SOLOMON ISLANDS GOVERNMENT

OFFICE OF THE AUDITOR GENERAL

2018 AUDIT REPORT ON STATE OWNED ENTERPRISES AND STATUTORY AUTHORITIES

Auditor-General
Office of the Auditor-General
P O Box G18
Honiara
Solomon Islands

December 2018

National Parliament Paper No 2 of 2019

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Foreword from the Auditor General

Mr Speaker,

I am pleased to present this report to Parliament covering the results of annual financial statements audits performed during 2018 on state owned enterprises (SOE) and statutory authorities (SA).

This Report details the results of financial statements audits conducted as well as the high risk issues identified in our audits on the state owned enterprises and statutory authorities.

It is pleasing to note that most SOE and SA continue to improve in their financial performance and financial management.

This Office's role is to promote the transparency and accountability of the collection and use of resources intended for contributing to the public good. Good quality and timely financial reporting, underpinned by strong internal controls, serves as a solid foundation for encouraging high quality service delivery to the public. It is hoped that greater public scrutiny of the management issues affecting the efficiency and effectiveness of these organisations will encourage boards and managements to accelerate their adoption of recommendations made by this Office to correct any weaknesses identified during our audits.

Acknowledgement

I thank my officers and contracted auditors for the great work that they have done which resulted in the production of this report.

I acknowledge the assistance and cooperation provided by the board, management and staff of each SOE and SA to my office during the audit.

Peter Lokay
Auditor-General

December 2018

Summary

Audits

In 2018 the Auditor General issued audit opinions on financial statements received in respect of the following state owned enterprises (SOE) and statutory bodies. An explanation of what the audit opinion means is detailed in Appendix 1 of this report.

Table 1: State Owned Enterprises which received audit certificates during 2018

Auditee	Financial year-end	Date f/s certified by management	Date of audit certification	Audit opinion
CEMA	31/12/2017	23/03/2018	26/03/2018	Unqualified
ICSI	31/12/2009	18/12/2017	23/03/2018	Unqualified
ICSI	31/12/2010	18/12/2017	23/03/2018	Unqualified
ICSI	31/12/2011	18/12/2017	23/03/2018	Unqualified
SIBC	31/12/2017	28/03/2018	28/03/2018	Unqualified
SAL	31/12/2017	24/10/2018	30/10/2018	Unqualified
SIPA	30/09/2017	04/06/2018	11/06/2018	Unqualified
SIPC	31/12/2017	22/08/2018	22/08/2018	Disclaimer
SIEA	31/12/2017	26/03/2018	27/03/2018	Unqualified
SIWA	31/12/2017	28/03/2018	30/03/2018	Qualified

Table 2: Statutory Bodies & Other Agencies which received audit certificates during 2018

Auditee	Financial year-end	Date certified by management	Date of audit certification	Audit opinion
CBSI	31/12/2017	30/04/2018	30/04/2018	Unqualified
SINPF	30/06/2018	03/10/2018	04/10/2018	Unqualified
SINU	31/12/2013	26/02/2018	17/04/2018	Disclaimer
SINU	31/12/2014	26/02/2018	17/04/2018	Disclaimer
SINU	31/12/2015	26/02/2018	17/04/2018	Disclaimer
SINU	31/12/2016	26/02/2018	17/04/2018	Disclaimer
TCSI	31/12/2017	01/03/2018	24/09/2018	Unqualified

From the list above, it is evident that great progress is being made by SOE and Statutory Bodies to meet their statutory financial reporting obligations.

Overall assessment

The *State Owned Enterprises Act 2012* [SOE Act] requires state owned enterprises to produce, within three months of the end of the financial year, 'audited consolidated financial statements for that financial year consisting of statements of financial position, profit or loss, changes in financial position, and such other statements as may be necessary to show separately the financial position of the state owned enterprise and each of its subsidiaries and the financial results of their operations during that financial year'.

Most of the State-owned enterprises have managed to meet the reporting timeframes of the SOE Act due to improvement in capacity resulting in them producing better quality financial statements in a timelier manner.

The majority of the SOE and statutory bodies received unqualified audit opinion on their audited financial statements. It was encouraging to note that they continued to produce accounts in compliance with international financial reporting standards (IFRS) and international public sector accounting standards (IPSAS) cash basis.

There were also significant improvements made in the accounting records and internal controls for most of the entities being reported on in this report.

