



## INDEPENDENT AUDITOR'S REPORT

**To the Minister of Finance and Treasury**

**Report on the Financial Statements of the Solomon Islands Government for the year ended 31 December 2015 in accordance with Public Financial Management Act 2013.**

Pursuant to section 108(3) of the Constitution, I am required under Section 77 (1) of the *Public Financial Management Act (2013)* to audit the financial statements of the Solomon Islands Government as at 31<sup>st</sup> December 2015, which comprise:

- Statement of the Source and Application of Funds
- Comparative Statement of Revenue and Expenditure,
- Balance Sheet Statement,
- Statement of Public Debt,
- Statement of Contingent Liabilities and Loan Guarantees,
- Statement of On Lent Loans,
- Statement of Arrears of Revenue,
- Statement of Special Funds, and
- Accompanying explanatory notes.

***Permanent Secretary for the Ministry of Finance and Treasury's Responsibility for the Financial Statements***

The Permanent Secretary of the Ministry of Finance and Treasury (MOFT) is responsible for the preparation and fair presentation of these financial statements in accordance with an applicable financial reporting framework. The 2015 Solomon Islands Government accounts have been prepared under the reporting requirements of the *Public Financial Management Act (PFMA Act) 2013*.

The Solomon Islands Government also provided to me accounts prepared in accordance with the requirements established under the International Public Sector Accounting Standards (IPSAS) [Financial Reporting under the Cash Basis of Accounting] as required by the Interim Financial Instructions 2014. These are subject to a separate Independent Auditor's Report.

The Permanent Secretary is responsible for such internal control as is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditors' responsibility***

My responsibility is to express an opinion on these financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.

However, because of the significant matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion in accordance with the International Standards on Auditing.

### ***Basis for Disclaimer of Opinion***

The basis for disclaimer of opinion of the 2015 Financial Statements is attributed to the following:

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

There were missing supporting documents for procurement, expenditure and imprests for 2015 financial year. Extensive testing of payments at the Ministry of Finance and Treasury was carried out and of the sample of 127 payments valued at \$337,085,825; 57 payment vouchers (\$208,674,239) were not located. This is 45% in number and 62% of the value.

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

#### ***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 statement 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 is no evidence of independent check of reconciliations performed.

As a result, I was unable to verify the accuracy of the general ledger and the recording of receipts and payments.

*Lack of interface reconciliations in key revenue systems*

It was noted that there were no interface reconciliations in revenue systems, where the cashier prepares an excel spreadsheet and a clerk enters 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 is lack of interface reconciliations in the payroll system between AURION and AX for each pay run. Furthermore, reliance cannot be placed on payroll system as payroll documents worth \$989,255,788.46 were not located for review.

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

*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 2015 Financial Statements.

*Incorrect classification of debt*

OAG Noted that STL Compensation Special Fund was an actual debt as at 31 December 2015, 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 Act require financial statements to be prepared for Special Funds, and that they be 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. Special Funds have been legislated for National Transport Fund (NTF Act 2009) and Solomon Telekom Limited (STL) Compensation Fund (Telecommunication Act 2009). However, these have not been 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.

***Disclaimer of opinion***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Government for the financial year ended 31 December 2015.



Peter Lokay  
Auditor General

Office of the Auditor General  
Solomon Islands

16 April 2019



# Solomon Islands Government

## Financial Statements

**For the Year Ended 31 December 2015**

Prepared in accordance with *Public Financial Management Act 2013*  
Compiled by the Ministry of Finance and Treasury



Contents to the Financial Statements	Page
Management's Declaration Statement	3
Statement of the Source and Application of Funds	4
Comparative Statement of Revenue and Expenditure	5-6
Balance Sheet Statement	7
Statement of Public Debt	8
Statement of Contingent Liabilities and Loan Guarantees	9
Statement of On Lent Loans	10
Statement of Arrears of Revenue	11
Statement of Special Funds	12
<b>Notes to the financial statements</b>	<b>13-20</b>
1. General Information	
2. Significant Accounting Policies	
3. Cash and Cash Equivalents	
4. Taxation	
5. Licenses and Fees	
6. Other Receipts	
7. Supplies and Consumables	
8. Grants paid	
9. Capital Expenditure	
10. Special Funds	
11. External Assistance	
12. Undrawn Borrowing Facilities	
13. Undrawn Grant Facilities	
14. Controlled Entities	
15. Original and Final Budget and Comparison of Budget and Actual Amounts	
16. Government Debt	
17. Contingent Liabilities	
18. Advances	
19. Other Current Assets	
20. Non-Current Assets	
21. Deposits	
22. Other Current Liabilities	
23. Ministry of Finance and Treasury (MoFT)	

## Management's Declaration Statement

The Ministry of Finance and Treasury submits for audit the 2015 Financial Statements of the Solomon Islands Government in accordance with Section 77 of *Public Financial Management Act 2013*. To the best of our knowledge and based on available information, the statements herein are materially accurate and present fairly the Government's financial operations and cash flow for the year ended 31 December 2015.

