



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 2014 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 31st December 2014 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 2014 Solomon Islands Government accounts have been prepared under the reporting requirements of the *Public Financial Management Act (PFMA) 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 2014 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 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 (\$202,459,000) were not located. This is 17% of number and 30% 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.

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

OAG noted that MOFT did not prepare the Finance Statements in accordance with *PFMA Act 2013 and Interim Financial Instructions 2014*. The Act requires that the financial statements include a Statement of Commitments and Statement of Public Stores and Assets. These have not been disclosed in the financial statements.

The PFMA section 77 requires a set of Statements to be disclosed. In addition, the Interim Financial Instructions 2014 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.

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 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 should 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 2014.



Peter Lokay
Auditor- General

Office of the Auditor-General
Solomon Islands

26 September 2017



Solomon Islands Government

Financial Statements

For the Year Ended 31 December 2014

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

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Management's Declaration Statement

The Ministry of Finance and Treasury submits for audit the 2014 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 2014.

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 2014

	Notes	2014 \$'000	2013 \$'000
RECEIPTS			
Taxation	4	2,487,398	2,469,131
Licenses & Fees	5	335,514	285,061
External Assistance (Grants)			
Budgetary Support	11	217,756	315,367
Development	11	139,035	151,129
Special Funds	10	102,392	83,410
Other Receipts	6	12,663	102,608
Total Receipts		3,294,757	3,406,706
PAYMENTS			
Operations			
Wages Salaries and employee benefits		855,425	778,837
Supplies and consumables	7	1,318,286	1,216,742
Transfers			
Grants paid	8	465,117	508,989
Capital Expenditure			
Purchase/construction of plant and equipment	9	441,587	479,391
Loan and Interest Repayments			
Repayment of borrowings		65,236	169,757
Interest payments		14,022	17,534
Total Payments		3,159,674	3,171,251
Increase/(Decrease) in Cash		135,084	235,455
Cash at beginning of year		1,204,593	948,937
Increase/(Decrease) in Cash		135,084	235,455
Cash at end of year	3	1,339,676	1,184,392
Add/(Less): Net movement in Deposit/Advance Accounts	3	(28,317)	20,200
Cash at Bank	3	1,311,360	1,204,593

The notes disclosed on pages 13 to 21 form part of the financial statements.

Comparative Statement of Revenue and Expenditure

Classification of Payments by Heads

For the year ended 31 December 2014

Notes	2014 Actual	2014		2014 Final Budget	2014 Original Budget	2014 Difference Final Budget and Actual \$'000	2013 Actual	2013		2013 Difference Final Budget and Actual \$'000
		\$'000	\$'000					\$'000	\$'000	
CASH INFLOWS										
Taxation	3	2,487,398	2,435,420	2,435,420		51,979	2,469,131	2,416,846	2,416,846	52,285
Licenses & Fees	4	299,592	232,892	232,892		66,700	264,082	181,948	181,948	82,134
External Assistance (Grants)										
Budgetary Support	11	217,756	595,577	584,768		(377,821)	315,367	660,530	645,545	(345,163)
Development	11	139,035	-	-		139,035	151,129	211,871	211,871	(60,742)
Special Funds	9	102,392	-	-		102,392	83,410	71,129	-	12,281
Other Receipts	5	48,585	42,732	42,732		5,854	123,587	83,824	83,824	39,763
Total Receipts		3,294,757	3,306,620	3,295,811		(11,863)	3,406,706	3,626,148	3,540,034	(219,442)
CASH OUTFLOWS										
Ministry of Agriculture and Livestock Development	10	57,509	71,249	70,610		(13,740)	64,378	88,346	88,956	(23,968)
Ministry of Commerce, Industry and Employment		37,653	43,342	41,708		(5,689)	34,462	39,797	43,597	(5,335)
Ministry of Communications and Aviation		61,079	70,143	66,143		(9,064)	127,815	140,335	111,935	(12,521)
Ministry of Communications and Aviation Special Fund		12,408	-	-		12,408	6,807	-	-	6,807
Ministry of Culture and Tourism		30,479	35,540	33,540		(5,061)	46,117	49,414	47,414	(3,297)
Ministry of Development Planning and Aid Coordination		7,852	11,068	11,025		(3,215)	37,329	38,731	38,369	(1,402)
Ministry of Education and Human Resources Development		844,309	914,320	904,320		(70,011)	847,544	981,452	854,828	(133,908)
Ministry of Environment, Conservation and Meteorology		44,606	57,713	41,644		(13,107)	37,150	41,494	33,574	(4,343)
Ministry of Finance and Treasury		279,863	640,200	541,808		(360,337)	394,651	547,963	524,026	(153,312)
Ministry of Finance and Treasury Special Funds		7,157	-	-		7,157	-	-	-	-
Ministry of Fisheries and Marine Resources	10	21,225	35,414	34,014		(14,189)	22,240	26,467	26,730	(4,227)
Ministry of Foreign Affairs and External Trade		41,870	49,404	40,511		(7,534)	45,191	48,644	44,921	(3,453)
Ministry of Forestry and Research		28,285	37,165	37,165		(8,880)	50,596	57,276	57,576	(6,680)
Ministry of Health and Medical Services		441,116	534,197	517,894		(93,081)	413,028	579,030	578,427	(166,002)
Ministry of Home Affairs		106,482	124,138	85,528		(17,656)	49,391	80,133	82,691	(30,742)
Ministry of Infrastructure Development		159,661	177,997	146,997		(18,336)	145,654	195,137	183,437	(49,483)
Ministry of Infrastructure Development Special Fund		97,509	-	-		97,509	52,229	71,129	-	(18,901)
Ministry of Justice		27,388	41,338	38,521		(13,949)	26,793	30,855	28,545	(4,062)
Ministry of Lands, Housing and Survey		27,615	37,363	37,363		(9,748)	19,468	28,237	30,237	(8,770)
Ministry of Mines and Energy		32,741	40,476	40,476		(7,735)	41,842	45,353	46,762	(3,511)
Ministry of National Unity, Reconciliation and Peace	12,783	15,917	15,917		(3,133)	9,245	12,286	10,449	(3,042)	
Ministry of Police and National Security	220,582	240,432	200,805		(19,850)	163,980	196,834	189,833	(32,854)	
Ministry of Provincial Government	133,081	140,871	137,871		(7,790)	111,440	116,390	116,390	(4,949)	
Ministry of Public Service	29,142	32,241	25,241		(3,099)	49,978	49,544	43,544	435	