The improvement in the audit results for the larger SOEs and statutory bodies was encouraging. Some of the smaller SOE's and statutory authorities still had some way to go to improve their record keeping, transaction recording and internal controls and this Office looks forward to continuing to provide advice to the entities' managements on these matters. It is important for the economy and the people of Solomon Islands that all the public entities continue to work towards becoming more financially viable, efficient and effective.

Outsourced audits

A number of SOE and SA audits are contracted to international accounting firms. Table 3 below shows the audits currently contracted out, the period of contract and to whom they are contracted to.

The outsourced audit contracts for SIPA and Solomon Airlines expired in 2017 and new contracts were awarded. Three outsourced audits were tendered in 2018. The tender for Central Bank of Solomon Islands audit was awarded to PwC for the period 2018 to 2022. The tender for SIEA audit for period 2018 to 2022 was awarded to KPMG Fiji and the tender for SIWA audit for 2019 to 2023 will be awarded in 2019. The contract for the audit of SIWA for 2018 financial year has been extended for EY Fiji.

Table 3: Outsourced audits

Auditee	Audit firm & contract period
Central Bank of Solomon Islands (CBSI)	KPMG Fiji (FY 2013 – 2017)
Central Bank of Solomon Islands	PwC Fiji (FY 2018 – 2022)
Solomon Islands National Provident Fund (SINPF)	KPMG Fiji (FY 2014 – 2018)
Solomon Islands Water Authority (SIWA)	Ernst & Young Fiji (FY 2013 – 2018)
Solomon Islands Electricity Authority	Ernst & Young Fiji (FY 2013 – 2017)
Solomon Islands Electricity Authority (SIEA)	KPMG Fiji (FY 2018 – 2022)
Solomon Islands Ports Authority (SIPA)	KPMG Fiji (FY 2017 – 2021)
Solomon Airlines Limited (SAL)	PwC Fiji (FY 2017 – 2021)

Status of audits

Table 4 below shows the status of all outstanding financial statements audits for SOE and statutory bodies as at December 2018.

Table 4: SOE and statutory bodies' audits status as at December 2018

Auditee	Latest financial statement	Signed off by auditee	Signed off by Auditor-General
Investment Corporation of Solomon Islands	2012 - 2017	Not yet signed off	Not yet signed off
Solomon Islands Visitors Bureau	2015 - 2017	Not yet signed off	Not yet signed off
Solomon Islands Ports Authority	2018	Not yet signed off	Not yet signed off
Solomon Islands National University	2017	Not yet signed off	Not yet signed off

The majority of SOEs and Statutory Bodies have a 31 December year-end with the exception of SIPA which has a 30 September year-end and SINPF which has a 30 June year-end. The statutory deadline for audit certification of SOE financial statements is within three months of year end or 31 March. Different Statutory Bodies have different statutory dates for submitting their financial statements to the Auditor General for audit depending upon their enabling legislation. It should be noted that 7 sets of financial statements received audit certification within the reporting death lines. Four SOE and two SA fail to meet their reporting death lines.

Chapter 1: Central Bank of Solomon Islands

Audit opinion

The audit of the Central Bank of Solomon Islands (CBSI) was outsourced to KPMG, Fiji, under a five year contract agreement to audit the 2013 to 2017 accounts. The CBSI annual financial statements in 2017 received an unqualified audit opinion as they were assessed as having complied with the International Financial Reporting Standards (IFRS).

Audit issues

The 2017 risk issues identified at the Central Bank comprised of:

Foreign exchange dealings with POB

The Central Bank currently is assisting Pan Oceanic Bank (POB) to settle their USD export receipts since POB do not have an arrangement with a corresponding bank to do so. The Central Bank is facilitating this arrangement through Federal Reserve Bank of New York (FRNY). This arrangement with the FRNY expires on 30 June 2018.

The logging industry is one of the main export earners of the country. If this matter is not resolved in a timely manner it could have a significant impact not only for the logging industry but for Central Bank and the country as it will severely affect the external reserves of the country and economic growth.

Formal disaster recovery and business continuity plan

There is no formal disaster recovery plan that exists to provide details for the orderly resumption of operations subsequent to a total failure of the data processing system. Furthermore, there is also no business continuity plan with the occurrence of an unexpected catastrophic event such as a natural disaster.

The non-existence of a formal disaster recovery plan increases the risk of loss of data and disruption to the operations of the Bank in the event of a system failure. In addition, lack of business continuity plan could significantly impact operations arising from unexpected events.

