total external assistance grants”.**

***Significant terms and conditions that determines, or affect access to, the amount of the undrawn assistance should also be disclosed”.***

Note 13 Undrawn Grant Facilities contradicts itself. The first paragraph is correct. The amount of \$940,453,000 should not be disclosed at all because not only is it an estimate, but the conditions for receipt of the moneys have not been fulfilled, so receipt of the moneys is not assured. Including this amount in the Notes gives an incorrect impression that SIG is definitely going to receive nearly \$1 billion in grant assistance in the near future. This is material compared to total revenue for the year of \$3.2 billion and three times the total donor support actually received in 2014 of \$324 million.

**Recommendation 23**

OAG recommends:

- That the Heads Pensions and Gratuities and National Debt Servicing be disclosed as separate line items as they are also separate levels of legislative oversight, and National Debt Servicing is of significant importance to readers of the financial statements;
- Inland Revenue and Customs and Excise are shown as separate line items as they are on the summary page of the budget estimates, and they are two components of the line item which comprises 80% of revenue. Again, this will match to level of legislative oversight and provide accountability and transparency of information of significance to readers of the financial statements;
- All of the matters raised above are addressed in a revised version of the financial statements.

**Management response**

*Findings noted and will review statements to comply with IPSAS*

**Responsible Officer and Implementation Date**

*The responsible officer is AAGFMSS / DAG Technical and the target date for implementation is 2017 FS*

**Financial statements working papers**

**Risk assessment - High**

OAG sent out a list of supporting documentation requirements before the audit of the 2014 financial statements. However, these requirements were not prepared. OAG auditors have had to go back and forth to MOFT to request the supporting information. This has delayed the audit work as well as taken up additional time of both OAG and MOFT.

Also, many errors in the financial statements would have been detected and corrected by MOFT if these supporting documents had been prepared before the financial statements were submitted to OAG.

In future, the supporting working papers must be provided to OAG in full before OAG may commence the audit of the financial statements.

**Recommendation 24**

OAG recommends that:

- OAG and MOFT meet during preparation of the financial statements to discuss and explain the financial statement working paper requirements; and
- All supporting documents are provided to OAG with the draft financial statements for audit.

**Management response**

*Findings noted and work to improve on this area*

**Responsible Officer and Implementation Date**

*The responsible officer is AAGFMS and the target date for implementation is 2017 FS*

**Supporting documentation for balance sheet items**

**Risk assessment - High**

OAG was advised that supporting schedules did not exist for Deposits and Other Current Liabilities. The auditors were told that this was because the balances were made up of old amounts and there were no current transactions. This is not correct. The general ledger accounts in these financial statement items had transactions during 2014.

Regardless, each general ledger account for balance sheet items should be reconciled against a supporting schedule at least at the end of the financial year, every year. It would be expected that the schedules would list every individual transaction that makes up each GL balance, and include details such as:

- date received
- transaction reference
- amount
- person deposit received from/ source
- repayable due date

This is needed to support that the amounts shown represent actual assets or liabilities. There is a risk that these balances are actually mispostings, or are amounts that should have been written back to Consolidated Fund.

There was inadequate supporting documentation for other asset and liability balances. Without reconciled supporting schedules, there is the risk that the balances in these accounts may be made up of material off setting mispostings which may represent material mis-statements elsewhere in the financial statements. For this reason, the Auditor General will not be able to express an opinion on the truth and fairness of the financial statements.

**Recommendation 25**

OAG recommends that:

- The general ledger balances for all balance sheet accounts be supported by detailed schedules and that these be provided with the financial statement working papers every year; and
- That MOFT write off very old GL deposit accounts balances as required by PFMA s29. This will go a long way in cleaning up the GL.

**Management response**

*Findings and recommendations noted for future improvement*

**Responsible Officer and Implementation Date**

*The responsible officer is AAGFMSS and the target date for implementation is 2017 FS*

**Missing records of transactions list for other liabilities****Risk Rating: High**

PFMA does not have a provision on how to deal with other liabilities. However section 77(1) (a) requires the government to produce a statement of assets and liabilities. Therefore, there should be a list showing balances of other liabilities that should appear in the SIG Financial Statement 2014.

Without clear reference in the PFMA for treating other liabilities, accountable officers will practice negligence, thus result in high risk of upkeep of records for unclaimed payment, stale cheques or identified charges as shown in the GL.

Up-to-date listing or records is required so that any payment the government owes to any third party is easily tracked and settled. Otherwise the unclaimed payment is paid into the consolidated fund after 5 years (see PFMA s29).

**Recommendation 26**

OAG recommends that:

- MOFT to ensure there is an up-to-date record for any list of transactions on other liabilities

**Management response**

*Findings noted*

**Responsible Officer and Implementation Date**

*The responsible officer is AAGFMSS and the target date for implementation is 2017 FS*

**Lack of control over Aurion to AX interface****Risk Assessment - High**

OAG noted that there is no complete check of the transaction interface between Aurion and AX for each pay run. The only check that is performed is of transactions that are posted to invalid ledger codes.

The MOFT officers also advised that when adjustments were made to correct the postings to invalid account codes that there was no record kept of the corrections.

Similarly, there was no check that the payment transactions processed to the bank match the transactions in Aurion.

As reported above, the Payroll Bank Account reconciliation has not been completed for several years. There are large unmatched transactions listed in the partial reconciliation. This casts doubt on whether officers were paid their entitlements as calculated by Aurion, and whether payments processed through the bank account were valid and authorised.

This casts doubt on the classification of transactions in the AX ledger. There is no assurance that the AX ledger classification is materially correct, or that payroll bank payments were valid and

authorised. The Auditor General will not be able to express an opinion on the Statement of Receipts and Payments because of this.

**Recommendation 27**

**OAG recommends that:**

- A record be kept of all correcting entries made and a reconciliation that matches them to the adjustment required as per the Aurion – AX reports;
- A reconciliation be performed every pay run which matches the amount for each account code from AURION to the amount processed by account code in AX;
- The reports that are checked be printed and signed by the checker and kept on file as evidence of these critical controls;
- Senior management periodically check that this is being performed as part of monitoring the integrity of the accounting system and procedures; and
- Ministries to reconcile their own payroll after each pay period.

**Management response**

*Findings noted.*

**Responsible Officer and Implementation Date**

*The responsible officer is FMIS/ Chief Payroll Officer, and AAGFMSS and the target date for implementation is 2018*

**Special duty allowance and overtime**

**Risk Rating: High**

OAG noted that some officers were paid both Special Duty Allowance (SDA) and Overtime. OAG also noted that there was disagreement between some officers as to when SDA should be paid and whether it should be payable with overtime as well. There might be under or over payment of officers, and associated poor morale from misunderstanding of pay entitlements.

The implication is that paying of both allowances together leads to fraud and misuse of fund.

**Recommendation 28**

**OAG recommends that:**

- The Ministry of Finance and Treasury and Ministry of Public Service prepare booklet ( policy) that describes what benefits public officers are to be paid, and under what conditions. The different sources of legislation, regulations etc. should be referred to in one combined document. This booklet should be available online to all officers who process public officers' pay and entitlements at all Ministries and government offices; and
- MPS to come up with a clear policy to give guidance on the payment of special duty allowance and overtime as to who should be eligible.

**Management response**

*MOFT to consult MPS on the application of SDA and OT*

**Responsible Officer and Implementation Date**

*The responsible officer is HRM and the target date for implementation is 2018*

### **Lack of check of Customs revenue input**

**Risk Assessment - Moderate**

OAG noted that in the Customs and Excise Division, the Cashier prepared an Excel spreadsheet each day and an officer entered this into AX as a journal to process the revenue transaction batch. There was no check that either the Excel spreadsheet or the data input was correct. The volume of money received through Customs and Excise is substantial, and it is important that checks are performed to ensure the data entered into AX is accurate. There should be a compensating control of the reconciliation of the main bank account. However, bank reconciliations are not being performed, and would not detect errors in classification or of under banking. There is a risk of error in the general ledger.

#### **Recommendation 29**

OAG recommends that:

- There is segregation of duty where another person check the Excel spreadsheet to ensure it is accurate; and
- Another person checks that the Excel spreadsheet has been accurately entered into AX.

#### **Management response**

#### **Responsible Officer and Implementation Date**

*Ongoing*

### **Lack of supporting document in place to confirm the grant received transaction**

**Risk Rating: High**

External Grants are money that SIG receives and recognises as Revenue in the Solomon Islands National Accounts. Grants received are managed and administered by the Ministry of Finance and Treasury and is based on the agreement that both parties signed (MOFT and Donor). Grant revenue is received through transfer from Donor into CBSI Account and into SIG operational accounts in the commercial banks.

OAG noted that:

- 8/15 sample selected did not have bank statements available for confirmation
- 14/15 Agreements/MOUs relating to Grants sample selected was not available.

The lack of supporting documentation means that OAG was unable to verify these amounts and their classification.

#### **Recommendation 30**

OAG recommends that:

- The Ministry of Finance and Treasury ensure that there is proper filing of Bank Statements and a copy of Agreements for all Grants received.

#### **Management response**

*No response*

#### **Responsible Officer and Implementation Date**

## No policy for fixed assets in place

**Risk Rating: High**

PFMA, s77 (2) states “Every accountable officer for a Government agency shall, within a period of four months after the end of each financial year, prepare sign and transmit to the Accountant General and the Auditor General in respect of the past financial year and in respect of the heads, revenues and monies for which the accountable officer is responsible, annual financial statements according to standards set by the minister...

(e) A statement of Assets containing details and values of all unallocated public stores under the accountable officer's control at the end of the financial year together with the details and values of such other classes of assets under the accountable officer's control as are prescribed”

The audit noted that MOFT is currently working on the Fixed Asset Policy for the whole of SIG. Until such policy is prepared the audit recognises that the lack of Fixed Asset policy in place is an issue which will affect the proper reporting of SIG statement of public stores and other assets by head.

A lack of Fixed Assets policy in place will affect the reporting of statement of public stores and other assets by head. This may result in erroneous reporting of public stores and other assets. The lack of understanding of the value and condition of assets and stores leads to a lack of priority on maintenance and oversight.

### **Recommendation 31**

OAG recommends that:

- MOFT to finalise the Fixed Assets Policy to ensure that there is proper recording and reporting of the SIG Statement of Public Stores and other Assets and compliance to the PFMA. Monitor value and condition, and consider accrual accounting to assist monitoring and review of asset placement, use and condition; and
- MOFT to seek assistance to develop Asset Management Policy and Strategy.

### **Management response**

*Work started but stopped on Asset policy/Register. Work will resume when new staff join the team.*

### **Responsible Officer and Implementation Date**

### 3: Ministry of Agriculture and Livestock Development

#### Overview

The mission of the Ministry of Agriculture and Livestock Development (MALD) is to maximise social and economic benefits through sustainable development of the country's agriculture and livestock.

Its objective is to facilitate the opportunity for income generation, targeting individuals, families or communal groups as a means of improving quality of life. The Ministry strives to develop agriculture and livestock in the Solomon Islands in consultation and partnership with the provincial governments.

#### Financial performance

The financial performance summary of the ministry for the year is in the table below.

| 2013 actual       | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance          |
|-------------------|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>7,764,188</b>  | Revenue                         | 5,356,627         | 5,356,627         | <b>7,259,788</b>  | -1,877,050        |
| 13,018,741        | Payroll recurrent               | 15,482,550        | 15,482,550        | <b>12,830,199</b> | 2,652,351         |
| 15,264,855        | Operating expenses -recurrent   | 17,379,920        | 17,511,920        | <b>16,141,550</b> | 1,370,370         |
| 482,239           | Capital expenditure -recurrent  | 704,735           | 572,735           | <b>407,644</b>    | 165,090           |
| <b>28,765,834</b> | <b>Total recurrent budget</b>   | <b>33,567,205</b> | <b>33,567,205</b> | <b>29,379,393</b> | <b>4,187,812</b>  |
| 0                 | <b>Budget support</b>           | 0                 | 638,271           | <b>208,363</b>    | 429,908           |
| 30,751,532        | Development operating expenses  | 22,205,330        | 21,405,330        | <b>14,909,266</b> | 6,496,064         |
| 4,861,062         | Development capital expenditure | 14,837,838        | 15,637,838        | <b>13,011,860</b> | 2,625,977         |
| <b>35,612,594</b> | <b>Total development budget</b> | <b>37,043,168</b> | <b>37,043,168</b> | <b>27,921,126</b> | <b>9,122,041</b>  |
| <b>64,378,428</b> | <b>Ministry total</b>           | <b>70,610,372</b> | <b>71,248,643</b> | <b>57,508,882</b> | <b>13,739,761</b> |
|                   | Value of imprests issued        |                   |                   | <b>8,301,901</b>  |                   |
|                   | No. bank accounts operated      |                   |                   | <b>5</b>          |                   |

Table 1: MALD financial summary 2014

#### Audit objectives and scope

The principle objective of this audit engagement was to obtain reasonable assurance over the effectiveness of management's internal controls that they relied on to ensure reported information was accurate, complete, recorded within the correct period, appropriately classified and that the disclosures made reflected the transactions that have occurred. The matters covered under this engagement include:

- Imprests
- Procurement and expenditures
- Bank accounts
- Assets

The audit covered the 12 months ending 31 December 2014.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and the administration of special imprests, procurement and expenditure, bank accounts and assets. OAG noted that there were deficiencies in internal control. In 2014 financial year the ministry failed to adopt the required controls that were identified as necessary in prior years' audits.

Management is yet to implement an agreed action plan to address all of the 2013 audit recommendations; however OAG acknowledged that the ministry had implemented some of the recommendations.

### **Key findings**

The process to manage and monitor special imprest accounts, procurement and expenditure, bank accounts and assets was inadequate with little or no regard for the requirements of the Interim Financial Instructions 2014. The audit issues identified are summarised below:

#### **Breach of competitive tendering procedures**

**Risk Rating - High**

OAG noted that invoice number 229155 which was worth \$ 517,740.00 was approved by Ministerial Tender Board (MTB). The action taken by the MTB to approved payment above \$500,000.00 breached Interim Financial Instructions 2014 and the Procurement and Contract Administration Manual (PCAM) 2013.

#### **Two contractors did the same job**

**Risk Rating - High**

OAG noted that the Ministry paid two contractors for the same job for \$290,000.00.

#### **Inadequate supporting document**

**Risk Rating - High**

OAG identified two (2) payments totalling \$ 536,316.48 which were paid to contractors under the development budget had inadequate supporting documents. No progress report and certificate of completion of construction stages were attached and no report was made for variance payment.

#### **Work complete before contract was signed**

**Risk Rating - High**

OAG found that the Ministry signed a contract with Jobson Tome for brushing, tree clearing and pasture establishment on 19th of October, 2014 for an amount of \$130,000.00. However, OAG noted from information attached to the payment voucher that the work was already completed and signed off by the field supervisor on 17th April, 2014, six month before the signing of the agreement between the Ministry and the contractor.

#### **Asset register not updated**

**Risk Rating - High**

Although the Ministry did maintain an asset register, OAG was unable to identify the assets, the cost for individual items and how their disposal was administered.

## **Lack of marking of assets (Property, Plant & Equipment)**

**Risk Rating – High**

During physical verification of the ministry's assets, OAG noted that the ministry was yet to tag its fixed assets and attractive low value assets.

### **Overall recommendations**

OAG's key recommendations are that the Ministry:

- Ensure all assets belonging to the ministry are tagged to ensure proper monitoring and safeguarding;
- Comply with Section P7 9 (9.1);
- Proper monitoring done on projects;
- Progress report on projects must be given to Accounting Officer for decision making;
- Further investigation into the usage of public funds on Vangunu Oil mill construction;
- When payment is raised for contractors, the following supporting documents must be attached:
  1. Requisition form
  2. Payment Voucher
  3. Contractor Agreements
  4. Minutes of Tendering (if applicable) – MTB or CTB
  5. Progress report and must certified by independent expertise – Civil engineer (Works)
- Procurement process is done in accordance with PCAM 2013 which involves a hierarchy of tendering procedures based upon the value of the procured goods and services.
- Closer monitoring over each contract by the Ministry to ensure that performance certificates from independent and technical qualified verifiers to ensure that terms and conditions of the contract are being complied with.
- The Ministry complies with section P7 (20.2-20.6) of the Financial Instructions 2014.
- Ensure that asset register of non-current assets and inventories are maintained with a complete description and information of each asset.
- Ensure that the Ministry liaises with PSF to implement general asset management principles as required in Financial Instructions M4 2.
- Ensure asset stocktakes are performed on an annual basis to track and locate the existence and physical condition of each asset.
- Consults with MOFT and seek guidance on how to maintain an asset register, determine an appropriate asset value recognition threshold and account for each asset.
- Complies with Financial Instructions P5 96 and ensures account code control cards are reconciled to treasury information.
- Ensure control cards reconciliations are reviewed and signed by an independent officer.
- Consult with MOFT for guidance on how to perform this reconciliation if ministry staff does not understand how to do this important control.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

## Details of audit findings and recommendations

### Procurement and expenditure

#### Monthly reconciliation of account code control cards not performed (Fwd issue 2013)

**Risk Rating – High**

OAG noted that the Ministry did not perform reconciliations of the account code control cards to Treasury general ledger transactions.

Interim Financial Instructions 2014 P5 96.1 requires that “AOs must reconcile all Account Code Control Cards to Treasury Information once a month”. The commitment records maintained by the Ministry are to be reconciled with the general ledger records maintained by Ministry of Finance and Treasury. This is to ensure that funds committed to various budget lines in the Ministry are accurately coded and posted to the correct general ledger codes.

#### Implications

Lack of reconciliation between the account code control cards to Treasury general ledger information increases the risk of under or over commitment of ministry actual budget, unauthorised expenditure and impacts the ability of management to manage the ministry’s budget.

#### Recommendation 1

OAG recommends that the Ministry:

- Comply with Interim Financial Instructions P5 96 and ensure account code control card are reconciled to treasury information;
- Ensure these reconciliations are reviewed and signed by an independent officer; and
- Consult with MOFT for guidance on how to perform this reconciliation if ministry staff does not understand how to do this important control measure.

#### Management Response

*The management did not submit their written response with action plan to OAG within the timeline [extension was given] however, OAG had a meeting with the Financial Controller on the 8<sup>th</sup> August 2017 and he verbally agreed to the findings and recommendations and MAL would work on the recommendations.*

#### Breach of competitive tendering procedures

**Risk Rating – High**

OAG noted that invoice number 229155 which was worth \$517,740.00 was approved by the Ministerial Tender Board (MTB). The approval by MTB for the payment above the threshold of \$500,000.00 breached the provisions of FIs and the PCAM 2013.

FIs section P7 9 (9.1) clearly states that any purchase of more than \$ 500,000 by a Ministry from supplies or contracts must be approved by the Central Tender Board (CTB).

Penalty for such action is stated in FIs section M1 23 (23.2);

"Any Officer who fails to comply with any FIs is guilty of misconduct in office and will be disciplined, provided that any direction received to perform a duty is lawful."

### **Implication**

Lack of procedural action by the ministry will increase the risk of mismanagement and fraud on the public funds which will result in the ministry not achieving its work plan for the year.

### **Recommendation 2**

OAG recommends that the Ministry:

- Comply with Section P7 9 (9.1); and
- Refer the matter to PSF and other agencies for further action as required by FIs.

### **Management Responses**

*The management did not submit their written response with action plan to OAG within the timeline [extension was given] however, OAG had a meeting with the Financial Controller on the 8<sup>th</sup> August 2017 and he verbally agreed to the findings and recommendations and MAL would work on the recommendations.*

### **Two different contractors did the same Job**

#### **Risk Rating – High**

OAG noted that the Ministry paid two contractors for the same job for \$290,000.00. The Ministry signed a contract agreement with Pidgin Holding Company (PHC) for the construction of a mill building and installation of a mill at Vangunu Oil Palm site on 13th December 2013. On the 25<sup>th</sup> of August 2014 a letter was sent from Pidgin Holding Company claiming a variation of contract for an amount not less than \$ 200,000. This was for the cost of moving materials from Merusu to Tomba.

On the 27<sup>th</sup> of May 2014 the Ministry sign a contract with Small Holder Oil Palm (SHOP) to move the same materials from Merusu to Tomba. The value of this contract was \$90,000.

The Ministry paid both contractors for moving the same materials from Merusu to Tomba for \$290,000 (PHC \$200,000 and SHOP \$90,000).

### **Implication**

Lack of proper monitoring of projects resulted in the Ministry paying two different contractors for the same job. This could lead to the overspending of the budget and possible fraudulent activity between officials and contractors.

### **Recommendation 3**

OAG recommends that Ministry ensures:

- Proper monitoring done on projects;
- Progress report must be given to management for decision making; and
- Further investigate the usage of funds allocated to Vangunu oil mill construction.

### **Management Responses**

*The management did not submit their written response with action plan to OAG within the timeline [extension was given] however, OAG had a meeting with the Financial Controller on the*

*8<sup>th</sup> August 2017 and he verbally agreed to the findings and recommendations and MAL would work on the recommendations.*

#### **Inadequate supporting document**

**Risk Rating – High**

OAG identified two (2) payments totalling \$536,316.48 which were paid to contractors under the Development budget; inadequate supporting documents were attached to respective payment vouchers. No progress report and certificate of completion of construction stages were attached. In any contract payment, progress report showed the percentage completed by the contractors and was certified by independent expertise (Civil Engineer - Works) who physically verified for completeness, progress and existence of the work done.

Progress report and contract agreement are very important documents to attach to payment vouchers as it will help the accounting officer give informed decision on what amount is due and that have legal obligation to pay the contractor for service provided.

#### **Implication**

- With no progress report available to the accounting officer for work done by the contractors, there is high risk that the Ministry could be paying for incomplete construction project.
- Lack of certification from qualified and independent officials increases the risk of the project not completed in a given time frame and the budget improperly spent.

#### **Recommendation 4**

OAG recommends that the Ministry ensure:

When payment is raised for contractors, the following supporting documents must be attached:

- Requisition form;
- Payment Voucher;
- Valid Contractor Agreements;
- Relevant minutes of MTB or CTB; and
- Progress report and certification by independent experts.

#### **Management Responses**

*The management did not submit their written response with action plan to OAG within the time line [extension was given] however, OAG had a meeting with the Financial Controller on the 8<sup>th</sup> August 2017 and he verbally agreed to the findings and recommendations and MAL would work on the recommendations.*

#### **Work completed before contract signed**

**Risk Rating – High**

OAG noted that the Ministry signed a contract with Jobson Tome for brushing, tree clearing and pasture establishment on 19<sup>th</sup> of October, 2014 for an amount \$130,000.00. However, OAG found from information attached to the payment voucher that the work was already completed and signed off by the field supervisor on the 17<sup>th</sup> of April 2014, six month before the signing of the agreement between the Ministry and the contractor. The Ministry failed to follow the proper procurement process for awarding of contracts.

### **Implication**

Lack of transparency in the procurement process increases the risk of corruption when contractor's payment is processed without proper tendering process.

### **Recommendation 5**

OAG recommends that the Ministry ensures:

- Procurement process complies with PCAM (2013) which involves a hierarchy of tendering procedures based upon the value of the procured goods and services;
- Closer monitoring over each contract implementation; and
- Section P7 (20.2-20.6) of the Interim Financial Instructions 2014 is followed.

### **Management Responses**

*The management did not submit their written response with action plan to OAG within the timeline [extension was given] however, OAG had a meeting with the Financial Controller on the 8<sup>th</sup> August 2017 and he verbally agreed to the findings and recommendations and MAL would work on the recommendations.*

### **Assets**

#### **Asset register not up-to-date**

**Risk Rating – High**

OAG noted that the Ministry had maintained an asset register but the register was incomplete. Some of the assets listed in the register did not have complete descriptions like serial numbers; colour etc. to give complete assurance to OAG or management when checking the physical assets of the ministry.

Financial Instructions M4 4.1 and 4.2 states “registers of non-current assets with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO. Financial Instructions M4 4.2 “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.

### **Implication**

Lack of proper maintenance of asset register increases the risk of misuse and theft of ministry assets. Where no asset recognition threshold exists, the value of capital expenditure recorded on an asset register is not consistent.

### **Recommendation 6**

OAG recommends that the Ministry:

- Ensures that asset register of non-current assets and inventories are maintained with complete descriptions and information of the assets;
- To liaise with PSF to implement general asset management principles as required in Financial Instructions M4 2;
- Ensures asset stocktake is performed on an annual basis; and
- Consults MOFT and seek guidance on how to maintain an asset register, determine an appropriate asset recognition threshold and account for assets.

**Management Response**

*The management did not submit their written response with action plan to OAG within the timeline [extension was given] however, OAG had a meeting with the Financial Controller on the 8<sup>th</sup> August 2017 and he verbally agreed to the findings and recommendations and MAL would work on the recommendations.*

**Lack of tagging of assets (Property, Plant & Equipment)****Risk Rating – High**

During physical verification of the ministry assets, OAG noted that the ministry was yet to tag all its non-current assets.

Interim Financial Instructions M4 6.1 states that “*where feasible, moveable assets may be marked as being the property of SIG*”

**Implication**

Lack of proper marking of assets within the Ministry perverts proper monitoring and safeguard of assets. Management will not have complete assurance on what decision to make over when to purchase or dispose of assets.

**Recommendation 7**

OAG recommends that the Ministry:

- Ensures all assets owned by the ministry are numbered to ensure proper monitoring and safeguard of ministerial assets; and
- Ensures all numbering attached to the assets are clearly visible for verification purposes.

**Management Response**

*The management did not submit their written response with action plan to OAG within the timeline [extension was given] however, OAG had a meeting with the Financial Controller on the 8<sup>th</sup> August 2017 and he verbally agreed to the findings and recommendations and MAL would work on the recommendations.*

## 4: Ministry of Education and Human Resources Development

### Overview

The objectives of the Ministry of Education and Human Resources Development are to promote, develop and facilitate education and human resources needs of the country within the framework of government policies and priorities.

Its strategic goals are to achieve equitable access to education for all people in the Solomon Islands, to improve the quality of education in the Solomon Islands and to manage resources efficiently and effectively.