For and on behalf of the Solomon Islands Government



Harry D Kuma  
Permanent Secretary  
Ministry of Finance and Treasury



Paula Uluinaceva  
Accountant General  
Ministry of Finance and Treasury

## Statement of the Source and Application of Funds

For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>RECEIPTS</b>			
Taxation	4	2,622,642	2,487,398
Licenses & Fees	5	464,189	335,514
<b>External Assistance (Grants)</b>			
Budgetary Support	11	335,174	217,756
Development	11	68,575	139,035
Special Funds	10	112,541	102,392
Other Receipts	6	40,388	12,663
<b>Total Receipts</b>		<b>3,643,509</b>	<b>3,294,757</b>
<b>PAYMENTS</b>			
<b>Operations</b>			
Wages Salaries and employee benefits		1,013,535	855,425
Supplies and consumables	7	1,278,765	1,318,286
<b>Transfers</b>			
Grants paid	8	572,607	465,117
<b>Capital Expenditure</b>			
Purchase/construction of plant and equipment	9	695,116	441,587
<b>Loan and Interest Repayments</b>			
Repayment of borrowings		172,499	61,663
Interest payments		11,055	17,596
<b>Total Payments</b>		<b>3,743,577</b>	<b>3,159,674</b>
<b>Increase/(Decrease) in Cash</b>		<b>(100,069)</b>	<b>135,084</b>
<b>Cash at beginning of year</b>		<b>1,311,360</b>	<b>1,204,593</b>
<b>Increase/(Decrease) in Cash</b>		<b>(100,069)</b>	<b>135,084</b>
<b>Cash at end of year</b>	3	<b>1,211,291</b>	<b>1,339,676</b>
<b>Add/(Less): Net movement in Deposit/Advance Accounts</b>	3	<b>39,542</b>	<b>(28,317)</b>
<b>Cash at Bank</b>	3	<b>1,250,833</b>	<b>1,311,360</b>

The notes disclosed on pages 13 to 20 form part of the financial statements.