Comparative Statement of Revenue and Expenditure (continued)

	Notes	2014		2014		2014		2013		2013		2013 Difference Final Budget and Actual \$'000
		Actual	Final Budget	Original Budget	Difference Final Budget and Actual \$'000	Actual	Final Budget	Original Budget	Difference Final Budget and Actual \$'000			
CASH OUTFLOWS												
Ministry of Rural Development		189,064	200,523	158,546	(11,459)	164,168	212,917	212,167	(48,748)			
Ministry of Women, Youth and Children's Affairs		11,293	16,227	16,227	(4,933)	21,132	24,824	24,824	(3,692)			
National Judiciary		21,552	33,937	31,333	(12,385)	22,081	28,111	27,310	-			
National Parliament		75,267	97,292	94,415	(22,025)	64,286	70,467	59,252	(6,181)			
Office of the Auditor General		6,520	9,839	9,839	(3,319)	5,877	9,948	9,238	(4,071)			
Office of the Governor General		9,609	13,438	13,438	(3,829)	7,698	10,765	10,765	(3,066)			
Office of the Prime Minister and Cabinet		83,972	90,852	85,161	(6,880)	88,680	102,773	93,337	(14,092)			
Total Payments		3,159,674	3,812,636	3,478,060	(652,962)	3,171,251	3,924,651	3,619,134	(747,370)			
		135,084	(506,016)	(182,248)	641,099	235,455	(298,503)	(79,100)	527,929			
NET CASH FLOWS												

The notes disclosed on pages 13 to 21 form part of the financial statements.

Balance Sheet Statement

As at 31 December 2014

	Notes	2014 \$'000	2013 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	1,311,360	1,204,593
Advances	18	131,168	102,053
Other Current Assets	19	41	9
Total Current Assets		1,442,568	1,306,655
Non-Current Assets			
	20	-	-
Total Assets		1,442,568	1,306,655
LIABILITIES			
Current Liabilities			
Deposits	21	31,782	32,624
Other Current Liabilities	22	9,234	7,562
Total Current Liabilities		41,016	40,186
Non-Current Liabilities			
	16		
Domestic Debt - CBSI Restructured Bonds		14,104	14,104
Total Non-Current Liabilities		14,104	14,104
Total Liabilities		55,121	54,290
Net Assets		1,387,448	1,252,364
ACCUMULATED FUNDS			
Opening Consolidated Fund		1,252,364	1,016,909
Current Year Surplus/(Deficit)		135,084	235,455
Total Accumulated Funds		1,387,448	1,252,364