### Financial performance

The financial performance of the ministry is summarised below.

| 2013 actual        | Description                     | Original budget    | Revised budget     | 2014 actual        | Variance          |
|--------------------|---------------------------------|--------------------|--------------------|--------------------|-------------------|
| <b>119,522,158</b> | Revenue                         | 117,288,273        | 117,288,273        | 73,281,871         | 44,006,401        |
| 326,589,049        | Payroll                         | 352,526,335        | 352,526,335        | 368,017,618        | -15,491,283       |
| 339,292,247        | Operating expenses              | 341,373,837        | 341,623,837        | 327,784,200        | 13,839,637        |
| 1,426,365          | Capital expenditure             | 1,419,739          | 5,169,739          | 5,151,624          | 18,115            |
| <b>667,307,661</b> | <b>Total recurrent budget</b>   | <b>695,319,911</b> | <b>699,319,911</b> | <b>700,953,443</b> | <b>-1,633,532</b> |
| 86,439,447         | Operating expenses              | 23,413,162         | 32,181,662         | 19,465,149         | 12,716,513        |
| 8,094,564          | Capital expenditure             | 26,713,162         | 34,381,662         | 21,422,581         | 12,959,081        |
| <b>94,534,011</b>  | <b>Total budget support</b>     | <b>50,126,324</b>  | <b>66,563,324</b>  | <b>40,887,729</b>  | <b>25,675,595</b> |
| 36,638,090         | Operating expenses              | 53,438,800         | 32,412,800         | 13,020,709         | 19,392,091        |
| 49,064,234         | Capital expenditure             | 40,561,200         | 61,587,200         | 25,644,784         | 35,942,416        |
| <b>85,702,324</b>  | <b>Total development budget</b> | <b>94,000,000</b>  | <b>94,000,000</b>  | <b>38,665,493</b>  | <b>55,334,507</b> |
| <b>847,543,996</b> | <b>Ministry total</b>           | <b>839,446,235</b> | <b>859,883,235</b> | <b>780,506,665</b> | <b>79,376,570</b> |
|                    | Value of imprests issued        |                    |                    | <b>4,809,911</b>   |                   |
|                    | Value of standing imprests      |                    |                    | <b>380,316</b>     |                   |
|                    | No. bank accounts operated      |                    |                    | <b>3</b>           |                   |

Table 1: MEHRD financial summary 2014

### Audit objectives and scope

The principle objective of this audit engagement was to obtain reasonable assurance over the effectiveness of management's internal control to ensure reported information was accurate, complete, recorded within the correct period, appropriately classified and that the disclosures made reflected the transactions that have occurred. The accounting cycles covered under this engagement included:

- Revenue
- Imprests
- Procurement and Expenditures
- Bank accounts

- Assets

The audit of payroll was not included in this audit report as it was done under a separate audit for 2013 and 2014.

The audit covered the 12 months ending 31 December 2014.

### **Conclusion**

The audit of the standard auditable areas mentioned above for the Ministry of Education and Human Resources Development (MEHRD) noted shortcomings in the procedures and practices as well as deficiencies in internal controls in the management of revenue, special imprests, procurement and expenditure, bank accounts, and assets.

### **Key Findings**

The process to manage and monitor revenue, special imprest accounts, procurement, bank accounts, and assets was inadequately controlled with little or no regard for the requirements of the Financial Instructions. The audit issues identified are summarised below:

#### **Revenue**

##### **No budget for examination fees**

**Risk Rating – High**

It was identified that the Ministry did not budget for examination fees in its 2014 recurrent estimates but collected \$2,218,030.74 from clients. In addition, the Ministry did not have lists of students from the Education Authorities to determine a realistic budget for examination fees. Lack of budget figure for examination fees increases the risk of fraud, the credibility of the budget to be questioned and misstatement of the SIG financial statements.

##### **Lack of reporting of school fees to MEHRD and MOFT**

**Risk Rating – High**

OAG noted that there was lack of reporting of school fees from KG VI School and Waimapuru National Secondary School to MEHRD and MOFT. As a result, the amount shown in the AX system was less than what the schools have collected in 2014. Lack of submitting school fee records to MEHRD and MOFT increases the risk of mismanagement of funds, fraud, unreliable reporting and misstatement of the SIG financial statements.

##### **AusAID support budget of \$60M not utilized**

**Risk Rating – High**

It was revealed that the Ministry did not utilize \$60,000,000.00 from AusAID budget support in 2014 due to the fact that MEHRD still had not utilized the funds already in the bank accounts as quickly as anticipated so Australia withheld the next tranche payments. Lack of utilization of donor funding increases the risk of projects not being implemented, poor planning of school projects, poor acquittals of expenditure and deprivation of children's opportunity for better education.

## **Special imprests**

### **Failure to retire special imprest accounts on a timely manner (c/fwd 2006)**

**Risk Rating - High**

OAG noted that 18 special imprest holders with a total value of \$1,747,849.98 had their imprests retired late in 2014. This issue was raised to the Ministry since 2006 audit report regarding the breach of Financial Instructions P7 68.4. Failure to retire imprest on timely manner increases the risk of misuse of government funds and fraud.

### **Poor controls over administration of special imprests**

**Risk Rating - High**

OAG identified during the audit that the Ministry breached section P7 68.4 of the Financial Instructions where 5% of selected special imprests were signed for by other officers instead of the rightful imprest holders. The poor control over administration of special imprests increases the risk of abuse, misuse, fraud and misconduct.

## **Procurement and expenditure**

### **No supporting document sighted**

**Risk Rating – Moderate**

OAG was unable to view supporting document such as compliance form (C4) for the payment voucher of \$8,770,800.00 that was made on 19 October 2014 to SINU for SIG development grant. This has made it difficult to determine whether the payment underwent compliance check at the Ministry or not. Lack of supporting documents increases the risk of unauthorised payments, loss of public monies, conflict of interest and paying ghost suppliers.

## **Bank accounts**

### **No monthly bank reconciliation performed**

**Risk Rating - High**

It was discovered that four bank accounts the ministry operated in 2014 were never reconciled on a monthly basis as required in section P5 73.2 of the Financial Instructions. Instead OAG found bank reconciliations were performed at the end of the 2014 financial year for SI/UNICEF MEHRD Account and Education Sector Trust Fund Account. Furthermore, OAG noted that those bank reconciliations did not have the names of the preparer and reviewer with their signatures and were not dated. Non-performance of monthly bank reconciliations increases the risk of errors not detected early, unauthorised withdrawals of funds, conflict of interest, cash flow constraints, untimely reporting to management and misstatement of the financial statements.

### **Bank account not in MOFT's bank listing register**

**Risk Rating - High**

It was found that the Ministry operated a bank account with ANZ bank called Education Special Fund (Account # 4168302) which was not disclosed in the MOFT's bank listing and bank confirmation. In addition, OAG was unable to determine the signatories of the account and its purpose. This is a breach of Financial Instructions 2010 M1 27.1 where any ministry that wants to open a bank account must first obtain approval from the Permanent Secretary (PS) of the MOFT. This deficiency increases the risk of fraud, theft of public funds, money laundering, conflict of interest and balances not properly disclosed in the financial statements.

## **Assets**

### **No asset register maintained (C/fwd from 2013)**

**Risk Rating – High**

The Ministry did not maintain any fixed asset register in 2014 hence it was difficult to determine the location and the value of the assets procured even though assets were sighted during the walk through stage of the audit. Financial Instructions 2010 M4 4.1 requires each ministry to keep registers of non-current assets. Lack of an asset register increases the risk of theft, misuse, abuse, loss of public funds, budget over-run and misstatement of the financial statements.

### **Overall recommendations**

OAG's key recommendations are that the Ministry:

- Ensure that the Financial Controller involves the relevant officers when formulating the budget;
- Ensure to get the latest database of students from the Education Authorities before formulating the budget;
- Ensure that the School Bursars of KG VI School and Waimapuru NSS submit school fee reports to MEHRD and MoFT on timely basis;
- Ensure that Financial Controller regularly monitor the schools to submit their reports on time and ensure they are updated in SIG AX system;
- Ensure that the donor funding should be fully utilized as anticipated;
- Ensure that there is proper planning on where and how to fully use donor support budget in future;
- Ensure that all special imprests managed are retired on a timely basis;
- Ensure that imprest holders for the outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Financial Controller, and that if this is not forthcoming, recommend to the MOFT to take recovery action and charge interest as required under Financial Instructions P7 77.2;
- Staff be reminded of their obligations under the Financial Instructions or received further training to ensure improvements can be achieved;
- Ensure that the rightful imprest holder signs the imprest warrant form so that his/her deduction from salary is implemented when the imprest is not retired;
- Ensure to perform bank reconciliations on monthly basis;
- Ensure that the name of the preparer and reviewer, signatures and date appears in the monthly bank reconciliation statements;
- Ensure to deal with the bank account that was not list in the MOFT register;
- Immediately established a proper asset register and regularly update the register;
- Consult with MoFT and seek guidance on how to maintain an asset register, determine an appropriate asset recognition threshold and;
- Perform asset stocktake on an annual basis.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

## Detail audit findings and recommendations

### Revenue

#### No budget for examination fees

**Risk Rating – High**

It was identified during the audit that the Ministry did not budget for examination fees in its 2014 recurrent estimates but collected \$2,218,030.74. The ministry admitted that only the Financial Controller prepared the budget for the Ministry and never involved the relevant officers to provide information for budgeting purposes. Furthermore, it was noted that the Ministry did not have the list of students from the Education Authorities to enable them to formulate a realistic budget for examination fees.

#### Implications

Lack of budget figure for examination fees increases the risk of fraud, credibility of the budget to be questioned and misstatement of the SIG financial statements.

#### Recommendation 1

OAG recommends that the Ministry:

- Ensure that the Financial Controller involves all relevant officers when formulating the budget; and
- Ensure to get the latest database of students and other relevant data from the Education Authorities before formulating the budget.

#### Management Response

*Management acknowledge the issue highlighted. Past and also current practice usually focused more on the expenditure baseline provided by MoFT thus an oversight to the revenue budget lines. This recommendation is taken note of and corrective measures to the issue are taken up in the 2017 financial year.*

#### Lack of reporting of school fees to MEHRD and MOFT

**Risk Rating – High**

OAG noted that the Ministry had budgeted school fees of \$1,854,217.00 for KG VI School and \$367,612.00 for Waimapuru National Secondary School in 2014. However, OAG discovered from MoFT AX system that actual school fees collected for KG VI School was only \$3,425.00 and Waimapuru NSS collected only \$6,750.00. From the discussion with KG VI School bursar, it was revealed that most school fees were paid directly to the school by the fee payers in 2014 and the money collected were deposited into the school's bank account with ANZ. Furthermore, records provided by the school bursar showed that KG VI School collected \$1,828,186.00 in 2014 but such records were not submitted to MEHRD and MOFT to update into the AX system so that the true picture of SIG revenue was captured. This deficiency was also noted for Waimapuru NSS in 2014.

### Implications

Lack of submitting school fee records to MEHRD and MOFT increases the risk of mismanagement of funds, fraud, unreliable reporting and misstatement of the SIG financial statements.

#### Recommendation 2

OAG recommends that the Ministry:

- Ensure that the School Bursars of KG VI School and Waimapuru NSS submit school fee reports to MEHRD and MoFT on timely basis; and
- Ensure that Financial Controller regularly monitor the schools to submit their reports on time and ensure they are updated in SIG AX system.

#### Management Response

*Management acknowledge this issue and will explore the appropriate means to ensure that the recording of school fees revenues collected from KGVI and Waimapuru Schools comply with the relevant cash receipting instrument as the AX system.*

*Management would like to emphasise that the school fees were collected by the schools themselves and deposited into the school's bank account and not the SIG consolidated account (only school fees that were paid through MEHRD were receipted through the AX system and thus acquitted to MoFT for deposit into the consolidated fund account). The recording of such school fee receipts in the AX system may not be appropriate as MEHRD is not actually receiving school fee monies and therefore cannot reconcile such receipts with MoFT through the AX system.*

### AusAID budget support of \$60M not utilized

**Risk Rating – High**

During the audit, it was identified that the Ministry did not utilize \$60,000,000.00 from AusAID support budget in 2014. OAG has got feedback from DAFT that the reason why Australia did not make payments in 2014 was because the cash balances in the education accounts were high and expenditure was not matching budget on previous payments. Australia withheld tranche payments until MEHRD demonstrated that it was spending money that had rolled over from previous years.

### Implications

Lack of utilization of donor funding increases the risk of projects not being implemented, poor planning of school projects, poor acquittals of expenditure and deprivation of children's opportunity for better education.

#### Recommendation 3

OAG recommends that the Ministry:

- Ensure that the donor funding should be fully utilized as anticipated;
- Work closely with donors to address challenges encountered during the implementation of budget support; and
- Ensure that there is proper planning on where and how to fully use donor support budget in future.

#### Management Response

*Management acknowledge the issue and would like to emphasise that Donor Funds comes with strict conditions which are beyond the direct control of the Ministry. Utilisation rate depends very*

*much on the satisfaction of the donors on the conditions set thus MEHRD does not have 100% control over such funds.*

*Management are of the view that this issue supposed not to be held against the Ministry alone however to be taken from the context of donor funding conditions as a whole.*

### **Special imprests**

#### **Failure to retire imprest accounts on a timely manner (C/fwd 2006)**

**Risk Rating – High**

OAG reviewed the Ministry's master copy of imprest register as at 31 December 2014 provided by the MOFT and noted instances where imprests had been retired late in 2014. 18 imprests worth \$1.7 million issued in 2014 were retired. This audit issue has been reported to the Ministry since 2006. Financial Instructions P7 68.4 requires special imprests to be accounted for on a timely basis.

OAG was unable to obtain reasons for not retiring the imprests on time as required in Financial Instruction P7 68.4.

#### **Implications**

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of special imprests which increases the risk of government funds being misused and misappropriated.

#### **Recommendation 4**

OAG recommends that the Ministry:

- Ensures that all special imprests are retired on a timely basis;
- Ensures that imprest holders for outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Financial Controller, and that if this is not forthcoming, recommend to the MOFT to take recovery action and charge interest as required under Financial Instructions P7 77.2 and;
- Reminds staff of their obligations under the Financial Instructions and provides capacity development to ensure improvements can be achieved.

#### **Management Response**

*Management acknowledge that Special Imprest retirement is a problematic issue facing all government ministries. With determination to improve on the management of Special Imprest, the Ministry has as of 2015 introduced certain strategies to bring awareness and to remind staff of their obligations with regards to Special Imprest.*

*MEHRD has since then put in place measures to remedy the late retirement which saw to a significant improvement to the Special Imprest retirement rate by 2016.*

#### **Poor controls over administration of special imprests**

**Risk Rating – High**

Financial Instruction P7 68.4 states: *“Special Imprests must not be paid out until after the Special Imprest holder signs the form allowing a salary deduction if the Special Imprest is not accounted for and retired on a timely basis”*. However, OAG discovered that 5% (2/37) of the special

imprests selected were signed off on the imprest warrant forms by other persons rather than the rightful imprest holders.

**Implications**

The lack of controls over special imprests increases the risk of misappropriation, fraud, misconduct and misstatement of the financial statements.

**Recommendation 5**

OAG recommends that the Ministry:

- Ensure that the rightful imprest holder signs the imprest warrant form so that deduction from his/her salary is implemented when the imprest is not retired.

**Management Response**

*As commented on in 2.2.1, MEHRD as of 2015 has put in place control measures to manage and monitor Special Imprests. Although there are still areas for improvements, such control measures has resulted in a significant improvements to the management of Special Imprest within MEHRD.*

**Procurement and expenditure**

**No supporting document sighted**

**Risk Rating – Moderate**

OAG noted that one sample with the total value of \$8,770,800.00 for SIG development grant to SINU was found to be without supporting document such as C4 form which made it difficult to determine whether the payment underwent compliance check in the Ministry before it was delivered to MOFT. Normally when ministry raised the requisition and payment voucher for payment there should be supporting documents such as invoice, minute or contract agreement and compliance form attached with the requisition and payment voucher before they were sent to the MOFT. However, this particular payment lacked the supporting documents as required by Interim Financial Instructions 2014.

**Implications**

Lack of supporting documents increases the risk of unauthorised payments, loss of public monies, conflict of interest and payments to ghost suppliers.

**Recommendation 6**

OAG recommends that the Ministry:

- Ensure that supporting documents must be attached with the requisition and payment voucher before sending them to the MOFT for payment.

**Management Response**

*Management acknowledge the issue and will make effort to ensure that the recommendation is complied with for all payments.*

## Bank accounts

### No monthly bank reconciliation performed

**Risk Rating – High**

Financial Instructions P5 73.2 states “The authorised officer must prepare a bank reconciliation statement every time a bank statement is received”. Furthermore, Financial Instruction P5 74.1 states “The authorised officer operating a SIG bank account must obtain a certificate of balances from the bank monthly”. However, it was identified during the audit that no monthly bank reconciliation was performed for SI/UNICEF MEHRD Account and Education Sector Trust Fund Account except at the end of the 2014 financial year. In addition, it was found that the bank reconciliation statements did not have the names of the person who prepared them, who reviewed them, their signatures and were not dated.

It was also noted that two other bank accounts were not reconciled on a monthly basis in 2014. The bank accounts that lacked bank reconciliations were: Education Special Fund and MEHRD Rural Training Centre Grants.

### Implications

Non-performance of monthly bank reconciliations increases the risk of errors not detected early, unauthorized withdrawals of funds, cash flow constraints, untimely reporting to management and misstatement of the financial statements.

#### **Recommendation 7**

OAG recommends that the Ministry:

- Ensure to perform the bank reconciliations on a monthly basis; and
- Ensure that the name of the preparer and reviewer, signatures and date are written on the monthly bank reconciliation statements.

#### **Management Response**

*Management acknowledge an oversight to the issue. The recommendations are taken note of and will be adhered to.*

### Bank account not in MOFT bank listing register (C/fwd from 2013)

**Risk Rating – High**

OAG noted during the audit that the Ministry operated a bank account with ANZ bank called Education Special Fund (Account # 4168302) which was not disclosed in the MoFT’s bank listing register and bank confirmation. This indicated that the bank account was opened without the prior approval of the PS for MOFT as required in the Financial Instructions 2010 P5 60. In addition, OAG was not able to determine who the signatories to this account were and the purpose for this account.

### Implications

The manner in which the account was established increases the risk of fraud, money laundering, conflict of interest and the balance is not disclosed in the financial statements.

#### **Recommendation 8**

OAG recommends that the Ministry:

- Ensure to establish the purpose for the account and the signatories;

- Ensure to perform monthly bank reconciliation for this account;
- Advise MoFT to include the account into their listing; and
- Advise ANZ to close off the account and transfer the balance to any existing operational account if it is no longer required.

#### **Management Response**

*Current management is not aware of the bank account until being notified by ANZ bank via newspaper notification of inactive accounts in early 2016. Action has been taken by management in identifying the signatories and ANZ has being advised to close the Account. The account was closed in May 2016.*

#### **Assets**

##### **No asset register maintained (C/fwd from 2013)**

**Risk Rating – High**

Financial Instructions M4 4.1 states “Registers of non-current assets with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO”. However, during the audit OAG found that the Ministry did not maintain a fixed asset register for 2014. This made it difficult to determine the location and value of the assets procured by the Ministry even though assets were sighted during the walk through.

#### **Implications**

The absence of an asset register reflects the non-compliance to Financial Instructions and poor internal control. This increases the risk of theft, misuse, abuse, loss of public funds, budget over-run and misstatement of the financial statements.

#### **Recommendation 9**

OAG recommends that the Ministry:

- Immediately establish a proper asset register and regularly update the register;
- Consult with MoFT and seek guidance on how to maintain an asset register, determine an appropriate asset recognition threshold; and
- Perform asset stocktake on an annual basis to track and locate the existence and physical condition of each asset.

#### **Management Response**

*Management acknowledged the challenges faced with regards having a proper fixed asset register. With the setting up of the Asset Management Unit in the structure it is anticipated that an Asset Register be procured and MEHRD assets be recorded in the register.*

*It is worth mentioning as well that MEHRD will be a beneficiary to a Fixed Asset Register software that MoFT is planning to rollout to the various Ministries. This will greatly improve on the recording of assets.*

## 5: Ministry of Health and Medical Services

### Overview

The Ministry of Health and Medical Services (MHMS) is responsible for the coordination of health and medical services within Solomon Islands. It ensures the health sector receives adequate funding to carry out an effective and efficient health care service. The Ministry aims to strengthen and promote preventive health care, maintain and upgrade health facilities and provide necessary equipment to ensure health workers are more effective, provide proper and adequate training and improve terms and condition of services, work towards better awareness of the dynamics of population growth and its effects on development, encourage community participation and delivery and promote healthy life style, review the overseas referral policy with a view to include several other overseas hospitals and improve and maintain existing public health programs.

### Financial performance

The financial performance of the ministry is summarised below.

| 2013 actual        | Description                     | Original budget    | Revised budget     | 2014 actual        | Variance          |
|--------------------|---------------------------------|--------------------|--------------------|--------------------|-------------------|
| <b>123,407,060</b> | Revenue                         | 198,459,650        | 198,459,650        | 114,201,484        | 84,258,165        |
| 138,409,882        | Payroll                         | 158,440,248        | 158,440,248        | 156,830,231        | 1,610,017         |
| 121,116,625        | Operating expenses              | 134,439,003        | 137,670,726        | 133,852,908        | 3,817,818         |
| 1,924,426          | Capital expenditure             | 1,261,847          | 830,124            | 555,264            | 274,859           |
| <b>261,450,933</b> | <b>Total recurrent budget</b>   | <b>294,141,097</b> | <b>296,941,097</b> | <b>291,238,404</b> | <b>5,702,694</b>  |
| 119,290,022        | Operating expenses              | 157,720,827        | 174,689,069        | 131,120,637        | 43,568,433        |
| 1,924,426          | Capital expenditure             | 40,032,465         | 36,566,909         | 17,312,899         | 19,254,010        |
| <b>121,214,448</b> | <b>Total budget support</b>     | <b>197,753,293</b> | <b>211,255,979</b> | <b>148,433,536</b> | <b>62,822,443</b> |
| 6,772,192          | Operating expenses              | 14,200,000         | 14,200,000         | 96,294             | 14,103,706        |
| 4,904,415          | Capital expenditure             | 11,800,000         | 11,800,000         | 1,348,053          | 10,451,947        |
| <b>11,676,607</b>  | <b>Total development budget</b> | <b>26,000,000</b>  | <b>26,000,000</b>  | <b>1,444,347</b>   | <b>24,555,653</b> |
| <b>394,341,988</b> | <b>Ministry total</b>           | <b>517,894,390</b> | <b>534,197,076</b> | <b>441,116,286</b> | <b>93,080,790</b> |
|                    | Value of imprests issued        |                    |                    | <b>4,395,947</b>   |                   |
|                    | No. bank accounts operated      |                    |                    | <b>14</b>          |                   |

Table 1: MHMS financial summary 2014

### Audit objectives and scope

The principle objective of this audit engagement was to obtain reasonable assurance over the effectiveness of management's internal controls it relied upon to ensure reported information was accurate, complete, recorded within the correct period, appropriately classified and that the disclosures made reflected the transactions that occurred and that assets and liabilities existed. The accounting cycles covered under this engagement include:

- Imprests

- Procurement and expenditures
- Bank accounts
- Assets and stores

The audit covered the 12 months ending 31 December 2014.

### **Conclusion**

The OAG reviewed the procedures and administration of the special imprests, procurement and expenditures, bank accounts and assets. OAG noted that there were deficiencies in the internal controls of the ministry during the period audited.

Management did not implement an agreed action plan to address the 2013 audit recommendations.

### **Key findings**

The process to manage and monitor special imprests, procurement and expenditure, bank accounts and assets was weak with little or no regard for the requirements of the Financial Instructions. The Ministry's Internal Audit did play a major role in improving some parts of the internal controls within the Ministry.

The issues identified during the audit are summarised below:

### **Special imprests**

In 2014 the Ministry issued a total of 54 special imprests with a total value of \$4,395,947.31.

#### **Failure to retire special imprest accounts on a timely manner (c/fwd 2013)**

**Risk Rating – High**

OAG noted that the Ministry was not enforcing the requirements of the Financial Instructions P7 68 4 for prompt retirement of special imprests. From the 36 samples of special imprests worth \$604,703.33 selected for testing, all the 36 special imprest holders did not retire their imprests in a timely manner.

### **Procurement and expenditure**

#### **Lack of MTB Minutes being attached with payment vouchers**

**Risk Rating - High**

During the audit, OAG was unable to locate the minutes of the Ministry Tender Board (MTB) with the payment vouchers. The minutes were important procurement process documents which authorised the payment for the contracts.

### **Bank accounts**

The Ministry administered 14 bank accounts including standing imprest accounts. It was noted during testing that the internal controls over bank accounts were still weak.

### **No segregation of duties over the preparation of bank reconciliation**

**Risk Rating - High**

The Financial Instructions P5 73.5 requires the authorised officer to prepare bank reconciliation every month and it should be verified by another officer to ensure that cash exists and is reported accurately and completely. Bank reconciliation is a fundamental control for identifying any discrepancies between the bank account balance and the cash book balance. This provides a means to determine if unusual and unauthorised transactions are being made on the bank account. Bank reconciliations are required to be prepared regularly. The reviewer of the bank reconciliation should sign it to attest they are satisfied with the validity of any reconciling items, and that the reported cash balance is reconciled and cash exists.

OAG noted that there was no verification of the accuracy of the bank reconciliation performed by the Ministry. Lack of verification of bank reconciliation increases the risk of inaccuracy and oversight of likely debits or credits and may result in fraud if unchecked by management in a timely manner.

### **Monthly Bank reconciliation was not updated**

**Risk Rating - Moderate**

When reviewing the bank reconciliations for the Ministry Standing Imprest Account, OAG noted that the bank reconciliations were only performed upon the replenishment of the standing imprest account and not monthly as required by the Financial Instructions.

### **Assets**

#### **Lack of maintaining an up-dated asset register**

**Risk Rating - High**

OAG noted that the Ministry acquired fixed assets worth \$19,216,216.47 in 2014 and these were not registered in any asset register.

An asset register is an important internal control tool in an organisation that helps the management identify the assets, their purchase prices, locations and manage disposal and timing of procurement. The ministry has a lot of assets of high value which were not recorded in any register.

Financial Instructions M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price. This also includes the inventories of non-current assets. Poor maintenance of asset register increases the risk of misuse and theft of assets.

### **Overall recommendations**

Most of the issues identified also occurred in prior years. Key recommendations are outlined below:

- Implement its action plan for the 2013 audit report, which if implemented will address most of the issues raised in this report;
- Retire special imprests promptly on the due date and make recommendations for deductions from salary to the MOFT to recover monies which are unaccounted for;
- Perform monthly bank reconciliations;
- Ensure to segregate various tasks for responsible officers when performing bank reconciliations;

- Ensure that public funds are properly accounted for through following the proper procurement process;
- Ensure that asset registers for non-current assets and inventories are maintained with complete descriptions and information of the assets;
- Ensure that the Ministry liaise with PS Finance to implement general asset management principles as required by Financial Instructions M4 2; and
- Ensure asset stocktake are performed on an annual basis to track and locate the existence and physical condition of the assets.

## **Detail audit findings and recommendations**

### **Special imprests**

#### **Failure to retire imprest accounts on a timely manner**

#### **Risk Rating - High**

OAG reviewed the Ministry's master copy special imprest register for 31 December 2014 provided by the MOFT and noted that all the selected samples were not retired in 2014. Thirteen (13) imprests valued at \$185,562 issued in 2014 were retired late. Financial Instruction P7 68.4 requires special imprests to be accounted for on timely bases. This section of Financial Instructions has been breached for many years.

Financial Instruction P7 68.4 states *"Special Imprests must not be paid out until after the Special Imprest holder signs the form allowing a salary deduction if the Special Imprest is not accounted for and retired on a timely basis. If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder's salary in accordance with Chapter 1"*.

#### **Implication**

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of Special Imprests which increases the risk of public funds been misappropriated.

#### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that imprest holders for the outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Chief Accountant, and that if this is not forthcoming recommend to the MOFT to take recovery action and charge interest as stated in Financial Instructions P7 77; and
- Remind staff of their obligations under the FIs and provides training on how to manage imprests.