Risk management function

Risk Management is a critical function for any organization especially the Board and senior management. To sufficiently fulfill their duties, directors and management need to ensure that they are aware of the unique circumstances and potential legal, reputational, operational and financial risks that exist within their operations.

It is noted that the Bank currently does not have a formal enterprise risk management ("ERM") framework. ERM is a systematic and structured approach to identifying, assessing and analyzing risks and to develop a response strategy.

Management may not be aware of the Bank's risks and thus may not be able to prevent or react to events that can impact the goals and objectives of the Bank.

Internal Audit Function

The quality and effectiveness of the internal audit function provides the Board an objective assessment of whether the risks of the Bank have been appropriately mitigated and that the Bank's process and controls are operating effectively.

The internal audit (IA) department comprises of only two staff. Four audit cycles were performed during the year which focused on the Currency and Banking Operation Unit. Some of the significant areas of the Bank include management of external reserves, information technology, accounting and financial and financial supervision which have not been reviewed by internal audit in recent years. The internal audit reports indicate that the audits are predominately compliance based rather than risk based.

Assurance may not be provided on all key risks and/or the assurance that is offered may be superficial. Additionally, the internal audit function may be unprepared to deal with emerging risks if they do not have necessary knowledge, training and experience.

Review function needs to be strengthened

The overall review process over reconciliation is not evidenced. The following matters were noted during the audit:

- Currency in circulation (CIC) reconciliation for February 2017 had not been adequately prepared and reviewed. The balance in the reconciliation was the same as that of the prior month despite there had been issues and lodgment during the month.
- There were unexplained differences between the CIC reconciliation, the CIC register and general ledger. The variance varies month to month during the current financial year.
- There were also variances between the currency inventory listing and the general ledger. This resulted in an audit misstatement of approximately $6m during the financial year as the general ledger balance was overstated.
- That stocktake sheets are not signed off by the management for the SIG stock. There were differences between the actual count and that recorded in the SIG Register.

Lack of evidence of review of monthly reconciliations and including inadequate level of skepticism applied to review of account balances could result in errors or irregularities not being detected and corrected in a timely manner.

Timeliness of bank reconciliation

The monthly bank reconciliation were not prepared and reviewed in a timely manner. Staffing constraints have contributed to the delay in the preparation of the bank reconciliation. It was also noted that the financial manual does not state when the preparation and review is required to be done by. It only states that the reconciliation is to be prepared within 15 days of the month-end.

The effectiveness of the bank reconciliation is diminished when they are not prepared in a timely manner. There is increased risk that errors and irregularities will not be identified and resolved if reconciliation are not prepared and reviewed properly.

No formal procurement policy

The Bank does not have a formal procurement and tender policy. This includes the end to end process from requisition approval, purchase order approval, goods received, payment authorization for capital expenditure. Additionally, there is no summary of delegation in place as well.

The following practice is in place for procurement:

- Any purchase of goods or service above SBD1million is approved by the Governor or in his absence the Deputy Governor.
- Any purchases less than SBD1million are approved by the Chief Managers.

There is a risk of loss to the bank or reputational damage if procurement procedures and policies are not implemented and approved.

Information Technology Operations

The following weaknesses are noted in the IT Operation controls:

- There are no proper documented backup procedures.
- Periodic testing of the backup does not occur to test the effectiveness of the restoration process or the quality of the backup media. Reliability of the backup media and the efficiency of the processes may be reduced due to lack of testing.
- There is no preventative maintenance plan for the Bank's IT systems for routine servicing, troubleshooting and updating. The IT function currently employs a reactive approach to addressing IT risks.

There is risk of disruption to the bank's operations if backups and periodic testing and maintenance are not undertaken.

Access to programs and data

The following weakness is noted when assessing the logical and physical access security controls in place:

- There is neither formalized process in place to review user accounts on any of the Bank's applications for inappropriate access nor a formal process to add or remove user profiles for users that have been terminated or hired.
- There is no proper record management for retention of user access approval and modification forms.
- There are no formal procedures for creating user access profiles and requirement for regular user access reviews by management.
- The super user activities on the system are not monitored and this poses a risk of financial data manipulation.

There is a risk of unauthorized access to the servers by third parties.

Unauthorized access by third parties
Given the Bank's growing reliance upon information technology, the magnitude of the impact of cybercrime as a risk to the Bank grows particularly with increased investments in term deposits and bonds.