Solomon Islands Government

Comparative Statement of Revenue and Expenditure

Classification of Payments by Heads

For the year ended 31 December 2015

	Notes	2015		2015		2015		2014		2014		2014 Difference Final Budget and Actual
		Actual	Final Budget	Original Budget	Difference and Final Budget and Actual	Actual	Final Budget	Original Budget	Difference and Final Budget and Actual			
<b>CASH INFLOWS</b>												
Taxation	4	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Licenses & Fees	5	2,622,642	2,543,835	2,543,835	78,807	2,487,398	2,435,420	2,435,420	51,979	51,979	51,979	51,979
External Assistance (Grants)		464,189	292,753	292,753	171,436	335,514	261,264	261,264	74,251	74,251	74,251	74,251
Budgetary Support	11	335,174	763,483	758,483	(428,310)	217,756	595,577	584,768	(377,821)	(377,821)	(377,821)	(377,821)
Development	11	68,575	114,077	112,757	(45,502)	139,035	-	-	139,035	139,035	139,035	139,035
Special Funds	10	112,541	-	-	112,541	102,392	-	-	102,392	102,392	102,392	102,392
Other Receipts	6	40,388	13,470	13,470	26,918	12,663	14,360	14,360	(1,698)	(1,698)	(1,698)	(1,698)
<b>Total Receipts</b>		<b>3,643,509</b>	<b>3,727,618</b>	<b>3,721,298</b>	<b>(84,109)</b>	<b>3,294,757</b>	<b>3,306,620</b>	<b>3,295,811</b>	<b>(11,863)</b>	<b>(11,863)</b>	<b>(11,863)</b>	<b>(11,863)</b>
<b>CASH OUTFLOWS</b>												
Ministry of Agriculture and Livestock Development		57,894	66,786	64,542	(8,892)	57,509	71,249	70,610	(13,740)	(13,740)	(13,740)	(13,740)
Ministry of Commerce, Industry and Employment		36,198	46,736	46,486	(10,538)	37,653	43,342	41,708	(5,689)	(5,689)	(5,689)	(5,689)
Ministry of Communications and Aviation		50,146	58,439	57,727	(8,293)	61,079	70,143	66,143	(9,064)	(9,064)	(9,064)	(9,064)
Ministry of Communications and Aviation Special Fund		16,131	-	-	16,131	12,408	-	-	12,408	12,408	12,408	12,408
Ministry of Culture and Tourism	10	46,018	50,276	50,276	(4,258)	30,479	35,540	33,540	(5,061)	(5,061)	(5,061)	(5,061)
Ministry of Development Planning and Aid Coordination		17,428	20,465	20,465	(3,037)	7,852	11,068	11,025	(3,215)	(3,215)	(3,215)	(3,215)
Ministry of Education and Human Resources Development		934,084	1,003,870	956,990	(69,786)	844,309	914,320	904,320	(70,011)	(70,011)	(70,011)	(70,011)
Ministry of Environment, Conservation and Meteorology		48,698	56,350	43,346	(7,652)	44,606	57,713	41,644	(13,107)	(13,107)	(13,107)	(13,107)
Ministry of Finance and Treasury	23	364,697	860,120	719,231	(495,422)	279,863	640,200	541,808	(360,337)	(360,337)	(360,337)	(360,337)
Ministry of Finance and Treasury Special Funds	10	35,879	48,597	48,597	(12,719)	21,225	35,414	34,014	(7,157)	(7,157)	(7,157)	(7,157)
Ministry of Fisheries and Marine Resources		50,378	59,133	54,814	(8,754)	41,870	49,404	40,511	(14,189)	(14,189)	(14,189)	(14,189)
Ministry of Foreign Affairs and External Trade		55,807	59,098	50,723	(3,291)	28,285	37,165	37,165	(7,534)	(7,534)	(7,534)	(7,534)
Ministry of Forestry and Research		426,000	484,961	471,056	(58,960)	441,116	534,197	517,894	(8,880)	(8,880)	(8,880)	(8,880)
Ministry of Health and Medical Services		38,673	44,873	41,179	(6,199)	106,482	124,138	85,528	(93,081)	(93,081)	(93,081)	(93,081)
Ministry of Home Affairs		234,688	323,926	322,349	(89,238)	159,661	177,997	146,997	(17,656)	(17,656)	(17,656)	(17,656)
Ministry of Infrastructure Development		96,849	-	-	96,849	97,509	-	-	(18,336)	(18,336)	(18,336)	(18,336)
Ministry of Infrastructure Development Special Fund	10	34,423	36,741	36,318	(2,317)	27,388	41,338	38,521	97,509	97,509	97,509	97,509
Ministry of Lands, Housing and Survey		55,455	63,606	63,606	(8,151)	27,615	37,363	37,363	(13,949)	(13,949)	(13,949)	(13,949)
Ministry of Mines and Energy		41,697	44,802	44,802	(3,105)	32,741	40,476	40,476	(9,748)	(9,748)	(9,748)	(9,748)
Ministry of National Unity, Reconciliation and Peace		21,429	28,744	28,744	(7,315)	12,783	15,917	15,917	(7,735)	(7,735)	(7,735)	(7,735)
Ministry of Police and National Security		289,427	299,776	246,902	(10,350)	220,582	240,432	200,805	(3,133)	(3,133)	(3,133)	(3,133)
Ministry of Provincial Government		152,086	153,102	153,102	(1,016)	133,081	140,871	137,871	(19,850)	(19,850)	(19,850)	(19,850)
Ministry of Public Service		32,702	33,599	33,599	(897)	29,142	32,241	25,241	(7,790)	(7,790)	(7,790)	(7,790)
Ministry of Rural Development		341,427	351,876	351,876	(10,449)	189,064	200,523	158,546	(3,099)	(3,099)	(3,099)	(3,099)
Ministry of Women, Youth and Children's Affairs		13,099	16,197	16,197	(3,097)	11,293	16,227	16,227	(11,459)	(11,459)	(11,459)	(11,459)
National Judiciary		25,367	32,988	28,557	(7,621)	21,552	33,937	31,333	(4,933)	(4,933)	(4,933)	(4,933)