#### **Management Response**

*Management agrees with the recommendation and has undertaken a number of initiatives to address this recommendation:*

*A full time Accountant (Imprest) has been appointed in the MHMS Finance Unit to monitor Imprest balances, remind imprest holders of retirement due dates, and monitor all outstanding imprests and ensure efficient retirement with MOFT.*

*MOFT is now also responsible for the regular review and recovery of overdue imprest balances and commences recovery in line with established MOFT procedures.*

*Staff are reminded of responsibilities and requirements of imprest holders upon request for any new imprest.*

*Any request by imprest holders to defer or delay imprest retirement due dates, must be submitted and approved by the PS MHMS.*

## **Procurement and expenditure**

### **MTB minutes not attached with payments**

#### **Risk Rating – High**

During the audit, OAG was unable to locate the minutes of the Ministry Tender Board (MTB) with the payment vouchers. Nine (9) contract payments valued at \$1.9 million were without MTB minutes. The minutes of MTBs are important procurement process documents which authorises the payment for the contracts. The Ministerial Tender Board is responsible for the management of the tender process of the Ministry for specific goods and/or services.

#### **Implication**

The lack of MTB minutes increases the risk of fraud, misappropriation occurring and conflict of interest arising and value for money not being obtained. When contractors' payments are processed without proper tendering process and the lack of transparency in the process of tender board increases the risk of corruption.

#### **Recommendation 2**

OAG recommends that the Ministry:

- Follows the procurement process outlined in the Procurement and Contract Administration Manual (2013) which involves a hierarchy of tendering procedures based upon the value of the procured goods or services;
- Ensure that MTB decisions are properly filed and attached to payment vouchers when raising payments;
- Consult with MTB to ensure that they have up to date and reconciled record detailing approved contracts and variation.

#### **Management Response**

*Management agrees with the recommendation:*

*Management has strengthened the activities of the MHMS Procurement Unit, and has ensured that MTB Meetings are conducted formally and minutes from the meetings are recorded and filed accordingly.*

*The Procurement unit also ensures that minutes of MTB meetings or contractual documentation is attached as relevant with requisitions and purchase orders as required.*

## Bank accounts

### Lack of segregation of duties when preparing bank reconciliations

**Risk Rating - High**

OAG observed that there was no formal process in place for the preparation and reviewing of Ministry bank reconciliations for the Ministry accounts during 2014. Financial Instruction P5 73.5 requires that bank reconciliations be prepared by an officer other than an officer responsible for issuing of cheques or making deposits into the account. There was also no independent review being carried out over the reconciliation.

Financial Instruction P5 73.5 states that *“wherever possible, the bank reconciliation must not be done by an officer responsible for issuing cheques or the officer responsible for preparing deposits into the account”*.

### Implications

Lack of verification of bank reconciliations could result in inaccurate calculation and omission of likely debits or credits. It also increases the risk of misappropriation of public funds.

### Recommendation 3

OAG recommends that the Ministry:

- Ensure that monthly bank reconciliations are verified as required by Financial Instruction P5 73.5;
- Ensure to consider and clear the outstanding reconciliation items be continued as matter of priority; and
- Seek guidance and training from MoFT on how to prepare bank reconciliations.

### Management Response

*Management agrees with the recommendation:*

*Since 2015 the Undersecretary (Administration & Finance) who is not involved in the compilation of bank reconciliations and who does not handle bank deposits has taken on the responsibility to review and has been reviewing bank reconciliations for the Provincial Health Services and the HQ/Administration.*

*Management will continue to seek to improve reconciliation processes for bank accounts managed by the Ministry.*

### Monthly bank reconciliation is not updated

**Risk Rating-moderate**

When reviewing the bank reconciliations for the Ministry Standing imprest Account, OAG noted that the bank reconciliations were only performed upon the replenishment of the standing imprest account and not monthly as required by the Financial Instructions. Over the audit period reconciling items were not investigated in a prompt manner.

## Implication

Bank reconciliation is one of the most important controls an organisation can have. Without bank reconciliation, there is less assurance over the accuracy of reported revenues and expenditures as well as the bank balance itself. Its effectiveness depends upon the timely production of the report.

### Recommendation 4

OAG recommends that the Ministry:

- Produces bank reconciliation reports on a monthly basis within a week after the end of the month and signed off by a supervisor; and
- Maintains a register of general ledger reconciliations to monitor the regular preparation and review of these reconciliations.

## Management Response

*Management agrees with the recommendation:*

*The reconciliations of bank accounts and standing imprests have been improved as from 2015 after the appointment of an accountant responsible for monitoring imprests and this will be reflected starting with the 2015 Audit Report but for now the MHMS will need to focus on timely compilation and submissions. Since these bank accounts are funded by their respective Development Partners, work in this area will involve getting the Development Partners to come on board the MHMS' plan, budget and system.*

*In the case of the provincial health services, bank reconciliations are normally submitted with other financial reports on a quarterly basis to the MHMS' HQ/Admin. Although provinces are required, and have compiled, their bank reconciliations on a monthly basis.*

## Assets

### Asset register not up-to-date

#### Risk Rating – High

An asset register is an important internal control tool in an organisation that helps the management identify the assets, their acquisition costs, locations and custodians. It enables management to manage timing of disposals and timing of procurements of assets. The ministry has a lot of assets of high value which were not recorded in any register.

OAG noted that the Ministry did not maintain an asset register. It would be difficult for the Ministry staff to monitor and control each asset, equipment and inventory that the Ministry purchased over the years since no register was maintained.

Financial Instruction M4 4.1 and 4.2 states: *“registers of non-current with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry's AO. Financial Instruction M4 4.2 further states: “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry's AO”.*

The total value of assets purchased by the Ministry during 2014 was \$19 million. The absence of an up to date and complete asset register reflects the non-compliance to Financial Instruction Chapter 4 Section 4.1 and poor internal control within the Ministry.

#### **Implication**

The lack of asset register increases the risk of misuse of public properties for personal benefit and a risk of assets being stolen. Furthermore MOFT is unable to reconcile assets within the SIG financial statements.

#### **Recommendation 5**

OAG recommends that the Ministry:

- Ensure that asset register of non-current assets and inventories are maintained with complete description and information of the asset;
- Ensure that the Ministry liaise with PSF to implement general asset management principles as required by Financial Instruction M4 2; and
- Ensure asset stocktake are performed on an annual basis to easily track or locate the existence and physical condition of the assets.

#### **Management Response**

##### **Lack of non-current asset recognition threshold**

##### **Risk rating - Moderate**

OAG noted that MHM did not have a non-current asset recognition threshold for the capture and reporting of capital expenditure transactions as non-current assets.

#### **Implication**

In the absence of an asset recognition threshold there is an increased risk that immaterial items which are capital in nature will be capitalized and reported. This will overstate the value of assets recorded within the financial statements and may mislead readers of the financial statements. Such low value assets will ordinarily be consumed or depreciated to zero value within one financial year and it is convention to expense these in the year of consumption.

The establishment of a lower non-current asset value threshold may result in the over-cluttering of the register which can result in inefficiencies and higher administration costs. A higher non-current asset value threshold may result in a material understatement of assets in the financial statements and be misleading to readers of the financial report.

#### **Recommendation 6**

OAG recommends that the Ministry:

- Develop a policy which details the non-current asset value recognition threshold. Such considerations include undertaking a cost / benefit analysis to ensure the asset register captures data which is relevant, reliable and accurate and used for decision making purposes. It is recommended that a threshold be agreed upon which ensures the material asset items are captured in the asset register and smaller items can be reported in a portable and attractive items register.
- Consult with the Ministry of Finance and Treasury to ensure an appropriate non-

current asset recognition threshold is established and is consistent with MOFT requirements. That way, one consistent standardised threshold can be adopted for all government Ministries and will assist with the consolidation of the annual SIG financial statements.

**Management Response**

*The financial regulation that needs to be attached to the PFM Act 2013 is not yet available according to the Ministry of Finance & Treasury but the MHMS, nonetheless, is committed to ensuring that it fully complies with the requirements of the PFM Act 2013 and, in particular, recognizing the definition provided in the Act including the IMF classification system through the Government Finance Statistics (GFS) as its guideline and basis of threshold. The outstanding work in this area is for the MHMS to officially formalise this into a written policy although there is general recognition of this threshold by senior MHMS management.*

## 6: Ministry of Infrastructure Development

### Overview

The Ministry of Infrastructure Development's objective is to provide, regulate and maintain services that support an integrated, efficient, safe and affordable transport system to enable all Solomon Islanders to participate and benefit in economic and social activities that sustain equality, unity and prosperity for the nation.

### Financial performance

The financial performance of the ministry is summarized below.

| 2013 actual        | Description                     | Original budget    | Revised budget     | 2014 actual        | Variance           |
|--------------------|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| <b>103,160,271</b> | Revenue                         | 11,783,740         | 11,783,740         | 127,482,919        | -115,699,179       |
| 7,183,929          | Payroll                         | 8,614,996          | 8,614,996          | 7,672,114          | 942,882            |
| 41,242,731         | Operating expenses              | 41,273,072         | 43,274,548         | 41,895,995         | 1,378,553          |
| 10,917,153         | Capital expenditure             | 13,109,256         | 11,107,780         | 11,053,395         | 54,385             |
| <b>59,343,814</b>  | <b>Total recurrent budget</b>   | <b>62,997,324</b>  | <b>62,997,324</b>  | <b>60,621,504</b>  | <b>2,375,820</b>   |
| 0                  | Operating expenses              | 0                  | 0                  | 0                  | 0                  |
| 0                  | Capital expenditure             | 0                  | 0                  | 0                  | 0                  |
| <b>0</b>           | <b>Total budget support</b>     | <b>0</b>           | <b>0</b>           | <b>0</b>           | <b>0</b>           |
| 12,284,963         | Operating expenses              | 16,660,124         | 16,660,124         | 9,650,253          | 7,009,871          |
| 126,254,047        | Capital expenditure             | 67,339,876         | 98,339,876         | 186,897,945        | -88,558,069        |
| <b>138,539,010</b> | <b>Total development budget</b> | <b>84,000,000</b>  | <b>115,000,000</b> | <b>196,548,198</b> | <b>-81,548,198</b> |
| <b>197,882,823</b> | <b>Ministry total</b>           | <b>146,997,324</b> | <b>177,997,324</b> | <b>257,169,703</b> | <b>-79,172,379</b> |
|                    | Value of imprests issued        |                    |                    | <b>386,988</b>     |                    |
|                    | No. bank accounts operated      |                    |                    | <b>15</b>          |                    |

Table 1: MID financial summary 2014

### Audit objectives and scope

The primary objective of this audit is to obtain sufficient and appropriate evidence in order to express an opinion over the Ministry's financial disclosures reported within SIG National accounts. A second important audit objective is to test the operating effectiveness of the management's internal control environment to access the completeness and accuracy of reported transaction and balances, the existence of asset and liabilities and the probity and propriety of major tenders and contracts. The accounting cycles covered under this engagement include:

- Imprests
- Procurement and expenditure
- Bank accounts
- Assets
- Revenue

The payroll audit was not covered in this report but it was undertaken under a separate audit for 2013 and 2014 which the result will be reported in a subsequent report on the SIG payroll as a whole.

The financial period audited was from January to December 2014.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of the special imprests, bank accounts, assets, revenue, procurement and expenditures and noted that serious shortcomings in the procedures and practices as mentioned in past audit reports still occurred. OAG noted that deficiencies in internal controls over standard auditable areas continued in 2014.

OAG is very concerned that some of the issues raised in this report were carried forward from past years and the ministry must seriously address them. Management has still not implemented an agreed audit action plan to address the previous audit recommendations.

### **Key findings**

#### **Revenue**

##### **Lack of maintaining revenue database for plants and vehicles inspection fees**

**Risk Rating: High**

OAG requested the global revenue data base for all plants and vehicles but was informed that the ministry did not have it. Audit was informed that the ministry rely on MoFT, Inland Revenue Division (IRD) for the database of all vehicles and plants in the country. The unavailability of plants and vehicles database at the ministry could result in revenue foregone. Ministry may not know the number of vehicles and plants in the country to determine the expected revenue collection in the year.

#### **Bank account**

##### **Bank reconciliations not signed off by preparer and reviewer (c/fwd 2013)**

**Risk Rating: Moderate**

OAG noted that the Ministry did perform bank reconciliations for its two standing imprest accounts in 2014 but the bank reconciliations were not signed off by the preparer and reviewer. The lack of signing off by the preparer and reviewer increases the risk of errors not detected early, manipulation of figures and inaccurate reporting.

##### **Bank reconciliations not performed in monthly bases**

**Risk Rating: Moderate**

OAG noted that the Ministry has not been performing bank reconciliation in a monthly basis for the three bank accounts operated as required by the Financial Instruction P5 73.2. Bank reconciliations were only performed upon the replenishment of the accounts. Non-performance

of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds.

### **Special imprest**

#### **Failure to retire special imprests in a timely manner (c/f wd 2006)**

**Risk Rating: Moderate**

The Ministry continued to not retire imprests or not retired imprests on a timely manner which was a breach of Interim Financial Instructions 2014 P7 72.3 (a), (b) & (c). Furthermore, the Ministry did not charge interest on the outstanding imprests as required by Financial Instructions P7 77.1. The lack of compliance increases the risk of misuse and loss of government funds and misstatement of the financial statements.

### **Assets**

#### **Asset register not updated (c/fwd 2007)**

**Risk Rating: High**

The Ministry has an asset register but did not update it regularly as required under Financial Instructions M4 4.3. This audit issue was noted since 2007 which need the full attention of the Ministry to address it seriously. This non-compliance of Financial Instruction increases the risk of abuse, misuse, loss and theft of SIG assets.

### **Procurement and expenditure**

#### **Delay of project payments cost Government a \$16 million interest claim**

**Risk Rating: High**

OAG noted during procurement testing that interest charges have been claim due to the continuing non-payments of the certified interim delay claim. Audit noted that lack of commitment by the Government to pay Downer NZ limited on time as per schedule of delay claims cost the Government \$16 million interest payment which was a waste of public fund.

#### **Value for money on projects**

**Risk Rating: High**

OAG noted that Ministry had total expenditure of \$ 160,830,160.85 from its recurrent, development and special funds. From the expenditure, more than 65% of the payments were contract related transactions. OAG noted that there were complaints from public that some projects awarded to contractors were not fully implemented as anticipated and there was lack of value for money being obtained on those projects due to unqualified and unregistered contractors. This deficiency increases the risk of poor quality of infrastructures, engagement of unqualified and unregistered contractors, conflict of interest, and abuse of power and loss of public funds.

### **Inconsistency in vehicle hiring charges (c/fwd. 2013)**

**Risk Rating: High**

OAG noted during procurement testing that there was inconsistency in vehicle hiring charges from individuals and businesses ranging from \$550 to \$750 per day. In addition, the budget in 2014 for hire of plant and vehicle was \$5,936,488.00 but the actual was \$8,482,999.75.00 which was an overspent of \$2,546,511.75.00, an increase of 73% compared to the previous year. These deficiencies increase the risk of fraud, conflict of interest, overstated claims from unregistered individuals and businesses, budget over-run, loss of public funds and misstatement of the financial statements.

### **Lack of proper policy on hiring of vehicle cost the government \$ 417,500**

**Risk Rating: Moderate**

OAG noted during procurement testing that one of the vehicles which was hire by government and used by a Permanent Secretary was damaged. The book value for the vehicle was \$ 125,000 but the damage payment was \$ 417,000 which was too excessive. Lack of proper vehicle hiring policy to cover damages cost the government an additional \$292,000.

### **Withholding tax not deducted (c/fwd 2013)**

**Risk Rating: Moderate**

OAG noted that withholding tax was not deducted from 13 payments in the selected sample as required by law. In addition, OAG was not able to sight any exemption letter or certificate attached with the payment vouchers from the contractors. Lack of deduction of withholding tax increases the risk of conflict of interest, budget not achieved and loss of revenue for SIG.

### **Companies and businesses engaged were not listed in the Company Haus database**

**Risk Rating: Moderate**

OAG noted during procurement testing that 15 payments in its selected samples for 2014 were for companies and businesses that were not registered with the Company Haus within the Ministry of Commerce, Industry and Employment. As a result, those companies and businesses could be paying no appropriate taxes to SIG. The manner in which SIG was doing business with those unregistered companies and businesses increased the risk of loss of revenue, fraud, conflict of interest, false claims and misstatement of the financial statements.

### **Payment raised using photocopy documents**

**Risk Rating: Moderate**

OAG noted during procurement testing that 1 payment was raised by the ministry using photocopy documents. Audit was concern as there was no note attached stating the reasons why the ministry used photocopy documents and not the original to raise the payment. This could expose the ministry to fraud and misappropriation of funds.

### **Overall recommendations**

Key recommendations for the Ministry are outlined below:

- Ensure Ministry maintains a database for all plants and vehicles in the country;
- Ensure Ministry collects inspection fees from all plants and vehicles owners;

- Ensure that the fixed asset register is updated properly and regularly;
- Ensure National projects are properly monitored;
- Ensure MTB and CTB uphold value for money when selecting the winning bidder for contracts;
- Establish a vehicle hiring policy that states the proper rates for the type of vehicles hired;
- Ensure that hiring of vehicles by ministries should only be allowed if there is a need of it for official use;
- Ensure if the company or business awarded with a contract is not genuine and registered with Company Haus then they should be terminated or dropped;
- Ensure MTB and CTB in the tender processes make sure that that companies and are registered with Company Haus and;
- Ensure Ministry use original documents when raising of payment vouchers.

OAG has a number of other important recommendations and it is imperative that these are considered and implemented by management.

#### **Detail audit findings and recommendations**

##### **Revenue**

##### **Lack of maintaining revenue database for plants and vehicles for inspection fees**

**Risk Rating: High**

OAG requested the ministry revenue data base for plants and vehicles for inspection but was informed that they did not have it. Audit was informed that the ministry rely on MOFT (IRD) section for the data base of all vehicles and plants in the country. The unavailability of plants and vehicles database at the ministry could result in revenue foregone. Ministry may not know the number of vehicles and plants in the capital as well as the provinces to project the actual collection for the year.

##### **Implications**

The unavailability of revenue data base for all plants and vehicles increases the risk that the actual revenue for the year may not be fully collected.

##### **Recommendation 1**

OAG recommends that the Ministry:

- Maintain a database for all plants and vehicle register in the country; and
- Collects inspection fees for all plants and vehicles.

##### **Management response**

*No management response*

### **Bank accounts**

OAG reviewed the master listing from Ministry of Finance & Treasury and noted that the Ministry had 15 bank accounts operating in 2014 where 9 accounts were with ANZ and 6 accounts were with the BSP.

OAG examined the two standing imprests operated by the Ministry and noted the deficiencies stated below.

### **Bank reconciliations not signed off by preparer and reviewer (c/fwd 2013)**

#### **Risk Rating - Moderate**

OAG examined the two standing imprests operated by the Ministry in 2014 and noted that bank reconciliations were performed during the replenishments but they were not signed off and dated by the preparer and reviewer to indicate that proper checking was done as required under the Financial Instructions 2014 P5 73 (5).

### **Implications**

The lack of signing off by the reviewer increases the risk of errors not detected early, manipulation of figures and inaccurate reporting.

### **Recommendation 2**

OAG recommends that the Ministry:

- Ensure that the reviewing of bank reconciliations are done, signed and dated by the preparer and reviewer; and
- Ensure segregation of duties in the performance of bank reconciliations.

### **Management Response**

### **Bank reconciliation not performed on monthly basis**

#### **Risk Rating - Moderate**

OAG noted that the Ministry did not perform bank reconciliation on a monthly basis for the two bank accounts operated as required by the Financial Instructions P5 73.2. Bank reconciliation was only performed upon the replenishment of the account. Financial Instructions P5 73.2 states that; *“The authorised officer shall prepare a bank reconciliation statement every time a bank statement is received”*.

### **Implications**

Non-performance of monthly bank reconciliations could result in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds.

### **Recommendation 3**

OAG recommends that the Ministry:

- Ensure that monthly bank reconciliations are performed; and
- Ensure that bank statements are received regularly.

## Management Response

No responses

### Special imprests

The Ministry in the twelve months of 2014 expended a total of \$386,987.96 of its recurrent expenditure on special imprests. OAG reviewed the procedures and administration of the special imprests and noted that these issues keep on recurring since 2006.

#### Failure to retire special imprest in a timely manner (c/fwd 2006)

##### Risk Rating - High

OAG reviewed the Ministry's special imprest register master copy provided by the Ministry of Finance & Treasury and noted that twenty nine (29) imprest holders were either had not retired their imprest or the imprests were retired late. The value of the imprests was \$261,034. This audit issue was raised to the Ministry since 2006. Financial Instructions P7 68.4 states that; "....., *If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder's salary in accordance with Chapter 1*".

### Implications

The non-enforcement of the requirements of the Financial Instructions for prompt retirement of imprests increases the risk of misuse and loss of public funds and misstatement of the financial statements.

#### Recommendation 4

OAG recommends that the Ministry:

- Ensure that all special imprests are retired within the required retirement period; and
- Ensure that imprest holders with outstanding imprest be advised in writing that he or she is required to immediately provide all supporting receipts and documentation to the Financial Controller, and that if this is not forthcoming recommend to the Ministry of Finance and Treasury to take recovery action and charge interest as required under Financial Instructions P7 72.3 (c) and P7 77.1.

## Management Response

No management response

### Assets

#### Asset register not properly updated (C/fwd from 2007)

##### Risk Rating - High

OAG noted that the Ministry did not maintain an up to date asset register. It would be difficult for the Ministry to monitor and control each asset, equipment and inventory that the Ministry purchased over the years. The absence of an up to date and complete asset register reflects poor internal control within the ministry.

Financial Instructions M4 4.1 and 4.2 states that; “registers of non-current with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO”. Financial Instructions M4 4.2 states “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.

It was further noted that the ministry did not have a policy for an asset recognition threshold.

### **Implications**

Lack of up to date register increases the risk of misuse of public properties and theft of ministry assets. Public funds intended for capital expenditures might have been misappropriated and no assurance could be obtained in relation to the existence, condition, value or location of the asset. When there is no asset value threshold, the value of assets recorded on an asset register would be inconsistent.

#### **Recommendation 5**

OAG recommends that the Ministry:

- Ensure that asset register of non-current assets and inventories are maintained with complete description and information of the asset;
- Ensure that the Ministry liaise with PSF to implement general asset management principles which is required in Financial Instructions M4 2;
- Ensure asset stocktakes are performed annually; and
- Ensure to consult with MOFT for guidance on how to maintain an asset register and determine an appropriate asset recognition threshold.

#### **Management Response**

*No management response*

### **Procurement and expenditure**

#### **Delay of project payments cost the Government \$16 million interest claim**

##### **Risk Rating: High**

OAG noted during procurement testing that interest charges were claimed by Downer NZ Ltd due to continued non-payments of the certified claims on due dates. OAG noted that lack of commitment by the Government to pay Downer NZ limited on time as per schedule of agreement (certificate of completion) costed the Government \$16 million interest payment which was a waste of public fund. OAG also noted that for every month that the government did not pay on time, the company charge an additional 100% interest rate to the principle amount to be paid which should be avoided if government committed to its national project and budget.

### **Implications**

Delaying of payments dues increases the risk that government may incur additional cost which is not budgeted for initially which is a waste of public funds.

### **Recommendation 6**

OAG recommends that the Ministry:

- Ensure the ministry properly monitor the national projects and;
- Ensure contractors' dues are paid on time to avoid extra charges.

### **Management Response**

#### **Value for money on projects**

#### **Risk Rating: High**

The Ministry's total expenditure for 2014 was \$221,585,801.28 for its recurrent, development and special funds. More than 65% of the payments were contract related transactions. OAG noted that there were complaints from the public that some projects awarded to contractors were not fully implemented as anticipated and there was lack of value for money on those projects due to unqualified and unregistered contractors.

Ministry should be engaging qualified and registered contractors who should be able to complete the projects within the timeframe agreed in the signed contracts and Solomon Islands Government should be emphasising value for money on the projects implemented in the country. With the objective of value for money, the Ministry should be able to build infrastructures such as wharves, roads, bridges, airports and buildings that can last for long time and contribute significant to the economy of the country.

### **Implications**

Failure to have objective of money for value on the projects increases the risk of poor quality of infrastructures, engagement of unqualified and unregistered contractors, conflict of interest, fraud, abuse of power and loss of public funds.

### **Recommendation 7**

OAG recommends that the Ministry:

- Ensure that MTB and CTB uphold value for money when selecting the winning bidders for contracts; and
- Ensure that the Ministry's officers check and certify the progress of the project prior to release of progress payments.

### **Management Response**

*No management response*

### **Inconsistency in vehicle hiring charges (c/fwd. 2013)**

**Risk Rating: High**

OAG noted during procurement testing that there was inconsistency in vehicle hiring charges from individuals and businesses ranging from \$550 to \$750 per day. OAG noted that the 2014 budget for hire of plant and vehicle was \$5,936,488.00 however, the actual was \$8,482,999.75.00 which was an overspent of \$2,546,511.75.00 due to the inconsistent vehicle hiring charges. The management of vehicle hiring required improvement.

#### **Implications**

Lack of proper and consistent hiring rates increases the risk of fraud, conflict of interest, overstated claims from unregistered individuals and businesses, budget over-run and loss of public funds.

#### **Recommendation 8**

OAG recommends that the Ministry:

- Establish a vehicle hiring policy that states the proper rates for the type of vehicles hired;
- Ensure to engage genuine and registered individuals and businesses; and
- Ensure that hiring of vehicles by ministries should only be allowed if there is a need of it for official use.

#### **Management Response**

### **Lack of proper policy on hiring of vehicle cost the government \$417,500**

**Risk Rating: High**

Audit noted that one of the vehicles hired by the government and used by a PS was involved in an accident and was damaged (beyond repair). The book value for the vehicle was \$ 125,000 at the time but lack of settling the case between the owner and the Ministry ended the case in court. The owner won the case which result in the Ministry paying him the amount of \$ 417,000 which was too excessive and waste of public funds. If there was a proper vehicle hiring policy that governed this type of case, then government might have avoided paying such an excessive amount.

#### **Implications**

Lack of proper vehicle hiring policy that covers accidents and damages increases the risk that people may take advantage of loopholes in the current vehicle hiring agreement.

#### **Recommendation 9**

OAG recommends that the Ministry:

- Ensure to establish a vehicle hiring policy that clearly spells out the procedures including provisions relating to accidents and damages to vehicles.

#### **Management Response**

*No management response*

### **Withholding tax not deducted (c/fwd. 2013)**

**Risk Rating: High**

OAG noted that withholding tax was not deducted from 13 payments in the selected samples as required by law. The value of the payments was \$2.5 million. In addition, OAG was not able to sight any exemption letter or certificate attached with the payment vouchers for the contractors. There were no notes stating the reason of why the businesses listed below were exempted from withholding tax deductions.

#### **Implications**

Lack of deduction of withholding tax increases the risk of conflict of interest, and loss of revenue to SIG.

#### **Recommendation 10**

OAG recommends that the Ministry:

- To ensure that appropriate withholding tax rates are applied to individual or companies; and
- To make sure that sufficient documentation such as tax exemption certificate or approval is attached with the payment voucher.