The key concern of Central Bank is an attack upon the organization's systems, information loss and or manipulation which has the potential for both financial and reputational damage. The rate of change in technology causes concern as to whether systems defenses are maintained at the same rate as technology advancement.

There is risk of access and penetration by external parties of the IT system. This has not been tested especially in the era of cybercrimes. Cybercrime is directed at information technologies or effected by those technologies. It is committed across a virtual platform.

Review of surplus funds
The Foreign Reserve Management (FRM) guideline requires that an acceptable cash balance is maintained at all times in different current accounts held with other overseas bank. This includes $150 minimum balances be maintained between Australia and USA central banks. These funds are reserved as emergency funds. As at year end $777 million (excludes SDR) were held at call and on average $758 million during the year. The largest holdings by currency as at year end was in USD with holdings of $661m.

The following are noted:

- There is no regular documented review of the adequacy of the optimal cash flow needs of the Bank;
- This reserve has not been called upon since it has been established;
- The yields on these instruments have been low compared to instruments such as short-term deposits and bonds; and
- The cash convertibility of the Bank's total investible reserves is highly liquid.

There is increased exposure to foreign currency risk by the bank.

Implementation of Middle Office Structure
The middle office of the Bank manages the risk portfolios and ensures compliance with the "Reserve Management Policy". Our review indicated that the middle office comprises of only one officer who reports directly to the Governor and the reporting is done on a quarterly basis. The quarterly reporting is not sufficient as the market conditions changes more frequently.

Lack of adequate structural and resource support may affect the timely reporting and not identifying trends and crucial management information. There is a risk that foreign reserve management monitoring is not complete or relevant as it is not monitored more regularly that is monthly.

Untimely collections of advances
The purpose of the general suspense account is to record payments made on behalf of employees and thereafter to be deducted for their subsequent month's salary and wages. The transactions that are aged more than 12 months amounting to $21,000 relate mostly to financial years 2012 to 2016.

Whilst the balances are not material, the bank may not be able to recover these long outstanding balances and thus these balances may be impaired.

Unresolved observations identified in the prior year 2016

Experience and expertise of staff
The investment department plays a very critical role in the bank. This department is required to carry out critical functions in monitoring and managing risks such as assessing weighting of currency holdings, the level of securities to be held and the maturities of the securities. The other requirement is the ability to assess when to recommend re-weighting of holdings of currencies. The department is also required to work in collaboration with other teams or departments of the bank. The skills gap and depth of expertise of staff in this area has to be addressed by the bank.

The Bank is currently in the process of identifying and implementing training programmes for relevant staff. There appears to be lack of capacity in the middle office which carries out a critical function in monitoring and managing risks.

Review of investment property valuation
Valuation of the Bank's investment properties were carried out during the financial period. Based on our review of the valuation reports, inconsistencies were noted in the assumptions applied by the valuer with regards to ADB leased building (Parcel number 191-017-000). For instance the value of land had declined when compared to prior period however there were no factors stated to validate the unfavourable movement. A similar instance was noted in prior period. Management did not challenge the valuer on how the valuation was derived.

The audit team noted similar issue in the 2017 financial year whereby the valuation was performed inconsistently.

Record-keeping need to be strengthened
During our control testing, we noted that the currency count sheet were not appropriately filed as some of the weekly count sheets requested by us were misplaced and client personnel were required to search for those count sheets.

We noted similar instances during 2017 financial year audit.

Audit Board Committee meeting
The audit team noted that the client did not hold any Audit Board Committee meetings for the year. As per the Board Audit Committee's terms of reference, "The committee will meet at least four times annually, or more frequently as the committee may determine". However, we noted that the committee had only one meeting during the year.

Intangible assets
Our review of the fixed assets register highlighted that certain software are grouped under PPE. The financial statement does not separately disclose these intangible assets relating to software.

Our review of the fixed asset register for the year ended noted that intangible assets continue to be grouped under PPE. This has been a long outstanding matter.

Review of assets for impairment
Our review of property, plant and equipment noted that the Bank had not performed a review of the carrying amount of the assets at balance date to determine whether there is any indication of impairment.

We noted that no such review has been conducted in 2017 financial year. This has been a long outstanding matter.

No fixed asset capitalization policy
The Bank does not have a formal fixed asset capitalization policy. A policy has been drafted but this is yet to be reviewed and approved by the Board of Directors. This has been a long outstanding matter.

Fixed assets tagging exercise
All fixed assets are required to be assigned an asset number. However, our asset verification testing highlighted numerous fixed assets without fixed asset tags attached to them. Additionally, our testing revealed certain assets which have been disposed but are yet to be taken out from the system.