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

Statement of Public Debt

As at 31 December 2014

<u>SOURCE OF BORROWING</u>	Note	2014	2013
		\$'000	\$'000
DOMESTIC	1		
Treasury Bonds		132,687	162,656
Treasury Bills		39,808	35,949
Other		4,940	4,940
TOTAL DOMESTIC DEBT		177,435	203,545
PROMISSORY NOTES	2		
International Bank for Reconstruction and Development			7,524
Multilateral International Guarantee Agency (MIGA)			102
International Monetary Fund		107,059	107,059
TOTAL PROMISSORY NOTES		107,059	114,685
OVERSEAS	3		
Asian Development Bank		287,984	313,508
World Bank		260,048	278,487
European Development Fund & European Investment Bank		23,183	28,350
Others		114,493	123,621
TOTAL OVERSEAS DEBT		685,708	743,965
TOTAL PUBLIC DEBT LIABILITY		970,202	1,062,195

Notes to the Statement of Public Debt

- Domestic Debt:** Solomon Islands Government continues its commitment to service its current and outstanding debt, in line with its Public Debt Management Strategy and the intentions of Part 8 of the Public Financial Management Act 2013.
- 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 2014.

Statement of Contingent Liabilities and Loan Guarantees

As at 31 December 2014

	Note	2014 \$'000	2013 \$'000
DOMESTIC LOAN GUARANTEES			
Commercial Banks	1	45,409	49,203
OTHER GUARANTEES	2		
Maruha Corporation		-	4,138
Others (Our Telekom)		13,379	-
TOTAL OTHER GUARANTEES		13,379	4,138
Claims against SIG before courts		-	20,536
TOTAL CONTINGENT LIABILITIES		58,788	73,877

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.

2. Other Guarantees:

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

Statement of On Lent Loans

As at 31 December 2014

	2014 \$'000	2013 \$'000
Solomon Islands Ports Authority	8,660	11,609
TOTAL ON LENT LOANS	8,660	11,609

Notes to the Statement of On Lent Loans

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

Solomon Islands Port Authority Loans denominated in Special Drawing rights ("SDR") have been converted to Solomon Island Dollars using the 31 December 2014 exchange rate.

The balance is confirmed from Solomon Islands Ports Authority 2014 Financial Statements.

Statement of Arrears of Revenue

As at 31 December 2014

Head	Source of Revenue	2014	2013
		\$'000	\$'000
Ministry of Civil Aviation	Departure Tax	<u>8,583</u>	<u>5,392</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 amounts disclosed in this statement does not represent all outstanding revenue arrears for the Government.

Work is underway to clarify policies and processes that need to be in place to help fully capture this information, for inclusion in future financial statements.

Statement of Special Funds

For the year ended 31 December 2014

	Notes	2014 \$'000	2013 \$'000
Special Fund Receipts			
Ministry of Infrastructure Development	1	81,569	71,264
Ministry of Finance and Treasury (Debt Servicing)	2	7,156	
Ministry of Communications and Aviation	3	13,667	12,146
Total Receipts		102,392	83,410
Special Fund Expenditure			
Ministry of Infrastructure Development	1	97,509	52,229
Ministry of Finance and Treasury (Debt Servicing)	2	7,157	
Ministry of Communications and Aviation	3	12,408	6,807
Total Expenditure		117,074	59,035
Surplus/(Deficit)		(14,682)	24,375

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 2014

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

Solomon Islands Government

Ministry of Public Service
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 (2013).

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 2015.

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.

Cash at year end and Cash at Bank Reconciliation

	2014 \$'000	2013 \$'000
Cash at Bank	1,311,360	1,204,593
<u>Add/(Less) Movements in Deposit/Advance Accounts:</u>		
Payroll Costs PPE 01/01/2015 prepaid	11,789	0
Unclaimed Payments/Stale Cheques	(1,672)	(6,503)
Deposit Accounts (refer Note X)	842	(23,922)
Imprest Recoverable (refer Note 17)	16,066	8,867
Staff Advance Receivable (refer Note 17)	1,2601	(346)
Accounts Receivable (refer Note 19)	32	(0)
CBSI Restructure Bond	0	(653)
CBSI Temporary Advance	0	2,356
Cash at year end	1,339,676	1,184,392

4. Taxation

Taxation receipts comprise of the following amounts:

Company and personal taxation	830,980	899,099
Other withholding taxes	32,532	36,986
Duty & Excise Tax	875,743	792,122
Goods & Sales Tax	748,144	740,924
Total taxation	2,487,398	2,469,131

5. Licenses and Fees

License and fees comprise of following amounts:

Fishing fees	193,347	149,297
Other fees and licences	142,157	135,764
Total Licenses and Fees	335,503	285,061

6. Other Receipts

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

7. Supplies and Consumables

Supplies and consumables comprise of following amounts:

Consultancy Fees	60,625	59,393
Drugs & Dressings	40,149	38,708
Election Costs	98,135	21,964
Entertainment	18,132	15,619
Logistics Costs	39,884	26,651
Maintenance	104,440	115,627
National Transport Costs	106,910	60,592
Office Expenses	135,352	113,403
Rent & Hire Costs	129,657	123,817
Subscriptions & Memberships	17,614	24,327

Solomon Islands Government

	2014 \$'000	2013 \$'000
Training Costs	251,254	267,297
Travel & Accommodation	90,093	101,917
Utility Costs	108,828	99,805
Other Payments	117,212	147,623
Total Supplies & Consumables	<u>1,318,286</u>	<u>1,216,742</u>

8. Grants Paid

Grants comprise of following amounts:

Church Grant	15,932	19,105
Community Services Obligation	39,903	39,185
Diplomatic Mission	21,177	20,185
Education Grant	137,291	152,254
Fixed Services Grant	51,677	49,362
Health Services Grant	109,442	87,825
MP Discretionary Fund	15,000	24,714
Reconciliation Programme	3,205	4,609
STL compensation special fund	7,157	57,900
Subventions and Grant	56,596	-
Other	7,737	53,850
Total Grants Paid	<u>465,117</u>	<u>508,989</u>

9. Capital Expenditure

Capital Expenditure comprise of following amounts:

Capex - Canoes and Boats	2,131	9,264
Capex - Communications Equipment	697	1,258
Capex - Computer Software and Hardware	30,138	21,939
Capex - Land	9,206	9,190
Capex - Motor Vehicles	8,139	15,233
Capex - Non Residential Buildings	170,371	129,572
Capex - Office Equipment	10,654	11,576
Capex - Other Equipment	43,944	50,333
Capex - Plant and Machinery	1,911	16
Capex - Residential Buildings	34,931	50,135
Capex - Residential Buildings - Furniture	1,058	507
Capex - Roads and Bridges	81,775	59,032
Capex - Ships	6,000	21,600
Capex - Specialised Equipment	28,581	36,619
Capex - Structures, Airfields and Wharves	12,052	63,118
Total Capital Expenditure	<u>441,587</u>	<u>479,391</u>

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.

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

Refer to the Statement of Special Funds for more information.

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:

	2014 \$'000	2013 \$'000
<u>Budget support (recurrent budget)</u>		
Asian Development Bank	2,604	36,390
AUSAID Swap Funding	123,575	192,908
European Union	1,610	-
New Zealand		
Government	58,003	68,463
Papua New Guinea	17,870	-
Republic of China (ROC)	-	3,030
South Pacific Commission	26	638
UNICEF/UNDP	6,830	3,232
World Health Organisation	1,483	1,022
Others	5,007	6,655
Total Budget support (recurrent budget)	217,007	312,337
<u>Development grants (development budget)</u>		
AUSAID		17,638
New Zealand		
Government	4,538	
Papua New Guinea	30,942	63,296
Republic of China (ROC)	100,650	70,098
UNDP	2,905	98
Total Development grants (development budget)	139,035	151,129
Total external assistance received through government-controlled bank accounts	356,042	463,466

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.

The following amounts are estimates of external assistance received in 2014. These amounts may include amounts without a binding agreement.

	Amounts per year
	\$'000
<i>Estimates of external assistance</i>	
2014	940,453

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 2013 and two supplemental appropriations were approved by legislative action during 2014. The original budget objectives and policies, and subsequent revisions are explained in the following documents:

- SIG Year 2014 Approved Recurrent Estimates
- SIG Approved 2014 Development Estimates
- SIG Budget Support 2014 approved in the Recurrent and Development budget
- The 2014 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.

The total actual spending for the year was 17% below the revised final estimates. This is largely due to:

- lack of and slow capacity to implement donor-funded programmes and projects in MOFT, MHMS and MEHRD which led to substantial underspending;
- general non-compliance with spending rules and requirements; and
- in some cases, the over-provisioning of budgetary requirements during the formulation of budgets for appropriation purposes.

The 2014 revenue reported an under budget collection of 0.4%. Actual receipts of donor budget support being were lower than budget by about 63%, which was offset by strong than budgeted receipts from development grants, special funds, taxes and other government revenues.

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;

	2014 \$'000	2013 \$'000
Payroll costs pay period ending 01/01/2015	11,800	
Imprest Recoverable	118,206	101,955
Staff Advances	1,347	86
Total Advances	131,168	102,041

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.

Solomon Islands Government

23. Ministry of Finance and Treasury (MoFT)

National Debt Servicing and Pension and Gratuities are included in the MoFT amounts as follows;

	2014 \$'000	2013 \$'000
National Debt Servicing	65,236	169,757
Pension & Gratuities	6,087	6,232
Total	71,323	175,989