#### **Management Response**

*No management response*

### **Companies/businesses engaged are not listed in the Company Haus data (c/fwd. 2013)**

**Risk Rating: High**

It was noted that 13 payments of the selected sample were companies and businesses not registered with the Company Haus within the Ministry of Commerce, Industry and Employment. As a result, those companies and businesses won't be paying appropriate taxes to SIG. Listed below were the businesses that were not registered in the Company Haus database.

#### **Implication**

The manner of doing business with unregistered businesses increases the risk of loss of revenue, fraud, conflict of interest and false claims being paid.

#### **Recommendation 11**

OAG recommends that the Ministry:

- Ensure that MTB and CTB in the tender processes make sure that companies and businesses are registered with Company Haus before awarding contracts; and
- Ensure that if a business is currently doing business with the ministry and is not registered then this is regularised immediately.

#### **Management Response**

*No management response*

### **Payment raised using photocopy documents**

**Risk Rating: Moderate**

OAG noted that 1 payment worth \$426,915.95 was raised by the ministry using photo copy documents. OAG was concern as there was no note attached stating the reason why the ministry used the photocopy documents to raise the payment.

### **Implications**

Using photocopy documents to raise payments exposes the ministry to fraud practises.

### **Recommendation 12**

OAG recommends that the Ministry:

- Use original documents to raise payments; and
- Attach notes to support payments with photocopy documents.

### **Management Response**

*No management response*

## 7: National Parliament Office

### Overview

The National Parliament (NP) is the Legislative arm of the National Government and comes under the ministerial portfolio of the Prime Minister's Office. The main responsibility of the National Parliament Office is to ensure that the affairs of the parliamentarians and the entire legislature are efficiently administered. The vision of NP is: *"To be a modern Parliament that fulfils its constitutional duties and effectively serves the people of Solomon Islands"*.

The National Parliament is organised into the following divisions:

- Parliament Headquarters and Administration;
- Office of the Leader of the Opposition; and
- Independent Office.

The Office of the Auditor General (OAG) conducted an audit on the National Parliament to ensure that it complied with financial regulations and transparently accounts for all its expenses.

**Table 1** summarises the actual financial position of National Parliament as at 31 December 2014.

| 2013 actual       | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance          |
|-------------------|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| 0                 | Revenue                         | 0                 | 0                 | 0                 | 0                 |
| 24,321,093        | Payroll                         | 54,051,338        | 54,051,338        | 38,258,481        | 15,792,858        |
| 36,751,191        | Operating expenses              | 35,159,837        | 37,950,324        | 33,371,527        | 4,578,797         |
| 282,460           | Capital expenditure             | 204,112           | 290,760           | 236,511           | 54,249            |
| <b>61,354,745</b> | <b>Total recurrent budget</b>   | <b>89,415,287</b> | <b>92,292,422</b> | <b>71,866,518</b> | <b>20,425,904</b> |
| 0                 | Operating expenses              | 0                 | 0                 | 0                 | 0                 |
| 0                 | Capital expenditure             | 0                 | 0                 | 0                 | 0                 |
| <b>0</b>          | <b>Total budget support</b>     | <b>0</b>          | <b>0</b>          | <b>0</b>          | <b>0</b>          |
| 0                 | Operating expenses              | 1,200,000         | 1,200,000         | 642,279           | 557,721           |
| 2,931,000         | Capital expenditure             | 3,450,000         | 2,432,770         | 1,328,642         | 1,104,128         |
| <b>2,931,000</b>  | <b>Total development budget</b> | <b>4,650,000</b>  | <b>3,632,770</b>  | <b>1,970,922</b>  | <b>1,661,848</b>  |
| <b>64,285,745</b> | <b>Ministry total</b>           | <b>94,065,287</b> | <b>95,925,192</b> | <b>73,837,440</b> | <b>22,087,752</b> |
|                   |                                 |                   |                   |                   |                   |
|                   | Value of imprests issued        |                   |                   | <b>1,287,639</b>  |                   |
|                   | No. bank accounts operated      |                   |                   | <b>3</b>          |                   |

Table 1: NP financial summary 2014

### Audit objectives and scope

The objective of this audit was to perform sufficient audit work to determine the accuracy, existence and completeness of recording transactions of the following standard auditable areas:

- Special Imprest
- Procurement and Expenditure
- Cash
- Assets.

The payroll audit was not covered in this report due to the unavailability of Aurion payroll data. Payroll will be audited separately and the results will be reported in a subsequent report within the SIG payroll as a whole.

The audit period covered the financial year ending 31 December 2014.

### **Key findings**

The OAG reviewed the procedures and administration of special imprests, bank accounts, assets, procurement and expenditure. OAG noted that there were still deficiencies in the internal controls. A summary of the audit issues are summarised below:

#### **Assets**

##### **Incomplete fixed asset register**

An asset register is an important internal control tool in an organisation that helps the management identify the assets, their purchase price, location and help manage disposal and timing of procurement. The National Parliament Office has assets of high value which were not recorded in any asset register

Financial Instruction M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price including inventories of other assets. Poor maintenance of asset register increases the risk of misuse and theft of assets.

#### **Bank accounts**

##### **Lack of bank reconciliation**

The Financial Instructions P5 73.5 requires the authorised officer to prepare bank reconciliation every month and it to be verified by another officer to ensure that cash exists and is reported accurately and completely. Bank reconciliation is a fundamental control for identifying any discrepancies between the bank account balance and the cash book balance. This provides a means to determine if unusual and unauthorised transactions are being made on the bank account. Bank reconciliations are required to be prepared regularly. The reviewer of the bank reconciliation should sign it to attest they are satisfied with the validity of any reconciling items, and that the reported cash balance is reconciled and cash exists.

#### **Payments**

##### **Lack of Ministerial Tender Board (MTB) approvals attached with the payments.**

MTB (FI P7 19.1) is a ministerial tender board established in each ministry with a membership as set out in FI P7 20 for the purpose of managing the tender processes of Ministry specific goods

and services and it maintains all documents and records used to support Board decisions and take detailed minutes of the proceedings of all Tender meetings.

Financial Instruction P7 9 Purchasing Limit 9.1 stated that *“The Accountable Officer must comply with these purchasing (or procurement) procedures and limitations. Deliberately dividing goods and/or services into components to avoid monetary limits is misconduct (refer Chapter 1):*

It ensures that payments incurred are proper and help manage the required process of the payment.

### **Conclusion**

The audit highlighted some deficiencies in internal controls in the management of the budget implementation and has made some recommendations to strengthen controls in order to encourage accountability and transparency in the management of public finances.

### **Overall recommendations**

Key recommendations for the National Parliament Office are outlined below:

- Ensure that the National Parliament maintains and updates its asset register on a regular basis to ensure that assets acquired are accounted for;
- Ensure that the National Parliament Office liaise with PS Finance to implement a general asset management policy that will determine an appropriate asset recognition threshold as is required in Financial Instruction M4 2.
- Perform monthly bank reconciliations and ensure that they are checked for accuracy and signed off by an officer other than the officer who prepared the reconciliation.
- Ensure MTB approves payments between \$200K and \$500K

### **Audit findings and recommendations**

#### **Assets**

##### **Incomplete Asset Register as at 31 December 2014**

**Risk Rating – High**

The audit sighted the fixed assets register of NPO and reviewed the records. OAG noted that the register was incomplete. NPO acquired in 2014 assets totalling \$195,663 but these were not recorded in the asset register.

Financial Instructions M4 4.1 and 4.2 states: *“registers of non-current assets with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO. The same refers to Financial Instruction M4 4.2 for “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.*

Fixed assets represent the long-term tangible assets that the Ministry utilizes to produce and deliver its products or services and manage its operations. It is a requirement under chapter 4 sections 4.1 of Financial Instructions 2014 that NPO should maintain various details relating to all its assets that form part of its total fixed asset.

### **Implication**

The absence of an up-to-date and complete asset register reflects non-compliance with Financial Instructions Chapter 4 Section 4.1 and poor internal control within the National Parliament. The lack of proper asset register increases the risk of misuse of public properties for personal benefit and a risk of assets being stolen.

### **Recommendation 1**

OAG recommends that the National Parliament:

- Ensure that asset register of non-current assets and inventories are maintained with complete description and information of the assets;
- Liaise with PS MoFT to implement a general asset management policy as required in Financial Instruction M4.2; and
- Ensure asset stocktakes are performed on an annual basis to ensure the existence and physical conditions of the assets.

### **Management response**

*The management did not submit their written response with action plan to OAG within the time line. OAG will follow up to ensure the recommendations are implemented.*

### **Bank accounts**

#### **Lack of bank reconciliations**

#### **Risk Rating - High**

OAG noted that two bank accounts maintained by the NPO had no bank reconciliations.

The Financial Instructions Chapter 5 (73.2) requires the completion of bank reconciliations and states *“The authorised officer must prepare a bank reconciliation statement every time a bank statement is received”*.

OAG noted that the NPO performed bank reconciliations for the standing imprest, however through detail testing on bank reconciliations we noted that bank reconciliations prepared were not signed by a reviewer.

## Implications

The non-performance of bank reconciliations will lead to:

- Unidentified errors in the accounting records;
- Uncovered irregularities;
- No confidence that the bank transactions have been recorded correctly; and
- No monitoring of cash flows.

### Recommendation 2

OAG recommends that the National Parliament Office:

- Performs monthly bank reconciliations and sign off reconciliations statements; and
- A senior officer monitors and ensures that bank reconciliations are carried out and to check and sign off.

### Management response

*The management did not submit their written response with action plan to OAG within the time line. OAG will follow up to ensure the recommendations are implemented.*

### Expenditure

#### Lack of Ministerial Tender Board approval

#### Risk Rating – High

OAG noted during the testing that a total of 5 samples selected representing about 62% of the total selection from the development budget have no MTB approvals. The total of \$2 M incurred by NP in the range of more than \$200,000 to \$500,000 had no evidence of being approved by the MTB as required in the Financial Instructions

Financial Instructions P7 9 Purchasing Limit 9.1 states: *“The Accountable Officer must comply with these purchasing (or procurement) procedures and limitations. Deliberately dividing goods and/or services into components to avoid monetary limits is misconduct (refer Chapter 1):*

Purchase of more than \$200,000 up to \$500,000 requires the approval of a MTB based on a competitive tender.

### Implications

The Implication is that breaching of FIs P7 9.1:

- increases the risk of fraud, misappropriation occurring and conflict of interest arising and value for money not being obtained; and

- where contractor's payments are processed without proper tendering process and the lack of transparency in the process of tender board increases the risk of corruption.

**Recommendation 3**

OAG recommend that the National Parliament Office:

- Ensure that payments for more than \$200,000 up to \$500,000 are to be discussed and approved by the Ministerial Tender Board as required in the Financial Instructions.

Management response

*The management did not submit their written response with action plan to OAG within the timeline. OAG will follow up to ensure the recommendations are implemented.*

## 8: Ministry of Police, National Security and Correctional Services

### Overview

The Ministry of Police, National Security and Correctional Services overall objective is to contribute to a safer and secure environment through the provision of high quality policing services and human containment and the rehabilitation of prisoners.

Table 1 below summarises actual amounts for accounting cycles selected in 2014.

| 2013 actual        | Description                     | Original budget    | Revised budget     | 2014 actual        | Variance          |
|--------------------|---------------------------------|--------------------|--------------------|--------------------|-------------------|
| <b>505,280</b>     | Revenue                         | 3,759,984          | 3,759,984          | 10,625,667         | -6,865,683        |
| 72,120,114         | Payroll                         | 80,866,457         | 84,066,457         | 85,824,283         | -1,757,826        |
| 75,453,046         | Operating expenses              | 92,126,414         | 105,126,687        | 96,554,798         | 8,571,889         |
| 2,888,078          | Capital expenditure             | 6,543,091          | 7,792,617          | 7,666,863          | 125,754           |
| <b>150,461,238</b> | <b>Total recurrent budget</b>   | <b>179,535,962</b> | <b>196,985,762</b> | <b>190,045,945</b> | <b>6,939,817</b>  |
| 5,278,142          | Operating expenses              | 0                  | 10,477,647         | 2,696,536          | 7,781,111         |
| 0                  | Capital expenditure             | 3,268,999          | 15,446,282         | 5,892,330          | 9,553,952         |
| <b>5,278,142</b>   | <b>Total budget support</b>     | <b>3,268,999</b>   | <b>25,923,929</b>  | <b>8,588,866</b>   | <b>17,335,063</b> |
| 0                  | Operating expenses              | 0                  | 0                  | 0                  | 0                 |
| 8,240,740          | Capital expenditure             | 18,000,000         | 28,000,000         | 24,643,737         | 3,356,263         |
| <b>8,240,740</b>   | <b>Total development budget</b> | <b>18,000,000</b>  | <b>28,000,000</b>  | <b>24,643,737</b>  | <b>3,356,263</b>  |
| <b>163,980,119</b> | <b>Ministry total</b>           | <b>200,804,961</b> | <b>250,909,691</b> | <b>223,278,547</b> | <b>27,631,143</b> |
|                    | Value of imprests issued        |                    |                    | 7,954,031          |                   |
|                    | No. bank accounts operated      |                    |                    | 4                  |                   |

Table 1: MPNSCS financial summary 2014

### Audit objectives and scope

The objective of this audit is to determine accuracy, existence and completeness of transactions in the following accounting cycles: imprests, bank, procurement and expenditure and payroll.

The financial period audited was 12 months ended 30 December 2014.

### Conclusion

The audit of the standard auditable areas mentioned above for the Ministry of Police, National Security and Correctional Services noted previous and new issues of serious shortcomings in the procedures and practices as well as deficiencies in internal controls in the management of special imprests and bank accounts.

## **Key findings**

The process to issue, manage and monitor special imprests and bank accounts was inadequately controlled with little or no regard for the requirement of Financial Instructions and General Orders. A summary of these audit issues are summarized below.

### **Special Imprest**

#### **Failure to retire imprests on time**

OAG noted that 20 of 26 special imprests were either not been retired or the imprests were retired late in 2014 (Refer to table below). This issue breached Financial Instructions P7 68.4. The Ministry had not been systematically enforcing the requirements of this Financial Instructions.

### **Bank Account**

#### **Failure to close dormant bank account**

Two out of the four BSP bank account operated by the Ministry was dormant and there was failure to close down the bank accounts. This increases the risk of loss of SIG funds through bank fees and charges. (Refer to BSP Bank Confirmation).

### **Payroll**

Payroll audit was done under a separate audit and the result was reported in a subsequent report on the SIG payroll as a whole.

### **Procurement and Expenditure**

OAG noted one issue but this was for Ministry of Finance and Treasury to address in their audit report.

### **Overall recommendations**

Key recommendations for the Ministry are outlined below:

- Monitor use of Special Imprests to ensure prompt retirement and take necessary action required under Financial Instructions in the event of non-retirement.
- Ensure to close down the dormant bank accounts should its purpose was complete and transfer the balance to SIG consolidated account.

## Detail audit findings and recommendations

### Special imprests

#### Failure to retire imprests on time

#### Risk Rating - High

OAG reviewed the Master Imprest Register at Ministry of Finance and Treasury (MoFT) for 2014 and noted that \$1,503,945.87 of special imprests for the MPNSCS were either retired late or not retired at all during the audit. Twenty (20) imprests valued at \$343,200 were not retired.

*Financial Instruction 2014 P7 72.2* requires special imprests to be retired when the purpose for the imprest has been completed. Also, *Financial Instruction 2010 P7 77.1 to 3* requires interest to be charged on the outstanding balance if the imprest is not retired within 30 days of the due date.

#### Implication

The lack of the ministry in enforcing the requirements of the Financial Instructions for prompt retirement of imprests increases the risk of misuse of government funds.

#### Recommendation 1

OAG recommends that the Ministry:

- Properly monitor the imprests issued and due for retirement so that recovery action such as deductions from salary and interest charged is applied; and
- Advise Permanent Secretary of Finance and Treasury to charge interest on all outstanding imprests and to discourage late retirement of imprests.

#### Management Response

- *Special imprests report extracted from SIGinfo is sent out to holders and their officer in charge fortnightly.*
- *Overdue imprests are reported in the weekly and monthly finance report.*
- *Imprest guideline is included in finance and procurement trainings to ensure officers are aware of their obligations when requesting special imprests.*
- *Consult MoFT imprest section to advice on the possibility of charging interest on outstanding imprests.*

## **Bank accounts**

### **Failure to close dormant bank account**

**Risk Rating – Moderate**

OAG noted and confirmed from the bank audit certificate from BSP that the Ministry operated and maintained four bank accounts in the audited period; however two were dormant but still opened.

### **Implication**

Lack of proper monitoring of dormant bank account increases the risk of SIG losing funds through bank fees and charges.

#### **Recommendation 2**

OAG recommends that the Ministry ensure that dormant bank accounts are closed down and transfer balances to SIG consolidated account.

### **Management Response**

- *The Chief Accountant, RSIPF Finance has been directed to write a letter through Permanent Secretary requesting closure of dormant accounts.*

## 9: Ministry of Provincial Government and Institutional Strengthening

### Overview

The Ministry of Provincial Government and Institutional Strengthening is responsible for the general administration of all the nine Provincial Governments. Its main line of responsibilities involves provincial governments' development and improvement (that is provincial elections and financial accountability).

The Ministry's goal is to develop and manage a provincial government system that provides for the devolution of powers and decentralisation of functions to empower the majority of people in the provinces who are the custodians of natural resources to participate in the decision making process concerning matters which affects their lives.

The table 1 below summarises the actual amounts for the standard accounting cycles selected as at 31 December 2014.

| 2013 actual        | Description                     | Original budget    | Revised budget     | 2014 actual        | Variance         |
|--------------------|---------------------------------|--------------------|--------------------|--------------------|------------------|
| 0                  | Revenue                         | 0                  | 0                  | 871,219            | -871,219         |
| 16,237,010         | Payroll                         | 22,014,831         | 22,014,831         | 18,949,705         | 3,065,126        |
| 66,607,474         | Operating expenses              | 74,545,948         | 74,545,948         | 71,346,704         | 3,199,244        |
| 48,754             | Capital expenditure             | 310,000            | 310,000            | 153,763            | 156,237          |
| <b>82,893,237</b>  | <b>Total recurrent budget</b>   | <b>96,870,779</b>  | <b>96,870,779</b>  | <b>90,450,172</b>  | <b>6,420,607</b> |
| 0                  | Operating expenses              | 0                  | 0                  | 0                  | 0                |
| 0                  | Capital expenditure             | 0                  | 0                  | 0                  | 0                |
| <b>0</b>           | <b>Total budget support</b>     | <b>0</b>           | <b>0</b>           | <b>0</b>           | <b>0</b>         |
| 2,429,974          | Operating expenses              | 4,163,400          | 4,931,370          | 4,631,370          | 300,000          |
| 26,117,263         | Capital expenditure             | 36,836,600         | 39,068,630         | 37,999,734         | 1,068,896        |
| <b>28,547,237</b>  | <b>Total development budget</b> | <b>41,000,000</b>  | <b>44,000,000</b>  | <b>42,631,104</b>  | <b>1,368,896</b> |
| <b>111,440,474</b> | <b>Ministry total</b>           | <b>137,870,779</b> | <b>140,870,779</b> | <b>133,081,276</b> | <b>7,789,503</b> |
|                    | Value of imprests issued        |                    |                    | <b>240,712</b>     |                  |
|                    | No. bank accounts operated      |                    |                    | <b>3</b>           |                  |

Table 1: MPGIS financial summary 2014

### Audit objectives and scope

The primary objective of this audit is to obtain sufficient and appropriate evidence in order to express an opinion over the Ministry's financial disclosures reported within SIG National accounts. A second audit objective is to test the operating effectiveness of management's internal control environment to access the completeness and accuracy of reported transaction

and balances, the existence of asset and liabilities and the probity and propriety of major tenders and contracts.

Furthermore a follow up of the 2013 accounts audit report to confirm whether the Ministry has implemented the recommendations of OAG.

The following standard auditable areas were tested:

- Bank Account
- Imprest
- Procurement and expenditure
- Assets and stores

The financial period audited is January to December 2014.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of special imprests, bank accounts, assets, procurement and expenditures. OAG acknowledged the Ministry for improvement, however there were still deficiencies in its internal controls over special imprests, assets, procurement and expenditures.

Management did not implement an agreed audit action plan to address the previous recommendations on imprests and assets.

### **Key findings**

The audit issues identified are summarised below:

#### **Special imprests**

##### **Failure to retire special imprest accounts on a timely manner (c/fwd 2006)**

#### **Risk Rating - high**

From samples tested, 8 special imprest holders retired their imprest very late ranging from two to eight months. This issue was raised with the Ministry since 2006. It is a breach of Financial Instruction P7 68.4 that states; *"..... If the Special imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder's salary in accordance with Chapter 1"*.

## **Procurement and expenditure**

### **Monthly reconciliation of account code control cards not performed (c/fwd 2011)**

**Risk Rating – High**

OAG noted that the Ministry did not perform a reconciliation of Account Code Cards to Treasury Information. This increased the risk of misstatement in financial reports used for decision making over the allocation of financial resources. Financial commitments reported might be materially under or overstated.

Financial Instructions P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information.

### **Missing payment vouchers (MOFT) (Ministry Information only)**

**Risk Rating – High**

The Ministry of Finance and Treasury (MoFT) did not maintain a proper filing system for payment vouchers. OAG was not able to verify 13 payments totalling \$ 11,828,337.33 due to missing documentation. Consequently OAG was unable to determine whether due process had been followed in incurring the expenditure and whether value for money had been considered.

## **Assets**

### **Asset register not up-to-date when audited by 31 December 2014**

**Risk Rating – High**

The Ministry has not maintained an up to date asset register. OAG was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instructions M4 4.1 and 4.2 require proper maintenance of register of non-current assets at their acquisition price. This also includes the inventories of non-current assets.

## **Payroll**

The audit of Payroll cycle was not included in this audit due to the unavailability of Aurion Payroll data. Payroll audit was be undertaken under a separate audit and the results would be reported in a subsequent report on the SIG payroll as a whole.

## **Overall recommendations**

OAG's key recommendations are that the Ministry:

- Implement its action plan for the 2014 audit report, which if implemented will address most of the issues raised in this report;

- Ensure that special imprests are retired promptly on the due date and deductions from salary are recommended to the Ministry of Finance and Treasury for recovery of unaccounted for imprests.
- Remind Staff of their obligations under the FIs and provide further training to ensure improvements can be made.
- Ensure that asset register for non-current assets and inventories are maintained with complete description and information of the assets.
- Ensure that the Ministry liaise with PSF to implement general asset management principles as required in Financial Instructions M4 2.
- Ensure asset stocktake is performed on an annual basis to more easily track and locate the existence and physical condition of the assets.
- Ensure that it consults with MOFT to seek guidance on how to maintain an asset register including the determination of an appropriate asset recognition threshold.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

## **Detail audit findings and recommendations**

### **Special imprests**

#### **Failure to retire imprest accounts on a timely manner (C/fwd 2006)**

#### **Risk Rating - High**

OAG reviewed the Ministry's master copy of special imprest register provided by the Ministry of Finance and Treasury. OAG noted that 9 special imprests worth \$163,812 had either not been retired or the imprests had been retired late in 2014. This audit issue has been reported to the Ministry since 2006. Financial Instructions P7 68.4 requires special imprests to be accounted for on a timely basis. This section of Financial Instructions has been continually breached over the years.

Financial Instructions P7 68.4 states *"Special Imprests must not be paid out until after the Special Imprest holder signs the form allowing a salary deduction if the Special Imprest is not accounted for and retired on a timely basis. If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder's salary in accordance with Chapter 1"*.

#### **Implications**

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of Special Imprests which increases the risk of misuse of public funds.

### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that imprest holders for the outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Chief Accountant, and that if this is not forthcoming recommend to the Ministry of Finance and Treasury to take recovery action and charge interest as stated in Financial Instructions P7 77; and
- Staff are reminded of their obligations under the FIs and are provided with training on the provisions of FIs.

### **Management Response**

*The Ministry is now revisiting its audit action plans of 2014 on the issues of special imprest to ensure it is fully implemented. In addition, the following steps shall be taken in response to the recent audit:*

*The Chief Accountant responsible for special imprest has compiled all imprests issued from 2014 to December 2016 so as to determine the number of imprests that are not yet retired.*

*After determining the total outstanding imprest, the Ministry shall immediately coordinate with the MoFT to commence recovery.*

*The rules regarding imprest shall be applied. Officers shall be signing imprest deduction consent form before they are being issued any kind of special imprest. Deductions shall kick in as soon as the two week period elapses.*

### **Procurement and expenditure**

#### **Monthly reconciliation of account code control cards not performed (c/fwd 2011)**

**Risk Rating – High**

OAG noted that the Ministry did not perform reconciliations of the account code cards to Treasury information.

Financial Instruction P5 96.1 states that “AOs must reconcile all Account Code Control Cards to Treasury Information once a month”. That is to reconcile the commitment records maintained by the Ministry to the general ledger records maintained by Ministry of Finance and Treasury. This is to ensure that funds committed to various budget lines in the Ministry are accurately coded and are posted to the correct ledger codes.

### **Implications**

Lack of reconciliation between the Account Code Control Cards to Treasury Information increases the risk of under or over commitment of ministry actual cost against budget, non-detection of errors and fraudulent transactions. By performing this reconciliation, the effectiveness of management decision making is significantly improved.

### **Recommendation 2**

OAG recommends that the Ministry:

- Comply with Financial Instruction P5 96 and;
- Ensure these reconciliations detailing the ministry's commitments agree with the balances reported by Treasury, reviewed and signed by an independent officer.

### **Management Response**

*In addition to the implementation of audit action plans of 2014 on commitment control cards, the Ministry shall ensure the officer responsible for commitment and reconciliations between the Account Control Codes is performed so as to reduce the risks of over committing Ministry expenditure over budget. She will coordinate this with the MoFT.*

*The reconciliation reports shall be made available on a monthly basis to the Ministry Executive for internal management decision making over budgetary expenditure.*

### **Assets**

#### **Asset register not up-to-date**

**Risk Rating – High**

OAG noted that the Ministry did not maintain an asset register. The Ministry would find it difficult to monitor and control each asset, equipment and inventory that the Ministry purchased over the years. Improvements are required over the recording and accounting of assets.

Financial Instructions M4 4.1 and 4.2 states: *“registers of non-current assets with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO. Financial Instructions M4 4.2 states “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.*

It was further noted that the ministry did not have a policy for assets recognition threshold.

### **Implications**

Lack of up to date register increases the risk of misuse of public properties and theft of assets. The absence of an up to date and complete asset register reflects the non – compliance to

Financial Instructions 4.1 and poor internal control within the ministry. Public funds intended for capital expenditures may have been misappropriated and no assurance can be obtained in relation to the existence, condition, value and location of the assets. Where no asset threshold exists, the value of capital item that is recorded on an asset register is not consistent.

### **Recommendation 3**

OAG recommended that the Ministry:

- Ensure that asset register of non-current assets and inventories are maintained with complete descriptions and information of the assets;
- Ensure that the Ministry liaise with PSF to implement general asset management principles as required in Financial Instructions M4 2;
- Ensure asset stocktake is performed on an annual basis to easily track and locate the existence and physical conditions of the assets and;
- Ensure it consults with MOFT and seek guidance on how to maintain an asset register and determine an appropriate asset recognition threshold.