Tagging is considered essential to ensure that assets can be easily located or traced to the fixed asset register. In addition, tagging also aids in tracking assets that needs to be disposed and written off the register.

It is noted that the Bank is currently in the process of identifying and tagging all fixed assets. The assets which are unaccounted for are disposed. We note that this has been a long outstanding matter.

Automation of currency processes
The issuing and lodgement of notes and coins to and from commercial banks are recorded in manual registers. These include separate registers for notes and coins.

The current process is not efficient for the Bank due to the volume of transactions processed on a daily basis. It is noted that considerable amount of time and effort is spent in reconciling the manual records.

The Bank has developed an in-house working store system however; this has not been fully implemented due to few limitations of the system. This has been a long outstanding matter.

Determination of re-issuable notes

The currency notes re-circulated into the banking system continued to be of poor quality. Moreover, foreign exchange dealers in foreign countries do not accept poor condition notes. The 'Cash Cycle Management Policy' as mentioned by the management has not been finalized and approved by the Board of Directors. Discussions with management revealed that the policy will be approved and implemented in the 2018 financial period. This has been a long outstanding matter.

Manual registers

The Bank uses manual spreadsheet to:

- Record investments purchased and disposed;
- Calculate of interest revenue, accrued interest; and
- Revalue investments.

The International department together with the IT department are evaluating their options to improve. We note that this has been a long outstanding matter.

Conclusion

Whilst these issues were identified by our contract auditor, they did not materially impact the presentation of the 2017 annual financial statements. The accounts were assessed by our contract auditor to be true and fair and in compliance with International Financial Reporting Standards. It was pleasing to note that CBSI continue to receive unqualified audit opinion.

The board and management have agreed with the findings and have put in place measures to address them.

Chapter 2: Commodities Export Marketing Authority

Audit opinion

The annual financial statements of the Commodities Export Marketing Authority (CEMA) for the financial year ended 31 December 2017 were certified by the Auditor General during 2018. CEMA was audited by this office.

The Auditor General issued an unqualified opinion on the financial statements for CEMA for the 2017 financial year. The basis for issuing an unqualified opinion was because the financial statements had been prepared in accordance with International Financial Reporting Standards that give a true and fair view of the financial position, financial performance and cash flows for the reporting period.

Audit issues

The 2017 risk issues identified during the audit are summarised below.

Allowances and benefits not taxed – Recurring Issue

It was observed that transportation allowance, utilities, education and housing allowances were not charged with tax accordingly. It was also evident that these other allowances/benefits were not factored in the payroll calculation thus audit confirms that it is not taxed as required. It however was paid separately with a different cheque number directly to employee's bank account directly without charging PAYE tax. While other allowances are already factored in the payroll calculation, transportation allowance is still not taxed.

Depreciation rates are inconsistently applied

Rates of depreciation applied for some of the Office Equipment were not consistent with the approved rates disclosed in Note 1 – Significant Accounting Policies, subsection (f) – Property, Plant and Equipment. There were new assets acquired during the 2017 financial period which were not charged for depreciation.

Leasehold land not amortised over the years

The leasehold land were not amortised in accordance with IAS 17 - Leases.

Conclusion

All of the above issues do not have any material impact on the annual financial statements of CEMA for the year 2017. CEMA is acknowledged for continuing to receive a clean opinion for its financial statements.

The board and management agree with the findings and intend to implement the recommendations of the Auditor-General.

Chapter 3: Investment Corporation of Solomon Islands

Audit

The annual financial statements of Investment Corporation of Solomon Islands (ICSI) for the years ending 31 December 2009, 2010 and 2011 were already audited by this Office prior to the end of this reporting period. However the annual financial statements were only certified by management and presented for audit certification in March 2018. All the annual financial statements for 2009 to 2011 received unqualified audit opinions. ICSI complied with International Financial Reporting Standards except for the issue below in the "Emphasis of Matter" paragraph.

The financial statements for the financial years 2012 to 2017 are yet to be provided to the OAG for audit.

Emphasis of matter

The Auditor-General issued an emphasis of matter paragraph due to the failure of ICSI to produce consolidated financial statements for those years as required by International Financial Reporting Standards 10 "Consolidated Financial Statement". The standard requires ICSI to present the annual financial statements comprising the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries as a single economic entity. ICSI owns six subsidiaries and these are disclosed as investment in subsidiaries in the financial statements of ICSI.