Solomon Islands Government

Notes	2015		2015		2015		2014		2014		Difference Final Budget and Actual
	Actual	Final Budget	Original Budget	Difference Final Budget and Actual	Actual	Final Budget	Original Budget	Difference Final Budget and Actual			
National Parliament	86,281	85,308	80,894	973	75,267	97,292	94,415	(22,025)			
Office of the Auditor General	5,933	6,893	6,893	(959)	6,520	9,839	9,839	(3,319)			
Office of the Governor General	8,496	10,268	10,268	(1,772)	9,609	13,438	13,438	(3,829)			
Office of the Prime Minister and Cabinet	126,187	145,539	133,486	(19,352)	83,972	90,852	85,161	(6,880)			
<b>Total Payments</b>	<b>3,793,577</b>	<b>4,493,067</b>	<b>4,183,022</b>	<b>(749,489)</b>	<b>3,139,674</b>	<b>3,812,636</b>	<b>3,478,060</b>	<b>(652,962)</b>			
<b>NET CASH FLOWS</b>	<b>(100,069)</b>	<b>(765,449)</b>	<b>(461,724)</b>	<b>665,380</b>	<b>135,084</b>	<b>(506,016)</b>	<b>(182,248)</b>	<b>641,099</b>			

The notes disclosed on pages 13 to 20 form part of the financial statements.

## Balance Sheet Statement

As at 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	1,250,833	1,311,360
Advances	18	130,558	131,168
Other Current Assets	19	51	41
<b>Total Current Assets</b>		<u>1,381,441</u>	<u>1,442,568</u>
<b>Non-Current Assets</b>	20		
<b>Total Assets</b>		<u>1,381,441</u>	<u>1,442,568</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Deposits	21	37,096	31,782
Other Current Liabilities	22	42,862	9,234
<b>Total Current Liabilities</b>		<u>79,958</u>	<u>41,016</u>
<b>Non-Current Liabilities</b>	16		
Domestic Debt - CBSI Restructured Bonds		14,104	14,104
<b>Total Non-Current Liabilities</b>		<u>14,104</u>	<u>14,104</u>
<b>Total Liabilities</b>		<u>94,062</u>	<u>55,121</u>
<b>Net Assets</b>		<u><b>1,287,379</b></u>	<u><b>1,387,448</b></u>
<b>ACCUMULATED FUNDS</b>			
Opening Consolidated Fund		1,387,448	1,252,364
Current Year Surplus/(Deficit)		(100,069)	135,084
<b>Total Accumulated Funds</b>		<u><b>1,287,379</b></u>	<u><b>1,387,448</b></u>

The notes disclosed on pages 13 to 20 form part of the financial statements.

## Statement of Public Debt

As at 31 December 2015

<u>SOURCE OF BORROWING</u>	Note	2015 \$'000	2014 \$'000
<b>DOMESTIC</b>	<b>1</b>		
Treasury Bonds			132,687
Treasury Bills		37,923	39,808
Other		4,936	4,940
<b>TOTAL DOMESTIC DEBT</b>		<b>42,859</b>	<b>177,435</b>
<b>PROMISSORY NOTES</b>	<b>2</b>		
International Bank for Reconstruction and Development Multilateral International Guarantee Agency (MIGA)			
International Monetary Fund		191,853	107,059
CBSI		4,936	
<b>TOTAL PROMISSORY NOTES</b>		<b>191,853</b>	<b>107,059</b>
<b>OVERSEAS</b>	<b>3</b>		
Asian Development Bank		273,649	287,984
World Bank		265,820	260,048
European Development Fund & European Investment Bank		19,341	23,183
Others (Exim)		96,224	114,493
<b>TOTAL OVERSEAS DEBT</b>		<b>655,034</b>	<b>685,708</b>
<b>TOTAL PUBLIC DEBT LIABILITY</b>		<b>889,746</b>	<b>970,202</b>

**Notes to the Statement of Public Debt**

- Domestic Debt:** Solomon Islands Government continues its commitment in paying its debt, whilst maintaining the Honiara Club Agreement
- Promissory Notes** is a negotiable instrument of a written promise to pay or repay a specified sum of money at a stated time or on demand.

The promissory notes held by the Solomon Island Government have been issued in lieu of payment as a result of revaluing the Government's membership (Solomon Island dollar against the Special Drawing Rights (SDR)) with certain organisations.

Promissory Notes are controlled and maintained by the Central Bank of Solomon Islands.

- Overseas Debt:**  
Outstanding balances include principal and interest arrears.  
Debts in foreign currency are reported in Solomon Dollars (SBD) by applying the exchange rate as at 31 December 2015.