### **Management Response**

*In addition to revisiting the 2014 audit action plans on asset stock counts, the Ministry has:*

- *Immediately deployed two additional officers to support the Corporate Service Division to update the fixed asset register;*
- *Agreed that monthly stocktake of MPGIS assets shall be performed on monthly basis as required by M4.2 of SIG FI; and*
- *Instructed the asset officer to consult with MOFT to obtain proper asset register form and also seek guidance as advised in the report.*

## 10: Ministry of Lands Housing and Survey

### Overview

The Ministry of Lands, Housing and Survey is responsible for providing land and surveying policy directives. This includes planning and advisory services on land matters throughout the country. The services included management, planning, surveying, regulations and legislation, compilation and dissemination of information relating to land usage and development.

The table 1 below summarises the recorded actual amounts for the following standard auditable areas as at 31 December 2014.

| 2013 actual       | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance         |
|-------------------|---------------------------------|-------------------|-------------------|-------------------|------------------|
| 5,264,439         | Revenue                         | 8,481,249         | 8,481,249         | 9,732,826         | -1,251,577       |
| 4,108,443         | Payroll                         | 5,800,350         | 5,800,350         | 4,708,264         | 1,092,086        |
| 8,304,446         | Operating expenses              | 10,364,782        | 10,865,892        | 8,903,261         | 1,962,632        |
| 2,667,626         | Capital expenditure             | 7,197,795         | 6,696,685         | 3,398,713         | 3,297,972        |
| <b>15,080,515</b> | <b>Total recurrent budget</b>   | <b>23,362,927</b> | <b>23,362,927</b> | <b>17,010,238</b> | <b>6,352,690</b> |
| 0                 | Operating expenses              | 0                 | 0                 | 0                 | 0                |
| 0                 | Capital expenditure             | 0                 | 0                 | 0                 | 0                |
| <b>0</b>          | <b>Total budget support</b>     | <b>0</b>          | <b>0</b>          | <b>0</b>          | <b>0</b>         |
| 818,404           | Operating expenses              | 7,108,000         | 7,108,000         | 4,282,725         | 2,825,275        |
| 3,568,850         | Capital expenditure             | 6,892,000         | 6,892,000         | 6,322,360         | 569,640          |
| <b>4,387,254</b>  | <b>Total development budget</b> | <b>14,000,000</b> | <b>14,000,000</b> | <b>10,605,085</b> | <b>3,394,915</b> |
| <b>19,467,769</b> | <b>Ministry total</b>           | <b>37,362,927</b> | <b>37,362,927</b> | <b>27,615,323</b> | <b>9,747,605</b> |
|                   | Value of imprests issued        |                   |                   | <b>58,983</b>     |                  |
|                   | No. bank accounts operated      |                   |                   | <b>1</b>          |                  |

Table 1: MLHS financial summary 2014

### Audit objectives and scope

The principle objective of this audit engagement is to obtain reasonable assurance over the effectiveness of internal controls that management relied upon to ensure reported information was accurate, complete, recorded within the correct period, appropriately classified and the disclosures made reflected the transactions that occurred. The accounting cycles covered under this engagement include:

- Imprests
- Procurement and expenditures
- Bank accounts
- Assets

The audit covered the 12 months ending 31 December 2014.

## **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of special imprests, bank accounts, assets, procurement and expenditures. OAG noted that deficiencies in internal control existed and were not addressed since 2006.

## **Key findings**

The processes to manage and monitor: revenue, special imprests, procurement, expenditure, bank accounts and assets procedures were inadequately controlled with little or no regard for the requirements of the Financial Instructions. The audit issues identified are summarised below:

### **Special imprests**

#### **Failure to retire special imprest accounts on a timely manner (c/fwd 2006)**

OAG noted that 100% (3/3) of special imprest holders had either not been retired or the imprests had been retired late in 2014. This issue has been reported with the Ministry and it was a breach of Financial Instructions P7 68.4. The Ministry has not been systematically enforcing the requirements of this section of Financial Instructions which increased the risk that funds might have been misappropriated.

#### **Unretired special imprest**

OAG noted that one out of three Special Imprests tested for 2014 with a value of \$3,550.00 was not retired as at 31 December 2014. The Ministry had not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of special imprests which increased the risk of funds being misappropriated.

Financial Instructions P7 68.4 requires for all special imprest to be retired within a reasonable period and must be deducted from salary if the special imprest is not accounted for and retired on a timely basis. FI P77 requires for interest to be charged on overdue Imprests.

### **Bank accounts**

#### **Monthly bank reconciliation not performed**

OAG noted that bank reconciliation was not performed on monthly basis for the Ministry's standing imprest as required by the Financial Instructions.

When reviewing the bank reconciliations for the Ministry's Standing Imprest Account, OAG noted that the bank reconciliations were only performed upon the replenishment of the standing imprest account and not monthly as required by the Financial Instructions.

### **Lack of segregation of duties over the preparation of bank reconciliation and issuing of cheques**

OAG noted that there was no verification of the accuracy of the bank reconciliation performed by the Ministry. Lack of verification of bank reconciliation increases the risk of inaccuracy and oversight of likely debits or credits and may result in fraud if unchecked by management in a timely manner.

The Financial Instruction P5 73.5 requires the authorised officer to prepare bank reconciliation every month and it must be verified by another officer to ensure that cash exists and is reported accurately and completely. Bank reconciliation is a fundamental control for identifying any discrepancies between the bank account balance and the cashbook balance. This provides a means to determine if unusual and unauthorised transactions are being made on the bank account. Bank reconciliations are required to be prepared regularly. The reviewer of the bank reconciliation should sign it to attest that they are satisfied with the validity of any reconciling items, and that the reported cash balance is reconciled and cash exists.

### **Assets**

#### **Asset register is incomplete**

An asset register maintained for IT equipment was incomplete. Audit noted that the asset register did not record the purchase prices.

Financial Instructions M4 4.1 and 4.2 requires proper maintenance of a non-current asset register including the recording of assets at their acquisition prices. Poor maintenance of asset register increases the risk of misuse and theft of assets.

#### **Asset register not reviewed.**

An asset register is an important internal control in an organisation. It helps the organisation to identify the assets, their purchase prices, locations, disposal procedure and procurement plan for new assets. However, OAG noted that the Ministry had an asset register but the register was not reviewed by another officer.

### **Payroll**

Payroll audit was done under a separate audit and the result would be reported in a subsequent report on the SIG payroll as a whole.

### **Overall recommendations**

OAG's key recommendations are that the Ministry:

- Implement its Action Plan for the 2014 audit report, which if implemented will address most of the issues raised in this report;
- Ensure that special imprests are retired promptly on the due date and deductions from salary are recommended to the Ministry of Finance and Treasury for recovery of unretired imprests.
- Ensure monthly bank reconciliations are performed.
- Ensure to emphasis segregation of duties in the performance of bank reconciliation.

- Ensure to maintain an asset register.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

### **Detail audit findings and recommendations**

#### **Special imprests**

##### **Failure to retire imprest accounts on a timely manner (C/fwd 2006)**

**Risk Rating - High**

OAG noted that 100 % (3/3) of special imprest holders had either not retired their imprests or the imprests were retired late in 2014. The value of the three imprests was \$58,983. This issue had been reported to the Ministry since 2006 regarding the breach of Financial Instructions P7 68.4. The Ministry has not been systematically enforcing the requirements of this section of Financial Instructions.

Financial Instruction P7 68.4 states *“Special Imprests must not be paid out until after the Special Imprest holder signs the form allowing a salary deduction if the Special Imprest is not accounted for and retired on a timely basis. If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder’s salary in accordance with Chapter 1”*.

#### **Implications**

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of special imprests which increases the risk that funds may be misappropriated.

#### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that imprest holders with outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Chief Accountant; and
- Staff be reminded of their obligations under the FIs and training is provided on requirements of FIs.

#### **Management Response**

*Management did not response to the recommendations on the due date (15 May 2017).*

## Unretired special imprest

**Risk Rating: High**

OAG noted that one out of three Special Imprest tested for 2014 with a value of \$3,550.00 was not retired as at 31 December 2014. Financial Instructions P7 68.4 requires for all special imprest to be retired within the reasonable period. If the special imprest is not accounted for and retired on a timely basis then it must be recovered from the salary of the holder in accordance with Chapter 1. FI P77 requires for interest to be charged on overdue imprests. Refer to table 4 below for the details of the overdue imprest.

### Implications

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of special imprests which increases the risk of funds being misappropriated.

### Recommendation 2

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that imprest holders with outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Chief Accountant, and that if this is not forthcoming recommend to the Ministry of Finance and Treasury to take recovery action and charge interest as stated in Financial Instructions P7 77.
- Staff are reminded of their obligations under the FIs.

### Management Response

*Management did not response to the recommendations on the due date (15 May 2017).*

### Bank accounts

#### Bank reconciliation not performed on monthly basis

**Risk Rating: High**

OAG noted that bank reconciliation was not performed monthly for the Ministry standing imprest as required by the Financial Instructions.

When reviewing the bank reconciliations for the Ministry's Standing Imprest Account, OAG noted that the bank reconciliations were only performed upon the replenishment of the standing imprest account and not monthly as required by the Financial Instructions

## Implications

Bank reconciliation is one of the most important controls an organisation can have. Without bank reconciliation, there is less assurance over the accuracy of reported revenues and expenditures as well as the bank balance itself. Its effectiveness depends upon its timeliness.

### Recommendation 3

OAG recommends that the Ministry:

- Ensure that bank reconciliation is performed within a week after the month end and any reconciling items explained to the satisfaction of a supervisory who signs off after review of the reconciliation; and
- A register of reconciliations is prepared to monitor the regular preparation and review of the reports.

### Management Response

*Management did not response to the recommendations on the due date (15 May 2017).*

### Lack of segregation of duties in regards to bank reconciliation and issuing of cheques

**Risk Rating: High**

OAG observed that there was no formal process in place for the preparation and reviewing of Ministry bank reconciliation for the Ministry bank account during 2014. Financial Instructions P5 73.5 requires that bank reconciliations are prepared by an officer other than an officer responsible for issuing of cheques or making deposits into the account. There was also no independent review being carried out over the reconciliation.

Financial Instructions P5 73.5 states that “wherever possible, the bank reconciliation must not be done by an officer responsible for issuing cheques or the officer responsible for preparing deposits into the account”.

## Implications

Lack of verification of bank reconciliations could result in inaccurate calculation and omission of likely debits or credits. It also increases the risk of misappropriation of public funds.

### Recommendation 4

OAG recommends that the Ministry:

- Ensure that monthly bank reconciliations are verified as required by the Financial Instructions P5 73.5; and
- Ensure that outstanding reconciliation items are cleared on a timely basis.

### **Management Response**

*Management did not response to the recommendations on the due date (15 May 2017).*

### **Assets**

#### **Incomplete asset register**

**Risk Rating – High**

OAG noted that the Ministry maintained an asset register as at 31 December 2014, however IT Equipment registration was incomplete. The asset register did not record the value of IT equipment at acquisition.

Financial Instructions M4 4.1 and 4.2 states: “registers of non-current asset with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO.

### **Implications**

The absence of record of the value an asset at acquisition leads to misstatement in the financial statement.

#### **Recommendation 5**

OAG recommends that the Ministry:

- Ensure that values of assets at acquisition are recorded in the asset register.

### **Management Response**

*Management did not response to the recommendations on the due date (15 May 2017).*

#### **Asset register not reviewed**

**Risk Rating - Moderate**

An asset register is an important internal control in an organisation. It helps the organisation identify the assets, their purchase prices, locations, disposal procedures and procurement plan for new assets. However, OAG noted that the Ministry has an asset register but the register was not reviewed and checked by another officer.

### **Implications**

The absence of review of asset register leads to poor internal control within the Ministry and misstatement of the financial statements. The lack of proper maintenance of an asset register increases the risk of misuse of public properties and theft of assets.

**Recommendation 6**

OAG recommends that the Ministry:

- Ensure that an asset register of non-current assets is reviewed and checked on an annual basis to confirm the existence of the assets.

**Management Response**

*Management did not response to the recommendations on the due date (15 May 2017).*

## 11: Ministry of Development Planning and Aid Coordination

### Overview

The mission of the Ministry of Development Planning and Aid Coordination (MDPAC) is to enhance economic and social well-being of the people of Solomon Islands through maximum participation in economic development. This is achieved by fostering cooperation between National and Provincial Governments, local communities and between development partners.

The objective is to maximize the utilization of development resources for the benefit of the Solomon Islands people.

The table 1 below summarises the recorded actual amounts for the following standard auditable areas as at 31 December 2014:

| 2013 actual       | Description                     | Original budget   | Revised budget    | 2014 actual      | Variance         |
|-------------------|---------------------------------|-------------------|-------------------|------------------|------------------|
| <b>20,000,000</b> | Revenue                         | 0                 | 0                 | 43,297           | -43,297          |
| 2,053,896         | Payroll                         | 2,730,984         | 2,730,984         | 2,235,075        | 495,909          |
| 4,667,400         | Operating expenses              | 6,293,731         | 6,293,731         | 5,199,188        | 1,094,543        |
| 0                 | Capital expenditure             | 0                 | 0                 | 0                | 0                |
| <b>6,721,296</b>  | <b>Total recurrent budget</b>   | <b>9,024,715</b>  | <b>9,024,715</b>  | <b>7,434,262</b> | <b>1,590,453</b> |
| 0                 | Operating expenses              | 0                 | 42,836            | 42,386           | 450              |
| 0                 | Capital expenditure             | 0                 | 0                 | 0                | 0                |
| <b>0</b>          | <b>Total budget support</b>     | <b>0</b>          | <b>42,836</b>     | <b>42,386</b>    | <b>450</b>       |
| 30,607,974        | Operating expenses              | 2,000,000         | 2,000,000         | 375,450          | 1,624,550        |
| 0                 | Capital expenditure             | 0                 | 0                 | 0                | 0                |
| <b>30,607,974</b> | <b>Total development budget</b> | <b>2,000,000</b>  | <b>2,000,000</b>  | <b>375,450</b>   | <b>1,624,550</b> |
| <b>37,329,270</b> | <b>Ministry total</b>           | <b>11,024,715</b> | <b>11,067,551</b> | <b>7,852,099</b> | <b>3,215,452</b> |
|                   | Value of imprests issued        |                   |                   | <b>1,619,700</b> |                  |
|                   | No. bank accounts operated      |                   |                   | <b>17</b>        |                  |

Table 1: MDPAC financial summary 2014

### Audit objectives and scope

The principle objective of this assurance engagement was to obtain reasonable assurance over the effectiveness of management's internal controls relied upon to ensure reported information is accurate, complete, recorded within the correct period, appropriately classified and that the disclosures made reflect the transactions that have occurred or that assets and liabilities exist.

The accounting cycles covered under this engagement include:

- Imprests
- Procurement and expenditure
- Bank accounts

- Assets

The Payroll audit was covered in a separate report due to the non-availability of Aurion payroll data at the time of this audit.

The audit covered the 12 months ending 31 December 2014.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of the special imprests, bank accounts, assets, procurement and expenditures. OAG noted that there were still deficiencies in internal controls which have continued to arise since 2006.

Management have still not implemented an action plan to address the prior audit recommendations.

### **Key findings**

The processes to manage and monitor special imprests, bank accounts, assets, procurement and expenditure were inadequate with minimal or no regard for the requirements of the Financial Instructions. The audit issues identified are summarised below:

#### **Special imprests**

##### **Failure to retire special imprest accounts on a timely manner (c/fwd 2006)**

**Risk Rating - High**

OAG noted that 14 special imprest holders had either not retired their imprest or the imprests were retired late in 2014. This issue has been raised with the Ministry and it was a breach of Financial Instructions P7 68.4. The Ministry has not been systematically enforcing the requirements in the Financial Instructions.

#### **Procurement and expenditure**

##### **No monthly reconciliation of Account Code Control Cards to Treasury Information**

**Risk Rating – High**

Financial Instructions P5 96.1 requires the Accounting Officer (AO) to reconcile all Account Code Control Cards to Treasury Information.

OAG noted that the Ministry did not perform a reconciliation of Account Code Control Cards to Treasury Information. This increased the risk of misstatement in financial reports used for decision making over the allocation of financial resources. Financial commitments reported might be materially under or overstated.

## **Bank accounts**

### **Bank reconciliations not performed (c/fwd 2008)**

**Risk Rating - High**

Bank reconciliations were not performed for the three bank accounts as required by the Financial Instructions P5 73.2. Non-performance of monthly bank reconciliations could result in improper debits or credits not being detected and corrected in a timely manner. It also increased the risk of misappropriation of public funds and fraud.

## **Assets**

### **Asset register not up-to-date**

**Risk Rating – High**

The Ministry had not maintained an asset register. OAG was unable to readily identify the assets, their costs, purchase dates and how their disposals had been administered. Financial Instructions M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition prices. This also includes the inventories of non-current assets.

## **Overall recommendations**

OAG's key recommendations are that the Ministry:

- Implement its Action Plan for the 2011 – 2013 audit reports, which if implemented will address most of the issues raised in this report;
- Ensure that special imprests are retired promptly on the due dates and salary deductions are recommended to the Ministry of Finance and Treasury for recovery of unaccounted funds.
- Ensure bank reconciliations are verified as required by Financial Instructions P5 73.
- Ensure that public funds are properly accounted for.
- Ensure the Ministry complies with Financial Instruction P5 96.
- Ensure that the Ministry liaise with PSF to implement a General asset management principles what is required in Financial Instruction M4 2.
- Ensure that asset stocktake is performed on an annual basis to easily track and locate the existence and physical conditions of the assets.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

## Detail audit findings and recommendations

### Special imprests

#### Failure to retire special imprests on a timely manner (C/fwd 2006)

**Risk Rating - High**

OAG reviewed the Ministry's 2014 master copy of imprest register provided by the Ministry of Finance and Treasury. OAG noted instances where imprests worth **\$366,432.76** had either not been retired or the imprests had been retired late in 2014. This audit issue had been reported to the Ministry since 2006. Financial Instructions P7 68.4 requires special imprests to be accounted for on a timely basis. This section of Financial Instructions had been continually breached over this time.

Financial Instructions P7 68.4 requires *Special Imprests must not be paid out until after the Special Imprest holder signs the form allowing a salary deduction if the Special Imprest is not accounted for and retired on a timely basis. If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder's salary in accordance with Chapter 1.*

#### Implication

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of Special Imprests which increases the risk of misuse of government funds.

#### Recommendation 1

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis; and
- Ensure that imprest holders with outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Chief Accountant, and that if this is not forthcoming recommend to the Ministry of Finance and Treasury to take recovery action and charge interest as required under FI P7 77.

#### Management Response

*Management did not response to the recommendations on the due date (28 April 2017).*

## Procurement and expenditure

### No monthly reconciliation of account code control cards

**Risk Rating – High**

OAG noted that the Ministry did not perform reconciliations of the account code cards to Treasury information.

Financial Instructions P5 96.1 states that “AOs must reconcile all Account Code Control Cards to Treasury Information once a month”. The commitment records maintained by the Ministry must be reconciled with the general ledger records maintained by Ministry of Finance and Treasury. This is to ensure that funds committed to various budget lines in the Ministry are accurately coded and posted to the correct ledger records.

#### Implications

Lack of reconciliation between the account code control cards to treasury information increases the risk of under or over commitment of ministry budget. By performing this reconciliation, the effectiveness of management decision making is significantly increase because financial information is reliable.

#### Recommendation 2

OAG recommends that the Ministry:

- Ensure that Account Code Control Cards are reconciled to the Treasury information; and
- Ensure these reconciliations are reviewed and signed off by an independent officer.

#### Management Response

*Management did not response to the recommendations on the due date (28 April 2017).*

#### Bank accounts

##### Bank reconciliation not performed (c/fwd 2008)

**Risk Rating - High**

Financial Instruction P5 73.1 states that “the authorised officer operating a SIG account must make obtain monthly bank statement or as often as prescribed by the PSF”.

OAG noted that bank reconciliation was done only on replenishment basis which was a breach of the Financial Instructions P5 73.1. There was no verification of the accuracy of the bank reconciliation. There was no indication that it was prepared by an officer other than an officer

responsible for issuing of cheques or making deposits into the account as stated in the Financial Instructions P5 73.5.

### **Implications**

Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud.

#### **Recommendation 4**

OAG recommends that the Ministry:

- Ensure that monthly bank reconciliations are performed; and
- Ensure that the report is verified as required by Financial Instructions P5 73.5.

### **Management Response**

*Management did not response to the recommendations on the due date (28 April 2017).*

### **Assets**

#### **Asset register not maintained**

**Risk Rating - High**

OAG noted that the Ministry had not maintained an asset register. Asset register is one of the internal mechanisms to control and manage assets purchased and assets requiring disposal by the Ministry.

Financial Instructions M4 4.1 and 4.2 states “registers of non-current assets with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO. Financial Instructions M4 4.2 says “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.

### **Implication**

Lack of proper maintenance of asset register increases the risk of misuse and theft of assets.

#### **Recommendation 5**

OAG recommends that the Ministry:

- Ensure that asset register of non-current assets and inventories is maintained with a complete description and information of each asset.
- Ensure that the Ministry liaise with PSF to implement general asset management principles as required in Financial Instructions M4 2; and
- Ensure asset stocktake is performed on annual basis to track and locate the existence and physical condition of each asset.

### **Management Response**

*Management did not response to the recommendations on the due date (28 April 2017).*

## 12: Ministry of Communication and Aviation

### Overview

The objective of the Ministry of Communication and Aviation (MCA) is to provide efficient and effective communication and aviation services that are timely, accurate, safe and secure, while meeting all regulatory requirements.

Key outputs are:

- Liberalization of the telecommunication sector;
- Improve the security and safety of the travelling public in the country, through upgrading and development of existing aviation infrastructure and facilities in compliance with the domestic aviation law, regulations and rules; and
- The development of air services and infrastructure to provide safe, efficient and comprehensive domestic air services and meet the needs of the international trade and tourism in a comprehensive and open market.

The table below summarises the actual amounts for the following standard auditable areas as at 31 December 2014:

| 2013 actual        | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance          |
|--------------------|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| 16,118,055         | Revenue                         | 13,166,093        | 13,166,093        | 22,518,606        | -9,352,512        |
| 9,458,509          | Payroll                         | 9,957,808         | 9,957,808         | 10,590,796        | -632,988          |
| 48,404,370         | Operating expenses              | 34,572,076        | 38,981,010        | 34,519,974        | 4,461,036         |
| 1,839,518          | Capital expenditure             | 1,612,796         | 1,203,862         | 1,158,311         | 45,551            |
| <b>59,702,397</b>  | <b>Total recurrent budget</b>   | <b>46,142,680</b> | <b>50,142,680</b> | <b>46,269,081</b> | <b>3,873,599</b>  |
| 0                  | Operating expenses              | 0                 | 0                 | 42,386            | -42,386           |
| 0                  | Capital expenditure             | 0                 | 0                 | 0                 | 0                 |
| <b>0</b>           | <b>Total budget support</b>     | <b>0</b>          | <b>0</b>          | <b>42,386</b>     | <b>-42,386</b>    |
| 11,004,002         | Operating expenses              | 2,930,000         | 2,930,000         | 15,757,471        | -12,827,471       |
| 63,914,745         | Capital expenditure             | 17,070,000        | 17,070,000        | 11,460,313        | 5,609,687         |
| <b>74,918,748</b>  | <b>Total development budget</b> | <b>20,000,000</b> | <b>20,000,000</b> | <b>27,217,783</b> | <b>-7,217,783</b> |
| <b>134,621,145</b> | <b>Ministry total</b>           | <b>66,142,680</b> | <b>70,142,680</b> | <b>73,529,251</b> | <b>-3,386,571</b> |
|                    | Value of imprests issued        |                   |                   | 883,187           |                   |
|                    | No. bank accounts operated      |                   |                   | 4                 |                   |

Table 1: MCA financial summary 2014

### **Audit objectives and scope**

The primary objective of this audit is to obtain sufficient and appropriate evidence in order to express an opinion in respect of the ministry financial disclosures with the SIG national accounts. A secondary but no less important audit objective is to test the effectiveness of management's internal controls in order to assess the completeness and accuracy of reported transactions and balances, the existence of assets and liabilities and probity and propriety of major tenders and contracts. The following standard auditable areas covered under this engagement include:

- Revenue
- Imprests
- Procurement and expenditure
- Bank accounts
- Assets and stores

The audit covered the 12 months from January 2014 to 31 December 2014.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of the revenue, special imprests, procurements and expenditures, bank accounts, and assets. OAG noted that there were deficiencies in internal controls which continued to arise since 2006. The Ministry has not been able to apply required controls over the past seven years.

### **Key findings**

The process to monitor and manage revenue, special imprest accounts, procurement and expenditure, bank accounts, and assets was inadequate with little or no regard for the requirements of the Financial Instructions. The audit issues identified are summarised below:

#### **Revenue**

##### **Incomplete database for boarding fee**

**Risk Rating – High**

The MCA did not possess a database for monitoring boarding fees collected from the airlines that operated out of Honiara international airport. OAG was unable to determine which airline had paid for their invoices and whether the revenue recorded within the general ledger was complete. The Ministry did not monitor the collection of boarding fees and fees receivable.

#### **Special imprests**

- **Failure to retire special imprest accounts on a timely manner (c/fwd 2006)**

**Risk Rating - High**

OAG noted that the Ministry still needed improvement in the retirement of imprests. Ten special imprest holders either had not retired their imprests or the imprests were retired very late in

2014. This issue was in OAG reports to the Ministry since 2006. Financial Instructions P7 68.4 was breached by the Ministry for not enforcing the requirements to retire imprests on a timely manner.

### **Bank accounts**

- **No segregation of duties over the preparation of bank reconciliation**

**Risk Rating - High**

Financial Instructions P5 73.5 requires bank reconciliation to be verified by another officer to ensure its accuracy. Bank reconciliation is a fundamental control for identifying any discrepancy between the bank account balance and the cash book balance.

OAG noted that no one had verified the accuracy of the bank reconciliation prepared by the Ministry. Lack of verification of bank reconciliation increased the risk of inaccuracy and could result in fraud being committed.

### **Procurement and expenditure**

- **No monthly reconciliation of account code control cards to treasury information**

**Risk Rating – High**

Financial Instructions P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. OAG noted that the Ministry did not perform a reconciliation of account code cards to treasury information. This increased the risk of misstatement in financial reports used for decision making over the allocation of financial resources. Financial commitments reported might be materially under or overstated.

- **Missing payment vouchers**

**Risk Rating - High**

The paper filing of original payment vouchers requires improvement. OAG was not able to verify a number of payments totalling to SBD\$3,222,571.00 because the original documents could not be located at the Ministry of Finance (MOFT). As a result OAG was unable to determine whether due process had been followed in incurring the expenditure and whether value for money had been considered.

- **Lack of MTB minutes being attached with payment vouchers**

**Risk Rating - High**

During the audit, OAG was unable to locate the minutes of the Ministerial Tender Board (MTB) being attached with the payment vouchers. The minutes are important procurement process documents which authorise the payments for the contracts. The Ministerial Tender Board is responsible for managing the tender process of the Ministry for specific goods and services.

- **Contract progress payments not accompanying payments**

**Risk Rating – High**

The Financial Instructions P7 30 requires that contract progress payments forms must accompany any payment claims for a progress payment. OAG noted that this contract progress payment forms or certificates were not attached to payments claims of contractors. This indicated that there were no physical checks been carried out by the ministry on project sites.

#### **Assets**

- **Asset register requires updating**

**Risk Rating – High**

An asset register is an important internal control in an organisation. It helps the organisation identify the assets, their purchase prices, locations, process of disposal and procurement plan for new assets. However, OAG noted that the Ministry had an asset register but the register was incomplete and not up-to-date. Some of the assets listed in the register did not have complete descriptions and could not be sighted.

Financial Instructions M4 4.1 and 4.2 requires proper maintenance of a non-current asset register. This also includes the inventories of non-current assets. Poor maintenance of asset register increases the risk of misuse and theft assets.

#### **Overall recommendations**

OAG's key recommendations are that the Ministry:

- Implement its action plan for the 2013 accounts and records audit report, which if implemented will address most of the issues raised in this report;
- Ensure that special imprests are retired promptly on the due dates and salary deductions are recommended to the Ministry of Finance and Treasury for recovery of unretired imprests.
- Ensure monthly bank reconciliations are performed.
- Ensure segregation of duties when performing bank reconciliation.
- Ensure that public funds are properly accounted for.
- Complies with Financial Instructions P5 96.

#### **Audit findings and recommendations**

##### **Revenue**

##### **Incomplete database for boarding fee**

**Risk Rating - High**

MCA in 2014 collected total revenue of \$ 4,313,919.08 from various services provided. Boarding fee revenue collected by MCA represented 78% of total Ministry revenue and was material. Boarding fees were collected by the Ministry when passengers boarded a plane in Honiara to

travel internationally. Audit noted that the Ministry did not update their revenue data base to show the complete record of fees collected. Audit was unable to determine the complete information on boarding fees, which indicated that Ministry had not monitored the collection of boarding fees.

### **Implication**

The Ministry cannot trace those airlines that still owe SIG. This boarding fee represents a financial loss for the Government. Also Ministry has not been accountable for its revenue collection. Revenue recorded within the 2014 general ledger could be unreliable.

### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure to comply with Financial Instructions P5 14;
- Establish a revenue database which records all boarding fees billed and received. It should include details such as the date, customers (airline), no of passengers, rates charged, amount billed, amount collected etc. This revenue database should be reconciled against the bank account, general ledger and reviewed by an independent officer.

### **Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

### **Special imprests**

#### **Failure to retire imprest accounts on a timely manner [c/fwd 2013]**

**Risk Rating – High**

OAG reviewed the Ministry's master copy imprest register for 31 December 2014 provided by the Ministry of Finance and Treasury. OAG noted that 8 out of the 14 samples with a value of \$300,933.45 selected for testing were imprests that had either not been retired or the imprests had been retired late in 2014. This audit issue has been reported to the Ministry since 2006.

Financial Instructions P7 68.4 states that *"Special Imprests must not be paid out until after the Special Imprest holder signs the form allowing a salary deduction if the Special Imprest is not accounted for and retired on a timely basis. If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder's salary in accordance with Chapter 1"*.

## Implication

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of special imprests which increases the risk that funds may be misappropriated.

### Recommendation 2

OAG recommends that the Ministry

- Ensure that all special imprests are retired on a timely basis;
- Ensure that imprest holders of outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documentation to the Chief Accountant, and that if this is not forthcoming recommend to the Ministry of Finance and Treasury to take recovery action and charge interest as stated in Financial Instructions P7 77.
- Remind staff of their obligations under the FIs and are provided training on FIs.

## Management response

*The management did not submit their written response with action plan to OAG within the timeline.*

## Bank accounts

### Lack of segregation of duties over bank reconciliation preparation

#### Risk Rating - High

For the period January to December 2014, OAG observed that there was no formal process in place for preparation and review of Ministry bank reconciliation. OAG noted that there was no independent review being carried out over the bank reconciliation during the year.

Financial Instructions P5 73.5 requires that *“wherever possible, the bank reconciliation must not be done by an officer responsible for issuing cheques or the officer responsible for preparing deposits into the account”*.

## Implications

Lack of verification of bank reconciliations by an independent and competent officer could result in inaccurate calculations, omissions and misappropriation of public funds.

### Recommendation 3

OAG recommends that the Ministry:

- Ensure that monthly bank reconciliations are done and verified as required by Financial Instructions P5 73.5; and
- Clear the outstanding reconciliation items.

**Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

**Procurement and expenditure****No monthly reconciliation of account code control cards****Risk Rating – High**

OAG noted that the Ministry did not perform reconciliations of the account code control cards to treasury information.

Financial Instructions P5 96.1 states that “AOs must reconcile all Account Code Control Cards to Treasury Information once a month”. The MCA commitment records had not been reconcile against the general ledger records maintained by MOFT. This was to ensure that funds committed to various budget lines in the Ministry were accurately coded and posted to the correct ledger records.

**Implications**

Lack of reconciliation between the account code control cards to treasury information increases the risk of under or over commitment of approved ministry budget. By performing this reconciliation, the effectiveness of management decision making is significantly improved as financial information is reliable. Management can see how much budget funding is available at a point in time.

**Recommendation 4**

OAG recommends that the Ministry:

- Comply with Financial Instructions P5 96 by preparing a reconciliation of expenditure committed, spent and unspent and reconciled against the general ledger; and
- Ensure these reconciliations are reviewed and signed by an independent officer.

**Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

## Missing payment vouchers

**Risk Rating – High**

OAG was unable to sight nineteen (19) original payment vouchers and supporting invoices totalling \$3,222,571.00 incurred by the Ministry during 2014. The MOFT did not maintained proper filing system.

Section M1 22.1 of the Financial Instructions states that “*all Officers are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties*”.

### Implication

Lack of good record management practice increases the risk of misappropriation and inappropriate utilisation of funds. In the absence of official approved documentation, there was lack of an audit trail to demonstrate whether these transactions were appropriately approved, recorded and were legitimate expenses incurred for official government business.

### Recommendation 5

OAG recommends that the Ministry:

- Ensures that it maintains a good, secure filing and recording system;
- Ensure all accounting records from three years are not filed away until after audit has been done; and
- Ensure that physical security over financial records be improved, with access to records by authorised personnel only.

### Management response

*The management did not submit their written response with action plan to OAG within the timeline.*

### MTB approval minutes not attached with payments

**Risk Rating - High**

During the audit, OAG was unable to locate the minutes of the Ministry Tender Board (MTB) for twenty six (26) payment vouchers valued at \$5,737,123. The minutes of MTBs were important procurement process documents which authorised the payments for the contracts. The Ministerial Tender Board was responsible for the management of the tender process of the Ministry for specific goods and services.

## Implication

The lack of MTB minutes increases the risk of fraud, misappropriation occurring and conflict of interest arising and value for money not being obtained. Also where contractor's payments are processed without proper tendering process and the lack of transparency in the process of tender board increases the risk of corruption.

### Recommendation 6

OAG recommends that the Ministry:

- Follow procurement process in accordance with the Procurement and Contract Manual (2013) which involves a hierarchy of tendering procedures based upon the value of the procured goods or services;
- Ensure that MTB decisions are properly filed and attached with payment vouchers when raising payments; and
- Ensure that MTD has up to date and reconciled records detailing approved contracts and variation.

## Management response

*The management did not submit their written response with action plan to OAG within the timeline.*

## Assets

### Asset register not up-to-date

**Risk Rating – High**

OAG noted that the Ministry had not maintained an up to date asset register.

Financial Instruction M4 4.1 and 4.2 states: *“registers of non-current with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO”*. Financial Instruction M4 4.2 says *“inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”*.

The MCA's total capital expenditure under its recurrent and development budget was \$8,812,843.

## Implication

Lack of proper maintenance of asset register increases the risk of misuse and theft of assets. It would be difficult for the Ministry to monitor and control each asset, equipment and inventory that the Ministry purchased over the years.

### **Recommendation 7**

OAG recommends that the Ministry:

- Ensure that asset register of non-current assets and inventories are maintained with complete description and information of each asset;
- To liaise with PSF to implement general asset management principles as required in Financial Instructions M4 2; and
- Ensure asset stocktake is performed on an annual basis to easily track and locate the existence and physical conditions of the assets.

#### **Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

#### **Lack of asset recognition threshold**

#### **Risk Rating – moderate**

OAG noted that the MCA did not have a minimum non-current asset value recognition threshold for recording assets on the assets register.

#### **Implication**

The value of any asset that is recorded on an asset register can be inconsistent if a minimum asset value recognition threshold policy is not in place. There is a risk that assets do not get recorded at the correct value making it difficult to account for them.

### **Recommendation 8**

OAG recommends that the Ministry:

- Consult the MOFT to establish a minimum non-current asset value recognition threshold for recording assets which is consistency with all other Ministries.

#### **Management response**

*The management did not submit their written response with action plan to OAG with in the time line.*

### 13: Ministry of Fisheries and Marine Resources

#### Overview

The objective of the Ministry of Fisheries and Marine Resources (MFMR) is to: encourage and facilitate economic growth through proper management and sustainable development of fisheries and marine resources and to maximise the nations revenue derived from these resources through it commercial fishing activities, both at the national, provincial and rural scale.

The table below summarises the actual amounts for the standard accounting cycles selected as at 31 December 2014.

| 2013 actual        | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance          |
|--------------------|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>178,563,317</b> | Revenue                         | 173,250,000       | 173,250,000       | 220,217,922       | -46,967,922       |
| 4,075,946          | Payroll                         | 6,140,750         | 6,140,750         | 4,710,779         | 1,429,970         |
| 12,705,443         | Operating expenses              | 12,850,244        | 12,850,244        | 11,384,011        | 1,466,233         |
| 23,000             | Capital expenditure             | 18,029            | 18,029            | 17,192            | 837               |
| <b>16,804,389</b>  | <b>Total recurrent budget</b>   | <b>19,009,023</b> | <b>19,009,023</b> | <b>16,111,982</b> | <b>2,897,041</b>  |
| 3,093,092          | Operating expenses              | 5,665,000         | 6,195,000         | 3,743,517         | 2,451,483         |
| 434,114            | Capital expenditure             | 1,000,000         | 470,000           | 161,491           | 308,509           |
| <b>3,527,205</b>   | <b>Total budget support</b>     | <b>6,665,000</b>  | <b>6,665,000</b>  | <b>3,905,008</b>  | <b>2,759,992</b>  |
| 211,864            | Operating expenses              | 1,836,000         | 1,836,000         | 758,683           | 1,077,317         |
| 1,696,551          | Capital expenditure             | 6,504,000         | 7,904,000         | 449,607           | 7,454,393         |
| <b>1,908,415</b>   | <b>Total development budget</b> | <b>8,340,000</b>  | <b>9,740,000</b>  | <b>1,208,290</b>  | <b>8,531,710</b>  |
| <b>22,240,009</b>  | <b>Ministry total</b>           | <b>34,014,023</b> | <b>35,414,023</b> | <b>21,225,280</b> | <b>14,188,743</b> |
|                    | Value of imprests issued        |                   |                   | 2,401,362         |                   |
|                    | No. bank accounts operated      |                   |                   | 4                 |                   |

Table 1: MFMR financial summary 2014

#### Audit objectives and scope

The primary objective of this audit is to obtain sufficient and appropriate evidence in order to express an opinion over the Ministry's financial disclosures reported within SIG National accounts. A second important audit objective is to test the operating effectiveness of the management's internal control environment to access the completeness and accuracy of reported transaction and balances, the existence of asset and liabilities and the probity and propriety of major tenders and contracts. The accounting cycles covered under this engagement include:

- Revenue

- Imprests
- Procurement and expenditures
- Bank accounts
- Assets

The financial period audited was from January to December 2014.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of the revenue, special imprests, procurement and expenditures, bank accounts, and assets. OAG noted that deficiencies in internal controls over special imprests and bank accounts continued to arise since 2006. The Ministry was unable to apply required controls over special Imprest and bank account.

Management have still not implemented an action plan to address the previous audit recommendations.

### **Key findings**

The process to manage and monitor special imprest accounts, bank accounts and asset was inadequate with little or no regard for the requirements of the Financial Instructions. The audit issues identified are summarised below:

#### **Special imprests**

##### **Lack of imprest register**

**Risk Rating - High**

The MFMR did not maintain a special imprest register. As a result, the ministry could not keep track of its imprest holders and to whom and how much had been committed. Imprest numbering did not correspond with record at Treasury and some imprest holders' warrants were missing in the MOFT records. Refer appendix 1. This was a breach of Financial Instructions P7 71, "*Treasury and sub accountant must keep a detailed record of all imprests issued*".

##### **Failure to retire special imprest accounts on a timely manner (c/fwd 2006)**

**Risk Rating - High**

From sample tested, 41 special imprest holders retired their imprest very late in 2014 and some were not even retired in year 2015. This issue has been raised with the ministry since 2006. It was a breach of Financial Instructions P7 68.4, "*Special imprest is to be retired within a reasonable period .....*"

**Poor record keeping and filing at MOFT (For information only)**

**Risk Rating – High**

From testing, 26 adjustment voucher and 9 special imprest warrants were missing when audit was carried out. Records placed in boxes were not file in sequent which made it difficult to locate the selected samples for testing. Section M1 22.1 states that *“all Officers are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties”*. Maintaining good record management is the responsibility of any officer to ensure good management practices are maintained.

**Bank accounts**

**Bank reconciliations not performed on monthly basis**

**Risk Rating - Moderate**

Bank reconciliations were not performed on a monthly basis for three bank accounts as required by the Financial Instructions P5 73.2. Bank reconciliation was performed only on time of replenishment. Non-performance of monthly bank reconciliations could result in improper debits or credits not being detected and corrected in a timely manner. It also increased the risk of misappropriation of public funds and fraud.

**Lack of cashbook for Ministry Observer Account**

**Risk Rating – High**

The ministry did not maintain any cashbook for its Observer account but only maintained an excel spreadsheet. Only cheque numbers were listed with no descriptions. Financial Instructions P5 72.1 requires, *“The authorising officer operating a SIG bank account to ensure all transactions are promptly and accurately recorded in the cashbook and any records kept by the officer”*.

**No financial records maintained or filed for Observer account (For information only)**

**Risk Rating - High**

Financial records for the Ministry Observer account were not filed properly. OAG was informed that all the original documents were forwarded to MOFT for retirement. Audit could not confirm this as records with MOFT were either missing or misplaced. Section M3 8.1 states that *“All Officers, including those undertaking delegated duties, are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties”*. Maintaining good management of records is the responsibility of the officer whose duty is to ensure good management practices is uphold.

## **Procurement and expenditure**

### **No monthly reconciliation of account code control cards to treasury information**

**Risk Rating – High**

Financial Instructions P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. The Ministry did not perform a reconciliation of account code cards to treasury information. This increased the risk of misstatement in financial reports used for decision making over the allocation of financial resources. Financial commitments reported could be materially under or overstated.

### **Missing payment vouchers (MOFT) for information only**

**Risk Rating - Moderate**

Two (2) payment vouchers selected to the amount of \$373,112.70 from the general ledger records of the MOFT could not be located at MOFT. Section M1 22.1 states that “*all Officers are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties*”. Maintaining good records management is the responsibility of the officer assigned with filing duties.

## **Assets**

### **Asset register not up-to-date**

**Risk Rating - High**

The Ministry did not maintain an asset register. OAG was unable to readily identify the assets, their cost, date of purchase and how their disposal had been administered. Financial Instructions M4 4.1 and 4.2 requires proper maintenance of registers of non-current assets at their acquisition price.

## **Revenue**

### **Lack of source documents**

**Risk Rating - High**

## **PAYROLL**

### **Overall recommendations**

OAG’s key recommendations are that the Ministry:

- Implement its action plan to address audit recommendations raised in the 2013 audit report, which if implemented will address most of the issues raised in this report.
- Ensure the Ministry maintains a good filing and good record management system.
- Ensure all accounting records from three years should not be archived until after the audit is completed.

- Ensure that special imprest register is maintained, imprests are retired promptly on the due date and salary deductions are recommended to the Ministry of Finance and Treasury for recovery of unretired imprests.
- Ensure that the cashbook is maintained and details of transaction are updated.
- Ensure monthly bank reconciliations are performed, reviewed and signed by an independent officer.
- Ensure that records for bank account maintained by the Ministry are filed in order.
- Ensure that public funds are properly accounted for.
- Ensure that the Ministry maintains an asset register.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management

### **Detail audit findings and recommendations**

#### **Special imprests**

#### **Lack of imprest register**

#### **Risk Rating - High**

The MFMR did not maintain a special imprest register. As a result, the ministry could not keep track of its imprest holders and to whom and how much has been committed. Imprest numbering did not correspond with records at Treasury and some imprest documentations were missing in the Treasury records or vice versa. This was a breach of Financial Instruction P7 71 that, *“Treasury and sub accountant must keep a detailed record of all imprests issued”*. Maintaining a register is a good internal control to keep track of all special imprests issued.

#### **Implications**

The Ministry has not been systematically enforcing the requirements of the Financial Instructions to maintain an imprest register for transparency on how much has been committed and to whom. This increases the risk of public funds be misappropriate.

#### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure a special Imprest register is maintained that corresponds with imprest details at MOFT.

#### **Management Response**

- *Both soft and hard copy of the register have been established.*
- *Consistent record keeping aligned with current AX system with MOFT was in place since 2016.*

## Transfer of special imprest

### Risk Rating – Moderate

OAG noted that one special imprest warrant was raised in the name of a different officer other than the applicant. This could be a case where a special imprest was transferred to another person or the applicant might have unretired imprest. The Financial Instructions P7 70 states that; *“A special imprest must not be transferred to another officer. Where the special imprest holder cannot use it, the special imprest must be accounted for and retired immediately”*.

### Implications

The Ministry has not been systematically enforcing the requirements of the Financial Instructions which increases the risk of misuse of public funds and fraud.

#### Recommendation 2

OAG recommends that the Ministry:

- Ensure that special imprest is not transferred to another staff; and
- Ensure that special imprest is issued to staff with no outstanding imprest.

## Management Response

### Failure to retire imprest accounts on a timely manner

### Risk Rating – Moderate

OAG noted that 41 special imprest holders retired their imprest very late in 2014 and some imprests were still outstanding in 2015. This issue has been reported on since 2006. Financial Instructions P7 68.4 states that; *“Special imprest is to be retired within a reasonable period ..... If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder’s salary in accordance with Chapter 1”*.

### Implications

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of Special Imprests which increases the risk of misuse of public funds and fraud.

#### Recommendation 3

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis;

- Ensure that imprest holders for the outstanding imprest be advised in writing to immediately provide all supporting receipts and documentation to the Chief Accountant, and if this is not forthcoming, Ministry of Finance and Treasury should be notified to take recovery action and charge interest as required under Financial Instruction P7 77; and
- Staff be reminded of their obligation under the FIs or receive further training to ensure improvement can be done.

## **Management Response**

### **Bank accounts**

Bank reconciliation is a fundamental control for identifying any discrepancies between the bank account balance and the cash book balance. This provides means to determine if unusual and unauthorised transactions are being made on the bank account. Bank reconciliations are required to be prepared regularly. The reviewer of the bank reconciliation should sign it to attest they are satisfied with the validity of any reconciling items, and that the reported cash balance is reconciled and cash exists.

### **Bank reconciliations not performed in monthly basis**

**Risk Rating – High**

OAG noted that the Ministry has not been performing bank reconciliation on a monthly basis for the three bank accounts operated as required by the Financial Instructions P5 73.2. Bank reconciliations were only performed upon the replenishment of the accounts. Non-performance of monthly bank reconciliations results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds and fraud.

The bank accounts operated by the Ministry with no bank reconciliation: SPC Account at ANZ bank, MSSIF account at ANZ bank and MFMR Observer account at BSP.

Financial Instructions P5 73.2 states that *“The authorised officer shall prepare a bank reconciliation statement every time a bank statement is received”*.

### **Implications**

Non-performance of monthly bank reconciliations could results in improper debits or credits not being detected and corrected in a timely manner. It also increases the risk of misappropriation of public funds.

#### **Recommendation 4**

OAG recommends that the Ministry:

- Ensure that monthly bank reconciliations are performed;
- Ensure that bank statements are received regularly; and
- Ensure that the bank reconciliations are checked for accuracy and signed by an officer other than the preparer.

#### **Management Response**

*The following accounts are held:*

- SPC
- MFMR Observers
- MSSIF
- MFMR Standing Imprest
- Noro Standing Imprest

*Regular monthly reconciliation including tranche reimbursement of standing. Sequence recording and consistent filing systems done for all accounts except for the SPC account which is inactive currently due to no active projects with SPC.*

- *All related financial transactions and information from both internal and external sources are accounted for and proper filing systems in place.*
- *Bank reconciliation performed monthly and signed off.*

*Recommendation had been addressed since 2015.*

#### **Lack of cashbook for ministry's observer account (c/fwd from 2013)**

**Risk Rating: High**

OAG noted that the ministry did not maintain any cashbook for the MFMR observer account, only an excel spreadsheet however not all transactions were recorded in the spreadsheet. Only cheque numbers with no descriptions were recorded. Financial Instructions P5 72.1 requires that; *"The authorising officer operating a SIG bank account to ensure all transactions are promptly and accurately recorded in the cashbook and any records kept by the officer"*. Receipts and payments from the account could not be traced and verified. Bank reconciliations could not be performed without a cash book.

#### **Implications**

Non- compliance to the financial instructions increases the risk of over drawn account and funds not properly being accounted for.

### **Recommendation 5**

OAG recommends that the Ministry:

- Ensure that cashbook is maintained for the account; and
- Ensure that all receipts and payments are recorded in a cash book on a daily basis stating full details of each transaction.

### **Management Response**

- *Cashbook tranche and reconciliation balancing and hard copies of these reports are file away for future reference or auditing.*
- *Cashbook maintained for Noro since 2016.*

*Recommendation 5 has been addressed.*

### **No financial records maintained for observer account**

### **Risk Rating – High**

Financial records for Observer account was not maintained nor filed properly. OAG was informed that all the original documents were forwarded to MOFT for retirement. Audit cannot confirm this as records with Finance were either missing or misplaced. Also the Ministry did not have copies of the financial records. FIs section M3 8.1 states that “*All Officers, including those undertaking delegated duties, are personally liable in carrying out their financial duties and may be held financially responsible by the PSF, of any losses or errors while carrying out those duties*”. Maintaining good management of accounting records is the responsibility of any officer to ensure good management practices are maintained.

### **Implications**

Lack of good record management practice increases the risk of misappropriation and fraud.

### **Recommendation 6**

OAG recommends that the Ministry:

- Ensure to maintain good filing system for its bank account records; and
- Ensure all accounting records from three years should not be filed away not until after audit has been done.

### **Management Response**

- *Cashbook is in soft and hard copies.*
- *Proper filing of all financial transactions that shows evident of receipts.*
- *Consistent maintenance of all financial records.*

*Recommendation 6 has been addressed.*

## Procurement and expenditure

### No monthly reconciliation of account code control cards

**Risk Rating – High**

OAG noted that the Ministry did not perform reconciliations of the account code cards to Treasury information.

Financial Instructions P5 96.1 states that “AOs must reconcile all Account Code Control Cards to Treasury Information once a month”. The commitment records maintained by the Ministry should be reconciled to the general ledger records maintained by Ministry of Finance and Treasury. This is to ensure that funds committed to various budget lines in the Ministry have been accurately coded and posted to the correct ledger records.

#### Implications

Lack of reconciliation between the account code control cards to Treasury information increases the risk of under or over commitment of ministry budget. By not performing this reconciliation, the effectiveness of management decision making is significantly reduced as financial information is unreliable.

#### Recommendation 7

OAG recommends that the Ministry:

- Ensure to reconcile all account code cards to Treasury information;
- Ensure these reconciliations are reviewed and signed by an independent officer; and
- Consult with MOFT for guidance on how to perform this reconciliation if ministry staff does not understand how to do this.

#### Management Response

- *Generally both recurrent and development budgets commitment cards are set up and show records of all transactions during procurement of goods and services that expend to various account codes.*

*Recommendation 7 has been addressed.*

## Assets

### Asset register not up-to-date

**Risk Rating – High**

OAG noted that the Ministry did not maintain an up to date asset register. It would be difficult for the Ministry to monitor and control each asset, equipment and inventory that the Ministry purchased over the years. Improvement was required over the recording and accounting of physical assets.

Financial Instructions M4 4.1 and 4.2 states: *“register of non-current asset with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO. FI M4 4.2 says “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.*

It was further noted that the ministry did not have a policy for an asset value recognition threshold.

### Implications

Lack of up to date register increases the risk of misuse of public properties and theft of assets. The absence of an up to date and complete asset register reflects the non – compliance to FI 4.1 and poor internal control within the ministry. Public funds intended for capital expenditures may have been misappropriated and no assurance can be obtained in relation to the existence, condition, value or location of the asset.

Where no asset value threshold exists, the capital items recorded on an asset register would not be consistent.

### Recommendation 8

OAG recommends that the Ministry:

- Ensure that asset register of non-current assets and inventories is maintained with complete description and information of each asset;
- Liaise with PSF to implement general asset management principles as required in FI M4 2;
- Ensure asset stocktake is performed on an annual basis to easily track and locate the existence and physical condition of each asset; and
- Consult MOFT for guidance on how to maintain an asset register, determining an appropriate asset value recognition threshold.

### Management Response

- *Currently assets register is in place, both hard and soft copies.*

- *Need to update all information from both MFMR/HQ and provincial fisheries centres.*
- *Need to recruit or fill position of Asset Manager, position being left vacant since substantive holder resigned.*
- *In absence of Asset Manager the accounts division is manning the assets.*
- *Commencing 2016 with inventories and stock taking. Both HQ/Province are yet to complete its inventories process.*
- *Administration division is providing support on disposal of assets through MID and MOFT.*

*Recommendation 8 is currently being implemented. Asset Manager's position will be created for 2018 establishment.*

## **Revenue**

### **No reconciliation of revenues from direct deposits**

**Risk Rating: High**

OAG noted that the Ministry did not reconcile the revenues received through telegraphic transfers (TT). These revenues were paid by foreign fishing companies. The fees include permit fees, access fees, licence fees and the fishing levy fees. These fees were charged on each boat licenced to fish in Solomon Islands waters. A foreign fishing company might operate more than one boat. The fees paid through TT or direct deposits did not indicate which boat and what fee was paid. The Ministry needed to reconcile these deposits with the foreign fishing companies licence registers to identify which boats and the type of fees paid.

### **Implications**

Lack of reconciliation of TT's increases the risk of foreign fishing companies not paying the right amount of fees for respective boats.

### **Recommendation 9**

OAG recommended that the Ministry:

- Ensure that the licence and revenue officer of the Ministry reconcile the telegraphic transfers tracing back to CBSI to ensure all fees are paid and to correct amount;
- Maintain an updated ships licence register that includes type of fees paid per boat and from what foreign fishing company and bilateral vessel; and
- Ensure its revenue cashbook is updated daily.

### **Management Response**

## 14: Ministry of Home Affairs

### Overview

The objective of the Ministry of Home Affairs (MHA) is to empower people to shape political future upon ethical leadership, professionalism and a governance culture that recognizes diversity in traditional cultures, values and dignity of our people-government stakeholder relationship.