## Statement of Contingent Liabilities and Loan Guarantees

As at 31 December 2015

	Note	2015 \$'000	2014 \$'000
<b>DOMESTIC LOAN GUARANTEES</b>	1		
Commercial Banks			45,409
<b>OTHER GUARANTEES</b>	2		
Maruha Corporation			
Others (Our Telekom)		12,822	13,379
<b>TOTAL OTHER GUARANTEES</b>		<b>12,822</b>	<b>13,379</b>
Claims against SIG before courts		-	20,536
<b>TOTAL CONTINGENT LIABILITIES</b>		<b>12,822</b>	<b>79,324</b>

**Notes to the Statement of Contingent Liabilities and Loan Guarantees****1. Domestic Guarantees:**

The \$45m is the outstanding balance on loans drawn by Soltuna (Soltai then) in 2010 from the National Provident fund (\$50m) for company's restructuring investments is guaranteed by the Solomon Islands Government. The Guarantee Agreement has a sunset clause that would self-redeem SIG from the guarantee obligation after 5 years, hence the zero balance in 2015

**2. Other Guarantees:**

The compensation payment to Our Telekom for the termination of their exclusive license is guaranteed by the Solomon Islands Government with ongoing repayments.

## Statement of On Lent Loans

As at 31 December 2015

	2015 \$'000	2014 \$'000
Solomon Islands Ports Authority	-	<u>8,660</u>
<b>TOTAL ON LENT LOANS</b>	<u>-</u>	<u><b>8,660</b></u>

**Notes to the Statement of On Lent Loans**

On-lent loans are currently not included in the Balance Sheet Statement.

Solomon Islands Port Authority (SIPA) Loans denominated in Special Drawing rights ("SDR") have been converted to Solomon Island Dollars using the 31 December 2015 exchange rate.

SIPA has fully repaid the on-lent loan as part of a settlement deed with Solomon Islands Government.

## Statement of Arrears of Revenue

As at 31 December 2015

Head	Source of Revenue	2015 \$'000	2014 \$'000
Ministry of Civil Aviation	Departure Tax	<u>463</u>	<u>8,583</u>

**Notes to Statement of Arrears of Revenue**

The *Public Financial Management Act 2013* requires the reporting of revenue arrears in the Government's annual financial Statements.

Revenue arrears have not been disclosed in the Balance Sheet Statement.

The amount disclosed in this statement relates to outstanding departure tax receivable from Virgin Australia, Air Niugini, Fiji Airways and Solomon Airlines.

This does may not represent all outstanding revenue arrears of the Government that are due or collectable. Some information could not be disclosed due to legal requirements such as Tax arrears.

## Statement of Special Funds

For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>Special Fund Receipts</b>			
Ministry of Infrastructure Development	1	97,513	81,569
Ministry of Finance and Treasury (Debt Servicing)	2	2,057	7,156
Ministry of Communications and Aviation	3	12,971	13,667
<b>Total Receipts</b>		<b>112,541</b>	<b>102,392</b>
<b>Special Fund Expenditure</b>			
Ministry of Infrastructure Development		96,849	97,509
Ministry of Finance and Treasury (Debt Servicing)			7,157
Ministry of Communications and Aviation		16,131	12,408
<b>Total Expenditure</b>		<b>112,979</b>	<b>117,074</b>
<b>Surplus/(Deficit)</b>		<b>(438)</b>	<b>(14,682)</b>

### Notes to the Statement of Special Funds

By virtue of Section 100 of the Constitution, these Special Funds pertain to:

1. National Transport Fund established under the National Transport Fund Act 2009, as a SIG- and donor- funded facility for transport infrastructure.
2. Solomon Telekom Limited (STL) Compensation Fund as established under the Telecommunication Act 2009, to facilitate the compensation of STL for the loss of exclusive licensing rights, from telecommunication licensing proceeds.
3. Aviation Special Fund as established under the Civil Aviation Act 2008, to channel fees collected from the use of Solomon Islands airspace to enable Civil Aviation Authority of Solomon Islands (CAASI) to meet the cost of compliance with international aviation and safety standards.

## Notes to and forming part of the financial statements

For the year ended 31 December 2015

### 1. General Information

The primary functions of the Solomon Islands Government (SIG) are based in Honiara. The financial statements are prepared for the economic entity which is SIG. The economic entity comprises all Ministries of SIG and does not include State Owned Enterprises, Statutory Bodies or Provincial Governments.

The principal activities of the economic entity are:

- (i) the administration of legal, policy and regulatory functions;
- (ii) the provision of public goods and services mandated on SIG for its citizens;
- (iii) the prudent management and use of public resources; and
- (iv) the implementation of its policies and programs

The relevant legislation governing the Government's operations are the laws of Solomon Islands.

### 1.1 Reporting Entity

The financial statements are for the Solomon Islands Government. The financial statements reflect the transactions and financial balances of all government Ministries as required to be disclosed pursuant to the *Public Financial Management Act 2013*.

The list of Government Ministries is as follows;

Ministry of Agriculture and Livestock Development  
Ministry of Commerce, Industry and Employment  
Ministry of Communications and Aviation  
Ministry of Culture and Tourism  
Ministry of Development Planning and Aid Coordination  
Ministry of Education and Human Resources Development  
Ministry of Environment, Conservation and Meteorology  
Ministry of Finance and Treasury  
Ministry of Fisheries and Marine Resources  
Ministry of Foreign Affairs and External Trade  
Ministry of Forestry and Research  
Ministry of Health and Medical Services  
Ministry of Home Affairs  
Ministry of Infrastructure Development  
Ministry of Justice  
Ministry of Lands, Housing and Survey  
Ministry of Mines and Energy  
Ministry of National Unity, Reconciliation and Peace  
Ministry of Police and National Security  
Ministry of Provincial Government  
Ministry of Public Service

## Solomon Islands Government

Ministry of Rural Development  
Ministry of Women, Youth and Children's Affairs  
National Judiciary  
National Parliament  
Office of the Auditor General  
Office of the Governor General  
Office of the Prime Minister and Cabinet

### 1.2 Basis of preparation

The financial statements have been as prescribed under Section 77 (1) of the Public Financial Management Act 2013.

The accounting policies have been applied consistently throughout the period.

Comparative information is disclosed in respect of the previous period (2014).

### 1.3 Reporting currency and amounts

The reporting currency is the Solomon Islands dollar (SBD) which is the functional currency of Solomon Islands. The reporting amounts are rounded to the nearest thousand dollars (\$'000).

### 1.4 Authorization Date

The financial statements were authorised for issue by the Permanent Secretary and Accountant General, Ministry of Finance and Treasury on 30 June 2016.

## 2. Significant Accounting Policies

### 2.1 Reporting Period

The financial reporting period is for the twelve months ending 31 December and balances as at that date.

### 2.2 Receipts and Payments Recognition

Revenue is recognised on a cash basis. Expenses are recognised at the date of payment.

## 3. Cash and Cash Equivalents

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and investments in short-term money market instruments. Cash is mainly kept in the Central Bank of Solomon Islands, commercial banks and cash registers.

## Solomon Islands Government

### Cash at year end and Cash at Bank Reconciliation

	2015 \$'000	2014 \$'000
<b>Cash at Bank</b>	<b>1,250,833</b>	<b>1,311,360</b>
<i>Add/(Less) Movements in Deposit/Advance Accounts:</i>		
Payroll Costs PPE 01/01/2015 prepaid	(9,979)	11,789
Unclaimed Payments/Stale Cheques	(33,627)	(1,672)
Deposit Accounts (refer Note 21)	(5,314)	842
Imprest Recoverable (refer Note 17)	12,398	16,066
Staff Advance Receivable (refer Note 17)	(3,029)	1,261
Accounts Receivable (refer Note 19)	10	32
CBSI Restructure Bond		
CBSI Temporary Advance		
<b>Cash at year end</b>	<b>1,211,291</b>	<b>1,339,676</b>

#### 4. Taxation

Taxation receipts comprise of the following amounts:

Company and personal taxation	948,031	830,980
Other withholding taxes	43,886	32,532
Duty & Excise Tax	919,917	875,743
Goods & Sales Tax	710,808	748,144
<b>Total taxation</b>	<b>2,622,642</b>	<b>2,487,398</b>

#### 5. Licenses and Fees

License and fees comprise of following amounts:

Fishing fees	224,387	193,347
Other fees and licences	239,801	142,167
<b>Total Licenses and Fees</b>	<b>464,189</b>	<b>335,514</b>

#### 6. Other Receipts

Included in other receipts are interest received, fines, SOE dividend and miscellaneous receipts.

#### 7. Supplies and Consumables

Supplies and consumables comprise of following amounts:

Consultancy Fees	94,360	60,625
Drugs & Dressings	35,306	40,149
Election Costs	42	98,135
Entertainment	10,500	18,132
Logistics Costs	29,759	39,884
Maintenance	135,313	104,440
National Transport Costs	96,849	106,910
Office Expenses	112,372	135,352
Rent & Hire Costs	150,114	129,657
Subscriptions & Memberships	17,605	17,614
Training Costs	237,418	251,254
Travel & Accommodation	134,443	90,093

## Solomon Islands Government

	2015	2014
	\$'000	\$'000
Utility Costs	104,488	108,828
Other Payments	120,197	117,212
<b>Total Supplies &amp; Consumables</b>	<b>1,278,765</b>	<b>1,318,286</b>

### 8. Grants Paid

Grants comprise of following amounts:

Church Grant	16,370	15,932
Community Services Obligation	16,363	39,903
Diplomatic Mission	24,217	21,177
Education Grant	148,088	137,291
Fixed Services Grant	60,317	51,677
Health Services Grant	82,001	109,442
MP Discretionary Fund	25,000	15,000
Reconciliation Programme	5,198	3,205
STL compensation special fund	-	7,157
Subventions and Grant	179,971	56,596
Other	15,082	7,737
<b>Total Grants Paid</b>	<b>572,607</b>	<b>465,117</b>

### 9. Capital Expenditure

Capital Expenditure comprise of following amounts:

Capex - Canoes and Boats	1,951	2,131
Capex - Communications Equipment	847	697
Capex - Computer Software and Hardware	25,453	30,138
Capex - Land	38,556	9,206
Capex - Motor Vehicles	17,659	8,139
Capex - Non Residential Buildings	162,944	170,371
Capex - Office Equipment	12,515	10,654
Capex - Other Equipment	124,082	43,944
Capex - Plant and Machinery	1,241	1,911
Capex - Residential Buildings	123,654	34,931
Capex - Residential Buildings - Furniture	1,233	1,058
Capex - Roads and Bridges	81,515	81,775
Capex - Ships	28,200	6,000
Capex - Specialised Equipment	52,809	28,581
Capex - Structures, Airfields and Wharves	22,457	12,052
<b>Total Capital Expenditure</b>	<b>695,116</b>	<b>441,587</b>

### 10. Special Funds

In accordance to section 100 of the Constitution of the Solomon Islands, the Parliament may 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 purposes of the those funds.

## Solomon Islands Government

Included in the financial statements are the Special Funds for the following Ministries:

Ministry of Communications and Aviation

Ministry of Infrastructure Development

Ministry of Finance and Treasury – National Debt Servicing division

### 11. External assistance

The Government receives external assistance in three ways:

- External assistance received through government-controlled bank accounts
- Third party payments (payments by donors directly to suppliers)
- External assistance received in the form of goods and services

#### External assistance received through government-controlled bank accounts:

	2015	2014
	\$'000	\$'000
<u>Budget support (recurrent budget)</u>		
Asian Development Bank	2,206	2,604
AUSAID Swap Funding	148,360	124,323
European Union	11,774	1,610
New Zealand Government	64,697	58,003
Papua New Guinea	-	17,870
Republic of China (ROC)	24,059	-
South Pacific Commission	1,466	26
UNICEF/UNDP	2,416	6,830
World Health Organisation	1,810	1,483
Others	78,385	5,007
<b>Total Budget support (recurrent budget)</b>	<b>335,174</b>	<b>217,756</b>
<u>Development grants (development budget)</u>		
AUSAID	1,320	
EU	8,444	
New Zealand Government		4,538
Papua New Guinea		30,942
Republic of China (ROC)	54,869	100,650
UNDP	3,942	2,905
<b>Total Development grants (development budget)</b>	<b>68,575</b>	<b>139,035</b>
<b>Total external assistance received through government-controlled bank accounts</b>	<b>403,748</b>	<b>356,790</b>

#### Third party payments (payments by donors directly to suppliers)

The Government benefits from goods and services purchased on its behalf as a result of cash payments made by third parties (donors) during the period by way of grants. These third parties (donors) are not part of the Solomon Islands Government (economic entity). Such disclosures are only made when the government has been formally advised by the third party (the donor) or the recipient that such payment has been made or the government has otherwise verified the payment.

Information on third party payments are not systematically nor accurately captured by donors and is not fully available to SIG. It is therefore not disclosed in the financial statements.

### External assistance received in the form of goods and services

The Government receives significant resources under external assistance agreements in the form of goods and services. Goods and services are the major form in which external assistance is received by the government.

These include goods such as computers and equipment, and services such as technical assistance and services delivered through the Department of Foreign Affairs and Trade (DFAT) and multilateral agencies such as European Union and Regional Assistance Mission to Solomon Islands (RAMSI). Donors provide substantial assistance in key areas of the law and justice (including policing), rural development, economic/accountability governance, infrastructure, education, health and environment.

### 12. Undrawn Borrowing Facilities

The Solomon Islands Government has re-engaged with concessional borrowing facilities after it regained its borrowing status as assessed by the World Bank and ADB. This was the result of Government's successful undertaking to progressively lower its debt stock as a commitment under the Honiara Club Agreement in 2005.

### 13. Undrawn Grant Facilities

Undrawn external assistance grants at reporting date are amounts specified in a binding agreement which relate to funding for projects currently under development. These relate to projects where contractual conditions have been satisfied and project completion is highly probable.

No verifiable actuals or estimates on external assistance available for 2015.