The MHA is responsible for promoting and providing reliable service delivery through sustainable integration and development of effective disaster and risk management arrangement, electoral and civil registration systems, development programmes and relevant facilities for the people.

Table 1 below summarises the recorded actual amounts for the following standard auditable areas as at 31 December 2014:

| 2013 actual       | Description                     | Original budget   | Revised budget     | 2014 actual        | Variance          |
|-------------------|---------------------------------|-------------------|--------------------|--------------------|-------------------|
| <b>4,358,899</b>  | Revenue                         | 1,972,949         | 1,972,949          | 3,013,840          | -1,040,892        |
| 1,806,830         | Payroll                         | 2,472,277         | 2,472,277          | 2,027,540          | 444,738           |
| 45,082,918        | Operating expenses              | 80,669,720        | 118,764,895        | 101,310,360        | 17,454,535        |
| 558,645           | Capital expenditure             | 886,133           | 1,400,958          | 383,774            | 1,017,184         |
| <b>47,448,393</b> | <b>Total recurrent budget</b>   | <b>84,028,130</b> | <b>122,638,130</b> | <b>103,721,674</b> | <b>18,916,457</b> |
| 1,942,622         | Operating expenses              | 5,665,000         | 6,195,000          | 3,743,517          | 2,451,483         |
| 0                 | Capital expenditure             | 1,000,000         | 470,000            | 161,491            | 308,509           |
| <b>1,942,622</b>  | <b>Total budget support</b>     | <b>6,665,000</b>  | <b>6,665,000</b>   | <b>3,905,008</b>   | <b>2,759,992</b>  |
| 0                 | Operating expenses              | 1,836,000         | 1,836,000          | 758,683            | 1,077,317         |
| 0                 | Capital expenditure             | 6,504,000         | 7,904,000          | 449,607            | 7,454,393         |
| <b>0</b>          | <b>Total development budget</b> | <b>8,340,000</b>  | <b>9,740,000</b>   | <b>1,208,290</b>   | <b>8,531,710</b>  |
| <b>49,391,015</b> | <b>Ministry total</b>           | <b>99,033,130</b> | <b>139,043,130</b> | <b>108,834,972</b> | <b>30,208,159</b> |
|                   | Value of imprests issued        |                   |                    | 563,964            |                   |
|                   | No. bank accounts operated      |                   |                    | 12                 |                   |

Table 1: MHA financial summary 2014

### Audit objectives and scope

The principle objective of this assurance audit is to determine accuracy, existence and completeness of transaction and to obtain reasonable assurance over the effectiveness of management internal controls relied upon and the disclosures made reflect the transactions that have occurred.

The financial period audited was 12 months ended 31 December 2014. The accounting cycles covered under this engagement includes:

- Imprests
- Procurements and expenditures
- Bank account
- Assets.

The audit of payroll cycle was not included in this audit due to the unavailability of Aurion payroll data. Payroll audit was undertaken under a separate audit and the result would be reported in a subsequent report on the SIG payroll as a whole.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of special imprests, procurements and expenditures, bank accounts and assets. OAG noted that there were deficiencies in internal controls which continued to arise since 2006. The Ministry was not able to apply required controls over the audited period.

### **Key findings**

The process to issue, manage and monitor special imprests, procurements and expenditures, assets and bank accounts was inadequate with little to no compliance with the Financial Instructions.

The audit issues identified the audit and those carried forward from prior years audits are summarised below:

### **Imprests**

#### **Special imprests retired in untimely manner (c/fwd 2008)**

**Risk Rating - High**

OAG noted that there were seven special imprests totalling to \$513,356.81 paid to four officers but were outstanding as at 31 December 2014. FI P7 68.4 requires for all special imprests to be retired within a reasonable period ....., if the special imprest is not accounted for and retired on a timely manner then it must be recovered from the holder's salary. FI P7 77 requires for interest to be charged on overdue imprests.

### **Assets**

#### **Asset register was poorly maintained**

**Risk Rating – High**

OAG noted that the ministry's asset register was not properly maintained and OAG was unable to trace and verify the physical existence of the assets.

## **Bank accounts**

### **No Monthly bank reconciliation (c/fwd 2007)**

**Risk Rating - High**

OAG noted that the Ministry has not been performing bank reconciliations on a monthly basis but rather for the purpose of replenishing of the standing imprest which was a breach of the FIs.

### **Overall recommendations**

Most of the issues identified were also raised in audit reports of prior years. Key recommendations for the Ministry are outlined below:

- Monitor use of special imprests to ensure prompt retirement and take necessary action required under Financial Instructions in the event of non-retirement.
- Perform bank reconciliations and maintain complete cash book as required under Financial Instructions.

### **Detail audit findings and recommendations**

#### **Imprests**

### **Special imprests retired in untimely manner (c/fwd 2008)**

**Risk Rating - High**

The 2014 Ministry's special imprest records in the AX and SIG Infor indicated that seven (7) officers within the ministry obtained special imprests valued at \$513,356 but failed to retire them on the dates specified in their imprest warrants and salary deduction forms.

FI P7 68.4 states 'if the special imprest is not retired within a reasonable period, the outstanding special imprest will be deducted from the special imprest holder's salary in accordance with Chapter 1.

#### **Implication**

The ministry has not been systematically enforcing the requirements of the FI for the prompt retirement of special imprests which increases the risk of government funds being misappropriated and fraudulent activities happening.

### **Recommendation 1**

OAG recommends that the ministry:

- Ensure that all special imprests are retired on a timely basis;
- Ensure the holders of outstanding imprests are advised in writing that they are required to immediately provide all supporting receipts and documents to the financial controller; and
- Remind staff of the obligations under FI and provide training FI.

### **Management Response**

*OAG recommended that all imprests should be retired in a timely manner and the enforce the seriousness of late retirement by salary deduction*

*Principal Accountant will be in charge of the imprest register and will monitor and issue reminders to imprest holders one week before due for retirement.*

*According to our imprest register the outstanding imprest mentioned herein have already been submitted their receipts and have been retired.*

*As mentioned earlier on, the inclusion of the principal Accountant will make the difference. We were understaffed that is why some of the key areas were not implemented.*

### **Assets**

#### **Lack of Asset Register and asset management policy (c/fwd 2007)**

**Risk Rating – High**

The Ministry procured total possible assets of \$ 383,774.00 in 2014 but has yet to establish a proper fixed asset register and an asset management policy. This issue was also raised previously in the 2007 audit report of the Ministry. The Ministry in its action plan for the 2007 audit had indicated that a fixed asset register would be in place. This was not done since the action plan was approved.

### **Implications**

The absence of an asset register reflects non-compliance to FI and poor internal control which increases the risk of abuse and misuse of SIG assets and loss of SIG funds.

## Recommendation 2

OAG recommends that the Ministry:

- Ensure that a fixed asset register is established and regularly maintained and updated;
- Consult with MoFT and seek guidance on how to maintain an asset register and to determine an appropriate asset value recognition threshold; and
- Perform asset stock-take on an annual basis to track and locate the existence and physical condition of each asset.

## Management Response

*We now have the new Principal Accountant joining the team and will ensure a fixed asset register will put in place. Definitely we will work closely with MOFT for guidance and how to maintain the Asset register.*

*We will also perform asset stock take on a regular basis to track or locate the existence and the physical condition of the asset.*

## Bank account

### No monthly bank reconciliation (c/fwd 2007)

### Risk Rating – High

Financial Instructions P5 73.1 states that *“the authorised officer operating a SIG account must make obtain monthly bank statement or as often as prescribed by the PSF”*.

OAG noted that bank reconciliation was done only on replenishment basis which was a breach of the Financial Instructions P5 73.1. There was no verification of the accuracy of the bank reconciliation by an independent officer and whether it was prepared by an officer other than an officer responsible for issuing of cheques or making deposits into the account as stated in the Financial Instructions P5 73.5.

OAG noted that the Ministry and the Electoral Office were not performing bank reconciliations on a monthly basis as required by FI P5 73 (1-2). The electoral office managed eleven (11) bank accounts.

## Implications

Lack of performing bank reconciliations may increase risk of undetected errors and fraud.

### **Recommendation 3**

OAG recommends that the Ministry:

- Perform monthly bank reconciliation as required under FI P5 73 and ensure it is checked and signed by the preparer and the reviewer.

### **Management Response**

*We will do the bank reconciliations as required on monthly basis and ensure the preparer signs off. Seeing that the number of staff increases the Principal Accountant will do the bank rec. and Financial Controller does the checking for accuracy.*

## 15: Ministry of National Unity, Reconciliation and Peace

### Overview

The objective of the Ministry of National Unity, Reconciliation and Peace (MNURP) is to promote and foster national unity and sustainable peace through restorative justice mechanisms including reconciliation and human rehabilitation.

Table 1 below shows the financial summary of the ministry as at 31 December 2014.

| 2013 actual      | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance         |
|------------------|---------------------------------|-------------------|-------------------|-------------------|------------------|
| 0                | Revenue                         | 0                 | 0                 | 0                 | 0                |
| 1,690,023        | Payroll                         | 2,795,138         | 2,795,138         | 1,932,720         | 862,418          |
| 7,395,908        | Operating expenses              | 9,347,977         | 9,015,224         | 7,688,054         | 1,327,170        |
| 158,720          | Capital expenditure             | 773,593           | 1,106,346         | 1,101,530         | 4,816            |
| <b>9,244,651</b> | <b>Total recurrent budget</b>   | <b>12,916,708</b> | <b>12,916,708</b> | <b>10,722,304</b> | <b>2,194,404</b> |
| 0                | Operating expenses              | 0                 | 0                 | 0                 | 0                |
| 0                | Capital expenditure             | 0                 | 0                 | 0                 | 0                |
| <b>0</b>         | <b>Total budget support</b>     | <b>0</b>          | <b>0</b>          | <b>0</b>          | <b>0</b>         |
| 0                | Operating expenses              | 2,500,000         | 2,180,000         | 1,560,981         | 619,019          |
| 0                | Capital expenditure             | 500,000           | 820,000           | 500,000           | 320,000          |
| <b>0</b>         | <b>Total development budget</b> | <b>3,000,000</b>  | <b>3,000,000</b>  | <b>2,060,981</b>  | <b>939,019</b>   |
| <b>9,244,651</b> | <b>Ministry total</b>           | <b>15,916,708</b> | <b>15,916,708</b> | <b>12,783,285</b> | <b>3,133,423</b> |
|                  |                                 |                   |                   | <b>3,394,222</b>  |                  |
|                  | Value of imprests issued        |                   |                   |                   |                  |
|                  | No. bank accounts operated      |                   |                   | <b>1</b>          |                  |

Table 1: MNURP financial summary 2014

### Audit objective and scope

The principal objective of this audit was to determine the accuracy, existence and completeness of transactions in these accounting cycles: imprests, procurement and expenditure, bank accounts, and fixed assets.

The payroll audit was not covered in this report but it would be audited separately and reported in a subsequent report on the SIG payroll as a whole.

The financial period audited was 12 months ended 31 December 2014.

### Key findings

The process to issue, manage and monitor special imprests, procurement and expenditure, bank accounts and assets was inadequate with little compliance with the Financial Instructions.

A summary of the audit issues are summarised below:

### **Special imprests**

#### **Special imprest not retired on time (C/fwd 2006)**

OAG noted that special imprests valued at \$1,332,858.39 were retired late which was a breach of Financial Instructions P7 71.2. The non-compliance to the above provision increases a risk of abuse, misappropriation and loss of public funds.

### **Asset**

#### **Assets not recorded in asset register**

The Ministry did maintain a fixed asset register in 2014 but OAG found that two samples were not recorded in the register which was a breach of Financial Instructions 2014 M4 4.1. In addition, OAG noted that the Ministry did not have an asset management policy to determine how and when to acquire assets, how to manage them and how and when to dispose the assets. The non-recording of assets increases the risk of abuse, fraud, theft, loss of public funds, budget over-run and misstatement of the financial statements.

#### **Lack of control over assets and asset register**

It was identified that there was lack of control over SIG assets as they were stolen, removed without authorisation, damaged or in possession of unauthorised persons. Also it was noted that one new double cabin Hilux was severely damaged during unofficial working hours. Furthermore, it was found that the asset register was not fully completed to capture the identification of the assets procured. Poor control over assets increases the risk of budget over-run, negligence, theft, abuse, misconduct and conflict of interest.

#### **No annual asset stocktake**

It was revealed during the audit that the Ministry was yet to conduct an annual stocktake to identify which assets were obsolete, damaged and stolen in order to update the asset register and assist MOFT when formulating SIG financial statements. Lack of annual stocktake increases the risk of theft, misuse, loss of public funds and budget over-run.

#### **Need to promptly address the damaged office vehicle**

OAG noted that the Ministry purchased a brand new Toyota double cabin Hilux from Ela Motors (SI) Ltd on 28 May 2014 and it was severely damaged in an accident a few days later. The Hilux was towed back to Ela Motors (SI) Ltd to be repaired and Ela Motors (SI) Ltd advised the Ministry that a new chassis was needed to replace the damaged chassis. The Ministry submitted Ela Motors (SI) Ltd.'s bill for the new chassis and other costs to MOFT to pay for them but MOFT was not willing to settle the bills unless the concerned officer met some of the cost for the repair of the Hilux. MPS disciplinary committee banned the officer from driving G-vehicles. Ela Motors (SI) Ltd informed OAG that if no positive outcome was reached between the Ministry and MOFT then they would sell the Hilux to recoup their expenses. The manner in which no

solution was reached increased the risk of loss of public funds, budget over-run, conflict of interest, nepotism, incompetency and disrespect to SIG assets.

#### **Supplier not providing the right items**

OAG found that the Ministry ordered 2 x 2TB external drives worth \$4,200.00 through LPO from a firm but the firm only supplied 2 x 1TB external drives. The behaviour of the supplier and officers increased the risk of supply of low quality products, loss of public funds, conflict of interest, misconduct and budget over-run.

#### **Procurement and Expenditure**

##### **No compliance form (C4) attached with payment voucher**

OAG discovered that there was no compliance form (C4) attached to the payment voucher of \$253,363.00 for the rental payment to SINPF on 12 December 2014. Lack of compliance form increases the risk of negligence, incompetency, conflict of interest and loss of public funds.

#### **Bank account**

##### **No bank reconciliation statement sighted**

A review of the bank reconciliation statements for the audited period revealed that one sample was without the bank reconciliation statement which made it difficult to determine whether bank reconciliation was performed. Lack of bank reconciliation statement increases the risk of errors not detected, unauthorized withdrawals of funds, stale cheques, conflict of interest, cash flow constraints, untimely reporting to management and misstatement of the financial statements.

#### **Conclusion**

The audit highlighted several deficiencies in the monitoring and management of special imprests, procurement and expenditure, bank accounts and assets for the Ministry. Recommendations are made to improve internal controls for those accounting cycles.

#### **Overall recommendations**

Key recommendations for the Ministry are outlined below:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that imprest holder signs Part III of the imprest warrant form;
- Record all assets in the asset register;
- Ensure all SIG assets are stored in secured location in the Ministry;
- Establish an asset management policy;
- Ensure to remind the officers to safe guard assets in their custody;
- Ensure to carry out annual stocktake of assets; and
- Dispose assets that are obsolete or unused as required in M4 8 8.1 of the Financial Instructions.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

## **Detail audit findings and recommendations**

### **Special imprests**

#### **Special imprests not retired on time (C/fwd 2006)**

**Risk Rating - High**

OAG discovered that approximately 47% of special imprests issued in 2014 had not been retired on time which was a breach of *Financial Instruction Chapter 7 P7 71.2*.

*Financial Instructions Chapter 7 P7 71.2* requires special imprest holders to retire the special imprests on or before the due date. Also, *Financial Instructions Chapter 7 P7 77.1* requires interest to be charged on the outstanding balance if the imprest is not accounted for and retired on a timely basis. Furthermore, *Financial Instruction Chapter 7 P7 77.2* states that the interest rate will be determined by the Permanent Secretary of Finance and Treasury.

OAG noted that *Financial Instructions Chapter 7 P7 71.2*, *Chapter 7 P7 77.1* and *Chapter 7 P7 77.2* were not complied with as a consequence of deficiency in the internal control over special imprests.

Fourteen (14) special imprests valued at \$1,332,858 were retired late.

### **Implications**

Lack of compliance with *Financial Instructions Chapter 7 P7 71.2*, *Chapter 7 P7 77.1* and *Chapter 7 P7 77.2* relating to the retirement of special imprest increases the risk of abuse, misappropriation and loss of public funds.

#### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that the imprest holder and no one else signs part III of the imprest warrant form; and
- Ensure to remind staff of their obligations to special imprests under the Financial Instructions P7 68 to 77.

### **Management Response**

*The Ministry's management acknowledges the finding and will implement the recommendation as per the audit action plan.*

## Assets

### Assets not recorded in asset register

**Risk Rating - High**

During the audit, it was discovered that two samples were not recorded in the asset register that was kept in the Ministry. Financial Instructions 2014 M4 4.1 states that *“Registers of non-current assets with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO.”* However, as noted above the Ministry failed to properly record two samples from the seven that were selected for testing. The assets valued at \$505,280 were not recorded in the asset register.

Furthermore, OAG noted that the pair of speakers was stored in the director’s house (Director for Guadalcanal Peace Office) rather than in the Ministry as clearly stated in M4 7 Removal of assets where 7.1 states *“SIG property must not be removed, except for normal SIG business, and must not be used other than for its proper purpose.”*

OAG also noted that the Ministry did not have an asset management policy in place to determine how and when to acquire assets, how to manage them and how and when to dispose them off which is critical for the budgeting for assets.

### Implications

The non-recording of assets increases the risk of abuse, fraud, theft, loss of public funds, budget over-run and misstatement of the financial statements.

#### **Recommendation 2**

OAG recommends that the Ministry:

- Record all assets in the asset register;
- Regularly update the asset register;
- Ensure all SIG assets including the pair of speakers are stored in a secured location in the Ministry; and
- Establish an asset management policy.

### Management Response

*The Ministry’s management acknowledges the finding and will implement the recommendation as per the audit action plan.*

## Lack of control over assets and asset register

**Risk Rating - High**

OAG is concerned that there was poor control over SIG assets such as flash drives, external drives, laptops and office Hilux which were stolen, removed without authorization, damaged and in possession of unauthorized persons. OAG understands the nature of business for the Ministry where officers were going to the provinces to implement the programs but care should be taken when SIG assets were used during the provincial tours to prevent them from damage. In addition, OAG discovered that one double cabin Hilux that was purchased in 28 May 2014 was severely damaged after three days and it happened not during official working hours.

Furthermore, OAG noted that the asset register was not fully complete as the column for asset identification was blank which made it difficult to locate and verify the true identity and existence of the assets.

### Implications

Poor control over assets increases the risk of budget over-run, negligent, theft, abuse, misconduct and conflict of interest.

#### Recommendation 3

OAG recommends that the Ministry:

- Ensure to remind the custodians of assets to take extra care of the assets as required by FI; and
- Must fill in the asset identification column of the asset register.

### Management Response

*The Ministry's management acknowledges the finding and will implement the recommendation as per the audit action plan.*

## No annual asset stocktake

**Risk Rating - High**

It was noted that the Ministry did not conduct any annual stock take on the assets to identify which assets were obsolete, damaged and stolen in order to update the asset register and assist Ministry of Financial and Treasury when formulating the SIG financial statements. This would also enable the ministry to take corrective actions on anomalies identified.

### Implications

Lack of annual stock take increases the risk of theft, misuse, loss of public funds and budget over-run.

#### **Recommendation 4**

OAG recommends that the Ministry:

- Ensure to carry out annual stocktake of assets;
- Update the asset register regularly; and
- Carry out disposal of assets that are obsolete or unused as required in M4 8 8.1 of the Financial Instructions 2014.

#### **Management Response**

*The Ministry's management acknowledges the finding and will implement the recommendation as per the audit action plan.*

#### **Need to promptly address the damaged office vehicle**

**Risk Rating - Moderate**

It was revealed during the audit that the Ministry purchased a brand new Toyota double cabin Hilux from Ela Motors (SI) Ltd on 28 May 2014 (Wednesday) and the new vehicle was involved in an accident on 31 May 2014 (Saturday) which resulted in severe damage to the body of the Hilux. The Hilux was towed back to Ela Motors. The cost to repair the vehicle was similar to buying a new one. It was noted that MPS disciplinary committee banned the officer from driving any G-vehicles for one year. Furthermore, it was noted that ELA Motors submitted their invoice for a new chassis and repair costs but MOFT was not willing to pay the bill unless the officer responsible met some of the costs. Ela Motors informed OAG that if no positive outcome was reached between the Ministry and MOFT then they would sell the damaged Hilux to recoup their expenses.

#### **Implications**

The manner in which no solution was reached increases the risk of loss of public funds, budget over-run, conflict of interest, nepotism, incompetency and disrespect to SIG assets.

#### **Recommendation 5**

OAG recommends that the Ministry:

- Immediately liaise with MoFT to come up with an amicable solution to settle Ela Motors' bill, and
- Ensure that all SIG vehicles are garaged within the Ministry compound except for authorised cases.

#### **Management Response**

*The Ministry's management acknowledges the finding and will implement the recommendation as per the audit action plan.*

### Supplier not providing the right items

**Risk Rating - Moderate**

OAG discovered during the audit that the Ministry ordered through local purchase order (LPO) 2 x 2TB external drives worth \$4,200 from Advanced Technologies on 26/02/2014 but when the supplier delivered the items on 05/03/2014, it was 2 x 1TB external drives instead of 2 x 2TB which was unlawful as MOFT made payment on 14/03/2014 to the supplier. OAG noted this transaction as false marketing and cheating the SIG. The best practice the Ministry should do was not to accept the items until the right items are provided.

#### Implications

The behavior of the supplier increases the risk of low quality products, loss of public funds, conflict of interest, misconduct and budget over-run.

#### Recommendation 6

OAG recommends that the Ministry:

- Ensure to check the goods provided are according to the LPO before accepting them and sign off the LPO.

#### Management Response

*The Ministry's management acknowledges the finding and will implement the recommendation as per the audit action plan.*

### Procurement and expenditure

#### No compliance form (C4) attached with payment voucher

**Risk Rating – Moderate**

It was discovered during the audit that there was no compliance form (C4) attached to the payment voucher of \$253,363.00 for the rental payment to Solomon Islands National Provident Fund on 12 December 2014. Normally when requisition and payment voucher was raised in the Ministry, the compliance form has to be attached with the payment voucher and requisition before they were submitted to MOFT for payment as the form has to be completed in the Ministry and MOFT by the responsible officers.

#### Implications

Lack of compliance form attached with the payment voucher increases the risk of negligence, incompetency, conflict of interest and loss of public funds.

**Recommendation 7**

OAG recommends that the Ministry:

- Ensure to always attach the compliance form with the requisition, supporting documents and payment voucher and complete it before submitting it to MOFT for payment.

**Management Response**

The Ministry's management acknowledges the finding and will implement the recommendation as per the audit action plan

**Bank account****No bank reconciliation statement sighted****Risk Rating – Moderate**

A review of the six (6) bank reconciliation statements in the Ministry for the standing imprest account found that one of the samples was without a bank reconciliation statement. OAG was only able to sight the cash book and bank statement for the bank reconciliation made on 30 November 2014. As a result, it was difficult to determine whether bank reconciliation was performed as required by Financial Instructions P5 73.2.

**Implications**

Lack of bank reconciliation statement increases the risk of errors not detected early, unauthorised withdrawals of funds, stale cheques, conflict of interest, cash flow constraints, untimely reporting to management and misstatement of the financial statements.

**Recommendation 8**

OAG recommends that the Ministry:

- Ensure to always perform bank reconciliation statement and attach with the supporting documents before filing them in the folder.

**Management Response**

*The Ministry's management acknowledges the finding and will implement the recommendation as per the audit action plan.*

## 16: National Judiciary

### Overview

The National Judiciary's objective is to deliver justice that is visible, tangible and accessible to all citizens of the Solomon Islands by hearing and determining cases according to law, upholding the rule of law and furthering the interests of justice.

National Judiciary is organised into the following divisions:

- The Judiciary: Magistrates, High Court and Judges
- Registry and Public Services;
- The Sheriff's Office;
- Business Support Services (Corporate, Transcription & Legal Information Support).

**Table 1** summarises the actual amounts for standard accounting cycles as at 31 December 2014.

| 2013 actual       | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance          |
|-------------------|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>3,794,459</b>  | Revenue                         | 8,915,593         | 8,915,593         | 935,106           | 7,980,488         |
| 6,394,181         | Payroll                         | 9,573,783         | 9,573,783         | 7,668,263         | 1,905,519         |
| 11,958,682        | Operating expenses              | 10,451,820        | 13,025,476        | 12,556,933        | 468,543           |
| 229,790           | Capital expenditure             | 374,330           | 405,080           | 382,477           | 22,603            |
| <b>18,582,652</b> | <b>Total recurrent budget</b>   | <b>20,399,933</b> | <b>23,004,339</b> | <b>20,607,674</b> | <b>2,396,665</b>  |
| 225,890           | Operating expenses              | 8,932,717         | 8,932,717         | 759,419           | 8,173,298         |
| 0                 | Capital expenditure             | 2,000,000         | 2,000,000         | 184,665           | 1,815,335         |
| <b>225,890</b>    | <b>Total budget support</b>     | <b>10,932,717</b> | <b>10,932,717</b> | <b>944,084</b>    | <b>9,988,633</b>  |
| 0                 | Operating expenses              | 0                 | 0                 | 0                 | 0                 |
| 3,272,516         | Capital expenditure             | 3,000,000         | 3,000,000         | 184,665           | 2,815,335         |
| <b>3,272,516</b>  | <b>Total development budget</b> | <b>3,000,000</b>  | <b>3,000,000</b>  | <b>184,665</b>    | <b>2,815,335</b>  |
| <b>22,081,058</b> | <b>Ministry total</b>           | <b>34,332,650</b> | <b>36,937,056</b> | <b>21,736,423</b> | <b>15,200,633</b> |
|                   | Value of imprests issued        |                   |                   | <b>173,671</b>    |                   |
|                   | No. bank accounts operated      |                   |                   | <b>7</b>          |                   |

Table 1: NJ financial summary 2014

### Audit objectives and scope

The objective of this audit was to perform sufficient audit work to determine the accuracy, existence and completeness of recording transactions of the following standard auditable areas:

- Special imprests
- Procurement and expenditure
- Cash; and

- Assets.

The payroll audit was not covered in this report due to the unavailability of Aurion payroll data. Payroll was audited separately. The revenue cycle was covered under the Solomon Islands annual account financial statements audit for 2014.

The audit covered the financial year ending 31 December 2014.

### **Key findings**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of the special imprests, procurement and expenditure, bank accounts and assets. OAG noted that there were still deficiencies in the internal controls which continued to arise.

A summary of the audit issues are summarised below:

### **Assets**

#### **Lack of maintaining an up-dated asset register**

Financial Instructions M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price. This also includes the inventories of non-current assets. Poor maintenance of asset register increases the risk of misuse and theft of assets. Audit noted that fixed assets acquired in 2014 were not found in the register, lack of stock take and lack of asset policy to guide the acquisition of fixed assets. An asset register is an important internal control tool in an organisation that helps the management identify the assets, their purchase price, locations and asset disposal procedure and asset procurement plan. The National Judiciary has a lot of assets of high value which were not recorded in any asset register.