The terms and conditions that affect access to the undrawn grant facilities differ in nature between budget support and project-specific funding. For budget support, terms and conditions relate to macro-economic stability and the public financial management system. For project-specific funding, terms and conditions vary between projects and may include compliance with international standards, poverty and social impact assessments, environmental assessments, gender equity, reaching project performance milestones, and audited project financial reports.

### 14. Controlled Entities

The following controlled entities have not had their accounts consolidated within these financial statements.

Central Bank of Solomon Islands  
Commodities Export Marketing Authority  
Investment Corporation of Solomon Islands, including its controlled entities  
Solomon Airlines Limited  
Solomon Islands Broadcasting Corporation  
Solomon Islands College of Higher Education/Solomon Islands National University  
Solomon Islands Electricity Authority  
Solomon Islands National Provident Fund, including its controlled entities  
Solomon Islands Ports Authority  
Solomon Islands Postal Corporation  
Solomon Islands Visitor's Bureau  
Solomon Islands Water Authority  
Telecommunication Commission Solomon Islands

## 15. Original and Final Budget and Comparison of Budget and Actual Amounts

The original budget was approved by legislative action on December 2014 and two supplemental appropriations were approved by legislative action during 2015. The original budget objectives and policies, and subsequent revisions are explained in the following documents:

- SIG Year 2015 Approved Recurrent Estimates
- SIG Approved 2015 Development Estimates
- SIG Budget Support 2015 approved in the Recurrent and Development budget
- The 2015 Supplementary Appropriation Acts

The changes between the Original Budget and the Final Budget are a consequence of supplementary appropriations and reallocations within budget heads (virements) during the fiscal year. These are explained in the Supplementary Appropriations.

Despite an under payment of around 48% of committed donor funds, overall revenue achieved a 94% collection rate due largely to better performance in local revenue showing higher than budget collection of around 9%.

The overall expenditure was at 80% of budget and detailed as follows;

Payroll expenditure was 100% of budget (including budget support)

Other Charges was 70% of budget (including budget support)

Development expenditure was 80% of budget (including donor funded)

Debt servicing repayments was 84% of budget

## 16. Government Debt

The Government Debts consist of promissory notes, domestic and overseas debt. These amounts are not disclosed in the Balance Sheet Statement and do not include debt owed by the Government controlled entities.

Refer to the Statement of Public Debt for more information.

## 17. Contingency Liabilities

Contingent liabilities amount comprises of loan guarantees for commercial banks and Our Telekom. Guarantees for State Owned Enterprises and Provincial Government have not been disclosed in the Balance Sheet Statement.

Refer to the Statement of Contingency Liabilities and Loan Guarantees for more information.

## 18. Advances

Advances amounts comprise of imprest and salary advances to public officers;

	2015 \$'000	2014 \$'000
Payroll costs prior year prepayment		11,800
Imprest Recoverable	130,418	118,021
Staff Advances	139	1,347
<b>Total Advances</b>	<b>130,558</b>	<b>131,168</b>

## 19. Other Current Assets

Other current assets include recovery of damaged properties and accounts receivable.

## 20. Non-Current Assets

Due to the structure of the current chart of accounts, the classification of recurrent and development expenditure into operating and capital is not readily available and consequently, the value of non-current assets will be understated or not captured at all. Refer to Note 9 for a list of capital expenditure for the current period.

The OAG note the "Government owns a significant value of assets in houses, other buildings, land, plant, and equipment in addition to those purchases identified. In addition, donors have contributed significant infrastructure and other assets in kind of many years."

It is anticipated that the significant gap in the financial information in relation to the value of SIG's non-current assets will not be addressed in the short term. A significant investment in financial policies and regulations, accounting software, business process improvements, technical capacity and chart of accounts restructure will be required to create a comprehensive asset register for the whole of government.

New Financial Instruction implementation shows some progress in capturing the assets through central payment system, however there still need for training and resources. In relation to the value of SIG investment in State Owned Enterprises, no value for this investment is provided up to this point in time. It is anticipated that this information will be available for reporting in SIG Financial Statements in subsequent periods when such value can be verified.

## 21. Deposits

Deposits are monies held on behalf of other parties and do not form part of the Consolidated Funds

## 22. Other Current Liabilities

Other current liabilities comprise of unclaimed payments and stale cheques.

## 23. Ministry of Finance and Treasury (MoFT)

Cash outflow for MoFT includes the following;

	2015	2014
	\$'000	\$'000
National Debt Servicing	184,008	65,236
Pensions & Gratuities	12,266	6,087
<b>Total</b>	<b><u>196,274</u></b>	<b><u>71,323</u></b>