### **Bank accounts**

#### **Lack of verification over the preparation of bank reconciliation**

The Financial Instructions P5 73.5 requires the authorised officer to prepare bank reconciliation every month and it to be verified by another officer to ensure that cash exists and is reported accurately and completely. Bank reconciliation is a fundamental control for identifying any discrepancies between the bank account balance and the cash book balance. This provides a means to determine if unusual and unauthorised transactions are being made on the bank account. Bank reconciliations are required to be prepared regularly.

Audit noted that the reviewer of the bank reconciliation should sign it to attest they were satisfied with the validity of any reconciling items, and that the reported cash balance was reconciled and cash existed.

### **Conclusion**

The audit highlighted some deficiencies in internal controls in the management of audited cycles. Some recommendations are made to strengthen controls in order to encourage accountability and transparency in the public finances.

## Overall recommendations

Key recommendations for the National Judiciary are outlined below:

- Ensure that the National Judiciary maintains and updates its asset register on a regular basis to ensure that assets acquired are accounted for;
- Ensure that the National Judiciary liaise with PS Finance to implement a general asset management policy that will determine an appropriate asset value recognition threshold as is required in Financial Instructions M4 2;
- Ensure that asset stocktake is performed on an annual basis to easily track and locate the existence and physical condition of each asset; and
- Ensure monthly bank reconciliations are checked for accuracy and signed off by an officer other than the officer who prepares the reconciliation.

## Detail audit findings and recommendations

### Assets

#### Lack of maintaining an up-to-date asset register

**Risk Rating – Medium**

This issue was raised in the 2013 and again in 2014 audit. OAG noted that the National Judiciary did not maintain an asset register. It was difficult for the National Judiciary to monitor and control each asset, equipment and inventory that the National Judiciary purchased over the years if a register was not maintained. About \$331,877 was spent on capital expenditure.

Financial Instructions M4 4.1 and 4.2 states: *“registers of non-current with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO. Financial Instructions M4 4.2 says “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.*

#### Implication

The absence of an up to date and complete asset register reflects the non-compliance to Financial Instructions Chapter 4 Section 4.1 and poor internal control within the National Judiciary. The lack of maintenance and proper maintenance of asset register increases the risk of misuse of public properties for personal benefit and a risk of assets being stolen. Furthermore, MOFT is unable to reconcile assets within the SIG financial statements.

#### Recommendation 1

OAG recommended that the National Judiciary:

- Ensure that asset register of non-current assets and inventories are maintained with complete description and information of each asset;

- Ensure that the National Judiciary liaise with PSF to implement a general asset management policy as required in Financial Instruction M4 2; and
- Ensure asset stocktake is performed on an annual basis to update the existence and physical condition of each asset.

#### **Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

#### **Bank accounts**

##### **Lack of segregation of duties when preparing bank reconciliations**

##### **Risk Rating – Medium**

This issue has been raised in the 2013 audit and again in 2014 audit. OAG observed that there was no formal process in place for the preparation and reviewing of National Judiciary bank reconciliations for the National Judiciary accounts during 2014. Financial Instructions P5 73.5 requires that bank reconciliations be prepared by an officer other than an officer responsible for issuing of cheques or making deposits into the account. There was also no independent review being carried out over the reconciliation.

Financial Instruction P5 73.5 states that “*wherever possible, the bank reconciliation must not be done by an officer responsible for issuing cheques or the officer responsible for preparing deposits into the account*”.

#### **Implications**

Lack of verification of bank reconciliations could result in inaccurate calculation and omission of likely debits or credits. It also increases the risk of misappropriation or theft of public funds.

#### **Recommendation 2**

OAG recommends that the National Judiciary:

- Ensure that monthly bank reconciliations are verified and signed off as required by Financial Instruction P5 73.5.

#### **Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

## 17: Ministry of Rural Development

### Overview

The objective of the Ministry of Rural Development (MRD) is to create and manage an effective information centre of all constituencies for planning and development purposes. Furthermore, the Ministry's responsibility is to distribute and monitor resources allocated to the Ministry and other development stakeholders within Government, donor agencies and non-government organisations to ensure there is fair and equitable development at the local level.

Table 1 below summaries the financials relating to the following standard auditable areas as at 31 December 2014.

| 2013 actual        | Description                     | Original budget    | Revised budget     | 2014 actual        | Variance          |
|--------------------|---------------------------------|--------------------|--------------------|--------------------|-------------------|
| 63,454,542         | Revenue                         | 0                  | 0                  | 77,267,319         | -77,267,319       |
| 5,269,224          | Payroll                         | 7,092,997          | 7,092,997          | 6,846,136          | 246,861           |
| 7,464,032          | Operating expenses              | 6,927,106          | 6,927,106          | 4,627,579          | 2,299,527         |
| 451,253            | Capital expenditure             | 125,657            | 125,657            | 53,600             | 72,057            |
| <b>13,184,509</b>  | <b>Total recurrent budget</b>   | <b>14,145,760</b>  | <b>14,145,760</b>  | <b>11,527,314</b>  | <b>2,618,445</b>  |
| 0                  | Operating expenses              | 0                  | 0                  | 0                  | 0                 |
| 0                  | Capital expenditure             | 0                  | 0                  | 0                  | 0                 |
| <b>0</b>           | <b>Total budget support</b>     | <b>0</b>           | <b>0</b>           | <b>0</b>           | <b>0</b>          |
| 68,511,498         | Operating expenses              | 60,624,705         | 93,764,740         | 92,355,466         | 1,409,274         |
| 82,472,244         | Capital expenditure             | 83,775,295         | 92,612,924         | 85,181,469         | 7,431,455         |
| <b>150,983,743</b> | <b>Total development budget</b> | <b>144,400,000</b> | <b>186,377,664</b> | <b>177,536,934</b> | <b>8,840,730</b>  |
| <b>164,168,251</b> | <b>Ministry total</b>           | <b>158,545,760</b> | <b>200,523,424</b> | <b>189,064,249</b> | <b>11,459,175</b> |
|                    |                                 |                    |                    |                    |                   |
|                    | Value of imprests issued        |                    |                    | 785,308            |                   |
|                    | No. bank accounts operated      |                    |                    | 2                  |                   |

Table 1: MRD financial summary 2014

### Audit objective and scope

The principal objective of this audit was to determine accuracy, existence and completeness of transactions in these accounting cycles: imprests, procurement and expenditure, bank accounts and fixed assets.

The payroll audit was not covered in this report. Payroll was audited separately and the result was reported in a subsequent report on the SIG payroll as a whole.

The financial period audited was 12 months ended 31 December 2014.

## **Key findings**

The process to issue, manage and monitor special imprests, procurement and expenditure, bank account and assets were inadequate with little compliance with the Financial Instructions.

A summary of the audit issues are summarized below:

### **Special imprests**

#### **Failure to retire Special Imprest on a timely manner**

**Risk rating: High**

OAG noted that special imprests of \$169 380.00 were not retired which was a breach of Financial Instructions Chapter 7 P7 73. The non-compliance to the above provision increases a risk of abuse, misappropriation and loss of public funds.

### **Procurement and expenditure**

#### **LPO was issued, goods received and payment were all done on the same date.**

**Risk rating: High**

The Ministry of Finance and Treasury did have a process in place for issuing LPO where goods were received before payments were made. Local purchase order should be authorised and issued before good are delivered. Then the receiver of the goods would then sign the receipt of the LPO and delivery docket. When goods are received and the LPO with the invoice are then forwarded to Ministry of Finance and Treasury for payment.

OAG identified that a LPO was issued and goods were received by the Ministry and payment of \$1,607,914.00 was done on the same day. The risk of processing everything in one day is that goods received are not properly checked before payment.

#### **Insufficient supporting documents**

**Risk rating: High**

OAG noted that a payment voucher of \$80,312.36 was paid to National Provident Fund for Electricity bills instead of Solomon Power. OAG did not obtain any supporting documents attached to the payment voucher to confirm any agreement made between the two parties. The risk is that the payment made may not be genuine and fraud could be occurring in such payment.

## **Assets**

### **Assets register not provided for Audit**

**Risk rating: High**

The Ministry did maintain a fixed asset register in 2013 but when requested by OAG to assess the 2014 Asset Register it was not provided.

The lack of Asset Register increases the risk of assets in the Ministry been stolen, misused, abused and obsoleted.

### **Conclusion**

The audit highlighted several deficiencies in the monitoring and management of special imprests, procurement and expenditure and assets for the Ministry and has made recommendations to improve the internal controls for these accounting cycles.

OAG noted and acknowledged that the Ministry was addressing the deficiencies found in the previous audit reports.

### **Overall recommendations**

Key recommendations for the Ministry are outlined below:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that Officer responsible attach supporting documents to the payment voucher;
- Ensure that Asset Register is provided when requested by the Office of the Auditor General;
- Regularly update the current fixed asset register;
- Ensure to establish an asset management policy that will determine an appropriate asset value recognition threshold; and
- Ensure to perform stocktake annually and account for the assets.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

### **Detail audit findings and recommendations**

#### **Special imprests**

#### **Special imprests not retired**

**Risk Rating - High**

OAG noted that 36% (4/11) sample selected of special imprests issued in 2014 had not been retired on time or unretired which was a breach of *Financial Instructions Chapter 7 P7 73*.

*Financial Instruction Chapter 7 P7 73* requires special imprests to be retired when the purpose for the imprest has been completed. Also, *Financial Instruction Chapter 7 P7 77* requires interest

to be charged on the outstanding balance if the imprest is not retired within 30 days of the due date.

OAG noted that *Financial Instructions Chapter 7 P7 73* and *Chapter 7 P7 77* were not complied with as a consequence of deficiency in the internal control over special imprests.

Four special imprests value at \$169,380 were unretired in 2014.

### **Implications**

Lack of compliance with *Financial Instructions Chapter 7 P7 73* and *Chapter 7 P7 77* relating to the retirement of special imprests increases the risk of abuse, misappropriation and loss of public funds.

#### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure that all special imprests are retired;
- Submit to the MOFT the receipts and adjustment vouchers for the outstanding imprests as soon as possible; and
- Ensure to remind staff of their obligations to special imprests under the Financial Instructions.

### **Management Response**

*Management did not response to the recommendations on the due date (15 May 2017).*

### **Procurement and expenditure**

**LPO was issued, goods received and payment were all done on the same date.**

#### **Risk Rating – Medium**

The MOFT did have a process in place for issuing LPO, where goods were received before payments could be made. LPO should be authorised, issued and goods are received before the receipt on the LPO and delivery note signed and invoice is then issued. The LPO and invoice are then delivered to Treasury when payment is made some days later.

OAG identified one LPO was issued, goods were received by the Ministry and payment of \$1,607,914.00 was done on the same day. This was a clear breach of the LPO process.

### **Implications**

The risk of processing everything in one day is that goods received might not be properly checked before payment.

#### **Recommendation 2**

OAG recommends that the Ministry:

- Ensure that the Officer responsible checks and verifies the goods received before signing the LPO receipt, delivery note, invoice and sending them to Ministry of Finance for payment.

### **Management Response**

*Management did not response to the recommendations on the due date (15 May 2017).*

### **Insufficient supporting documents**

#### **Risk Rating-High**

OAG noted that a payment voucher of \$80,312.36 was paid to National Provident Fund for electricity bills instead of Solomon Power. OAG did not see any supporting documents attached to the payment voucher to confirm any agreement made between the two parties.

### **Implications**

The risk is that the payment made might not be genuine and fraud could be occurring in such payment.

#### **Recommendation 3**

OAG recommends that the Ministry:

- Ensure that the Officer responsible make sure that supporting documents are attached to the payment voucher.

### **Management Response**

*Management did not response to the recommendations on the due date (15 May 2017).*

## Assets

### Asset Register not provided for audit

**Risk Rating – High**

Financial Instructions M4 4.1 and 4.2 states: “registers of non-current with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO.

The Ministry did maintain a fixed asset register in 2013 but when requested by OAG to assess the 2014 Asset Register it was not provided.

### Implications

The lack of asset register increases the risk of assets in the Ministry been stolen, misused, abused and obsolete surplus assets are not detected for disposal.

#### **Recommendation 4**

OAG recommends that the Ministry:

- Ensure the officer responsible regularly update the asset register;
- Ensure to establish an asset management policy that determines an appropriate asset value recognition threshold;
- Provide the asset register to OAG for audit; and
- Ensure to perform stocktake annually to account for all assets.

### Management Response

*Management did not response to the recommendations on the due date (15 May 2017).*

**18: Ministry of Environment, Climate Change, Disaster Management and Meteorology**

**Overview**

The objectives of the Ministry of Environment, Climate Change, Disaster Management and Meteorology (MECCDMM) are to enhance knowledge and awareness amongst Solomon Islanders on the principles of:

- the environment;
- conservation;
- climate change;
- disaster management; and
- Meteorology.

This is guided by a national policy platform to increase the government’s capacity to adapt to the challenges presented by environmental problems, climate change and natural disasters.

The table below summarises the recorded actual amounts for the following standard auditable areas as at 31 December 2014:

| 2013 actual       | Description                     | Original budget   | Revised budget    | 2014 actual       | Variance          |
|-------------------|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>1,449,357</b>  | Revenue                         | 184,055           | 184,055           | 17,238,012        | -17,053,956       |
| 6,836,954         | Payroll                         | 7,301,894         | 7,301,894         | 6,924,343         | 377,551           |
| 22,820,895        | Operating expenses              | 14,658,129        | 22,919,129        | 20,497,108        | 2,422,021         |
| 1,017,235         | Capital expenditure             | 763,933           | 701,933           | 595,335           | 106,598           |
| <b>30,675,084</b> | <b>Total recurrent budget</b>   | <b>22,723,956</b> | <b>30,922,956</b> | <b>28,016,785</b> | <b>2,906,170</b>  |
| -37,934           | Operating expenses              | 0                 | 7,870,000         | 8,356,799         | -486,799          |
| 0                 | Capital expenditure             | 0                 | 0                 | 0                 | 0                 |
| <b>-37,934</b>    | <b>Total budget support</b>     | <b>0</b>          | <b>7,870,000</b>  | <b>8,356,799</b>  | <b>-486,799</b>   |
| 3,429,256         | Operating expenses              | 5,510,000         | 5,510,000         | 2,004,010         | 3,505,990         |
| 3,084,060         | Capital expenditure             | 13,410,000        | 13,410,000        | 6,228,785         | 7,181,215         |
| <b>6,513,316</b>  | <b>Total development budget</b> | <b>18,920,000</b> | <b>18,920,000</b> | <b>8,232,795</b>  | <b>10,687,205</b> |
| <b>37,150,465</b> | <b>Ministry total</b>           | <b>41,643,956</b> | <b>57,712,956</b> | <b>44,606,380</b> | <b>13,106,576</b> |
|                   | Value of imprests issued        |                   |                   | <b>164,889</b>    |                   |
|                   | No. bank accounts operated      |                   |                   | <b>4</b>          |                   |

Table 1: MECNDM financial summary 2014

### **Audit objectives and scope**

The primary objective of this audit was to obtain sufficient and appropriate evidence in order to express an opinion over the ministry's financial disclosures within the SIG national accounts. A secondary but no less important audit objective was to test the effectiveness of management's internal controls in order to assess the completion and accuracy of reported transactions and balances, the existence of asset and liabilities and probity and propriety of major tender and contracts. The standard auditable areas covered under this engagement include:

- Imprests
- Procurement and expenditure
- Bank accounts
- Assets and stores

The audit covered the 12 months ending 31 December 2014.

### **Conclusion**

The Office of the Auditor-General (OAG) reviewed the procedures and administration of the special imprests, payroll, procurement and expenditure, bank accounts and assets. OAG noted that there were deficiencies in internal controls which continued to arise since 2006. The Ministry has not been able to apply required controls over the past seven years.

### **Key findings**

The process to manage and monitor special imprest accounts, procurement and expenditure, bank accounts and assets was inadequate with little or no regard for the requirements of the Financial Instructions.

The audit issues identified are summarised below:

### **Special imprests**

#### **Failure to retire special imprest accounts on a timely manner (c/fwd 2013)**

#### **Risk Rating - High**

The Ministry still needs improvement in the retirement of special imprests. From the samples tested, 32 special imprest holders either had not retired their imprests or the imprests were retired very late in 2014. This issue was raised with the Ministry in its 2013 accounts and records audit report and was a breach of Financial Instruction P7 68.4.

## **Bank accounts**

### **No segregation of duties over the preparation of bank reconciliation**

**Risk Rating - High**

It is a requirement under Financial Instructions P5 73.5 that bank reconciliation must not be done by the person responsible for issuing cheques or the person responsible for preparing deposits in the bank account. Segregation of duties is one of the fundamental internal controls which helps prevent the concealment of errors and fraud during the normal course of business and applies to bank reconciliation as well. For purposes of control, the preparer of bank reconciliation must be a different person from the reviewer, but both individuals must sign and date the reconciliation in order to validate its accuracy, existence and completeness.

OAG noted that there had not been any review carried out by the Ministry to verify the accuracy of the bank reconciliation.

### **Monthly bank statements not attached with reconciliations.**

**Risk Rating - High**

The Ministry did not perform monthly bank reconciliations for its standing imprest account as required under Financial Instructions P5 73. To confirm for completeness, audit requested the bank statement and the bank reconciliation with the Senior Accountant and Financial Controller, however, the bank statements were not made available. According to the Financial Controller, the bank reconciliation was performed only when they were replenishing the standing Imprest. Audit also noted that bank reconciliation given by the Ministry was not updated and not consistent with the reconciliation.

## **Procurement and expenditure**

### **No monthly reconciliation of account code control cards to treasury information**

**Risk Rating – High**

Financial Instructions P5 96.1 requires the Accounting Officer (AO) to reconcile all account code control cards to treasury information. The reconciliation helps ensure that all transactions are valid, properly authorised and properly recorded in a timely manner. The Ministry did not perform monthly reconciliation of account code control cards to treasury information. This increased the risk of misstatement in financial reports used for decision making over the allocation of financial resources. Financial commitments reported might be materially under or overstated.

### **MTB minutes not attached with payment vouchers**

During the audit, OAG was unable to locate the minutes of the Ministry Tender Board (MTB) and none was attached to the two payment vouchers reviewed. The minutes are important procurement process documents which authorises the payment for the contracts. The

Ministerial Tender Board is responsible for the managing the tender process of the Ministry for specific goods and services.

**Missing payment vouchers (Ministry Information only)**

**Risk Rating – High**

The MOFT needs to improve its filing system for the recording of payment vouchers. OAG was not able to verify seven (7) payments totalling to SBD\$839,761.50 due to missing documentation. As a result OAG was unable to determine whether due process had been followed in incurring and approving the expenditure and whether value for money had been considered.

**Assets**

**Lack of maintaining an asset register**

**Risk Rating – High**

Asset Register is an important internal control measure in an organisation. It helps the organisation identify the assets; their purchase price, location and a tool for managing disposal of assets and procurement plan for new assets. However, OAG noted that the Ministry did not have any asset register as at 31 December 2014.

Financial Instructions M4 4.1 and 4.2 requires proper maintenance of non-current asset register at their acquisition price. This also includes the inventories of non-current assets. Poor maintenance of asset register and non-compliance to the legislation increases the risk of misuse of government property and could lead to theft of assets.

**Payroll**

The audit of payroll cycle was not included in this audit due to the unavailability of Aurion payroll data at the time of audit. Payroll audit was undertaken under a separate audit and the results would be reported in a subsequent report on the SIG payroll as a whole.

**Overall recommendations**

OAG's key recommendations are that the Ministry:

- Ensure that special imprests are retired promptly on the due date and salary deductions are recommended to the Ministry of Finance and Treasury for recovery for unretired imprests;
- Ensure monthly bank reconciliations are performed;
- Ensure segregation of duties in the performance of bank reconciliation;
- Ensure that public funds are properly accounted for;
- Ensure the Ministry complies with Financial Instruction P5 96; and
- Ensure that the Ministry maintain an asset register to capture all assets procured under capex.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

### **Detail audit findings and recommendations**

#### **Special imprests**

##### **Failure to retire imprest accounts on a timely manner (C/fwd 2013)**

#### **Risk Rating - High**

OAG reviewed the Ministry's master copy of the imprest register as at 31 December 2014 as provided by the Ministry of Finance and Treasury. Of the total samples tested, 32 special imprests with the total value of \$1,084,623.28 were not retired in a timely manner. There were instances identified where imprests had either not been retired or the imprests had been retired late. This is a recurring audit issue and has been reported to the Ministry in the 2013 accounts and records report. Financial Instructions P7 68.4 requires special imprests to be accounted for on timely bases. Noncompliance to this section of Financial Instructions has been continually breached over this time.

Financial Instruction P7 68.4 states *special Imprests must not be paid out until after the Special Imprest holder signs the form allowing a salary deduction if the Special Imprest is not accounted for and retired on a timely basis. If the Special Imprest is not retired within a reasonable period, the amount outstanding will be deducted from the Special Imprest holder's salary in accordance with Chapter 1.*

#### **Implication**

The Ministry has not been systematically enforcing the requirements of the Financial Instructions for prompt retirement of Special Imprests which increases the risk of funds being misappropriated.

#### **Recommendation 1**

OAG recommends that the Ministry:

- Ensure that all special imprests are retired on a timely basis;
- Ensure that imprest holders with outstanding imprest are advised in writing that they immediately provide all supporting receipts and documentation to the Chief Accountant, and that if this is not forthcoming recommend to the Ministry of Finance and Treasury to take recovery action and charge interest as stated in Financial Instructions P7 77; and
- Remind Staff of their obligations under the FI and provide training on FI.

**Management response**

*The management did not submit their written response with action plan to OAG with in the timeline.*

**Bank accounts****Lack of segregation of duties over preparation of bank reconciliation****Risk Rating - High**

There was no formal process in place over the preparation and review of Ministry bank account reconciliations through the period 1 January to December 2014. Financial Instruction P5 73.5 requires that bank reconciliations are to be prepared by an officer other than an officer responsible for issuing of cheques or making account deposits. There was also no independent review performed to verify the accuracy of bank reconciliations or ensure that they had been performed.

Financial Instructions P5 73.5 states that “*wherever possible, the bank reconciliation must not be done by an officer responsible for issuing cheques or the officer responsible for preparing deposits into the account*”.

**Implications**

Lack of segregation of duties over the preparation of bank reconciliations could result in inaccurate calculation and omission of likely debits or credits. It also increases the risk of misappropriation of public funds.

**Recommendation 2**

OAG recommends that the Ministry:

- Ensures that monthly bank reconciliations are verified as required by Financial Instruction P5 73.5; and
- Seek guidance from MOFT in how to prepare bank reconciliations.

**Management response**

*The management did not submit their written response with action plan to OAG with in the time line.*

**Monthly bank statements not attached with bank reconciliations****Risk Rating - High**

OAG identified that the standing imprest bank accounts were not reconciled on a monthly basis but only upon the replenishment of the standing imprest or when there was a request for new funding. Furthermore, the test for completeness was not performed because of the non-

availability of the bank statements copies thus OAG was not able to have assurance over the accuracy of the bank reconciliations prepared.

*Financial Instructions P5 73.1 & 73.2 states that “an authorised officer operating a SIG account must obtain monthly bank statements or as often as prescribed by the PS Finance..... and must prepare a bank reconciliation statement every time a bank statement is received.*

### **Implications**

Bank reconciliation is one of the important controls an organisation can have over its transactions. They provide assurance over the accuracy of recording of revenues and expenditures as well as the bank balance itself. However its potency depends upon its timeliness.

### **Recommendation 3**

OAG recommends that the Ministry:

- Perform bank reconciliation on a monthly basis;
- Ensure that the bank reconciliation is dated and signed off by the preparer and an independent reviewing officer; and
- Ensure that the relevant documents are provided for audit purpose.

### **Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

### **Procurement and expenditure**

#### **No monthly reconciliation of account code control cards**

**Risk Rating – High**

OAG noted that the Ministry did not perform reconciliations of the account code cards to treasury information

Financial Instructions P5 96.1 states that “AOs must reconcile all Account Code Control Cards to Treasury Information once a month”. This is to ensure that funds committed to various budget lines in the Ministry are accurately coded and posted to the correct ledger records.

### **Implications**

Lack of reconciliation between the account code control cards to treasury information increases the risk of under or over commitment of ministry actual costs against budget. The effectiveness of management decision making is significantly reduced if financial information is unreliable.

#### **Recommendation 4**

OAG recommends that the Ministry:

- Comply with Financial Instruction P5 96; and
- Ensure monthly reconciliations between account code control cards and treasury ledger information.

#### **Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

#### **MTB Minutes not attached with payment vouchers**

**Risk Rating - High**

OAG was unable to locate the minutes of the Ministry Tender Board (MTB) for two payment vouchers with a total value of \$363,980.00. The minutes of MTBs are important procurement process documents which authorises the payment for the contracts. The Ministerial Tender Board is responsible for the management of the tender process of the Ministry for specific goods and services.

#### **Implications**

The lack of MTB minutes increases the risk of fraud, misappropriation occurring and conflict of interest arising and value for money not being obtained. Also where contractor's payments are processed without proper tendering process and the lack of transparency in the process of tender board increases the risk of corruption.

#### **Recommendation 5**

OAG recommends that the Ministry:

- Followed procurement as per Procurement and Contract Administration Manual 2013 which involves a hierarchy of tendering procedures based upon the value of the procured goods or services;
- Ensure that MTB decisions are properly filed and attached with payment vouchers when raising payments; and
- Consult with MTB to ensure that they have up to date records detailing approved contracts and variation.

#### **Management response**

*The management did not submit their written response with action plan to OAG within the timeline.*

## Assets

### Asset register not up-to-date

#### Risk Rating – High

OAG noted that the Ministry did not maintain an asset register. It was difficult for the Ministry to monitor and control each asset, equipment and inventory that the Ministry purchased over the years. Improvements are still required over the recording and accounting of physical assets.

Financial Instructions M4 4.1 and 4.2 states: “registers of non-current with a value at acquisition at or above the threshold value owned by SIG and controlled by each ministry must be kept by each ministry’s AO. Financial Instructions M4 4.2 says “inventories of moveable non-current assets with a value at acquisition less than the threshold value (inventory assets) owned by SIG and controlled by each ministry must be kept by each ministry’s AO”.

The total value of assets purchased by the Ministry in 2014 was \$11,004,541.

It was further noted that the Ministry did not have a policy for asset value recognition threshold.

#### Implication

Lack of proper maintenance of asset register increases the risk of misuse of government property and theft. Ministry funds intended for capital expenditures may have been misappropriated and no assurance can be obtained in relation to the existence, condition, value or location of the assets.

Where no asset value recognition threshold exists, the value of capital expenditure recorded on an asset register is not consistent.

#### Recommendation 6

OAG recommends that the Ministry:

- That asset register of non-current assets and inventories are maintained with complete description and information of each asset;
- Liaise with PSF to implement a general asset management principle as required in Financial Instructions M4 2;
- Asset stocktake is performed on an annual basis to track and locate the existence and physical condition an asset; and
- Consult MOFT and seek guidance on how to maintain an asset register, determine an appropriate non-current asset value recognition threshold, perform stocktakes and account for assets.

#### Management response

*The management did not submit their written response with action plan to OAG within the timeline.*