Other legal and regulatory requirements

The Corporation failed to comply with the requirements of the Public Finance and Audit Act (Cap 120) and the State Owned Enterprises Act 2007 which require the audited financial statements to be submitted to the responsible Minister within three months after the financial year end. The signed financial statements were presented to the Auditor-General on 6th March 2018.

Conclusion

The board and management need to produce the annual financial statements for the years 2012 to 2017 in order to comply with the requirements of the SOE Act 2007. The board and management are also expected to account for the operations and financial management of the entity on a timely basis.

Chapter 4: Solomon Airlines Limited

Audit opinion

The Solomon Airlines Limited (SAL) financial statements for the financial year ended 31 December 2017 were audited by our contract auditor PwC, Fiji.

The Auditor-General issued an unqualified opinion on the financial statements for SAL for the 2017 financial year. The basis for issuing an unqualified opinion was because the financial statements had been prepared in accordance with International Financial Reporting Standards that give a true and fair view of the financial position, financial performance and cash flows for the reporting period.

The Company has not complied with the requirements of the Public Finance and Audit Act (Cap 120) and the State Owned Enterprises Act 2007 which requires the audited financial statements to be submitted to the Minister before 31 March of the following year to which the financial statements relate. The signed statements were presented to the Auditor-General on 24th October 2018.

It is acknowledged that the company has resolved the going concern issue that was reported on in previous years.

Audit issues

The major issues identified during the audit included the following:

General issues

Preparation and review of reconciliations

Audit noted that the monthly reconciliations for balance sheet items such as bank reconciliation, accounts receivable, creditors and accruals, fixed assets, other assets were delayed for up to 2 to 3 months.

In addition the reconciliations were not properly done and the review process was not effective enough as there were a number of misstatements identified during the audit.

The delays in the reconciliations and the quality of reconciliations raise the risk of misstatement, errors and fraud or irregularities in the financials of the company.

Timeliness of management accounts reporting

Management prepares quarterly management reports to the Board. However there are usually delays in the preparation of such reports by at least 3 months. For example the quarterly report for September 2017 was prepared and reported in March 2018.

The delay in management reports degrades its usefulness and effectiveness as a management tool to monitor the company's operations and for operational plus financial decision making process.

Contracts Register
The company has a number of contracts with suppliers and consultants. However there are no formal records or registers maintained by the company that record these contracts.

There is no track of who has the updated and signed contracts. For instance audit was unable to obtain updated signed contracts of some consultants for the company.

Potential risk to the company as it may not be aware of its contract obligations and the validity of such contracts.

Treasury issues

Control over petty cash float
Petty cash count conducted at the Head Office showed an excess in petty cash float. This is mainly due to the petty cash custodian using her personal cash to reimburse staff in situations where petty cash balance is low.

A review of the company's Financial Policy and Procedures Manual reveal that there is no mention of control procedures relating to petty cash counts in the manual. The frequency on surprise petty cash checks are once a year.

Long outstanding deposit in transit
The BSP bank reconciliations as at 31st December had long outstanding deposit in transit balances. For instance, sales for Point Cruz for 30th November to 30th December were outstanding as at 31st December 2017. In addition sales for Kirakira from 22nd – 29th December amounting to 36,000 SBD were deposited late on 26 January 2018.

The delays in banking of receipts and collections raise the risk of loss of funds either through theft or fraud.

Purchases and payables issues

Long outstanding invoices
The review of the Accounts Payable listing showed that certain suppliers' invoices dating back to 2013 remain outstanding. Two main creditors' invoices were pending since 2016 and since 2013-2016 respectively. There are no details on file to indicate the reasons for the non-payment.

The sum of all invoices above 120 days that has been recorded as payable but not cleared as at 31st December 2017 is $984,007.

Long outstanding invoices could affect the business relationship with the Company's suppliers.

Three way match not performed
The three way match that is the matching of quotation, supplier invoice and delivery notes is required under the FPPM before a payment is made to a supplier.

From the sample of payments that we tested certain payments did not bear evidence that the 3 way matching was carried out. These relate to spare parts which would usually be ordered and received by the Engineering department. The invoice that was paid by Finance did not bear evidence that the parts invoiced have been signed off as received by the Engineering department.

There is risk that invoices may be settled where goods may have partly received or not received at all.

Inventory issues

Stocktake
The maintenance Organisational manual (section 19, 14), requires that a half yearly stocktake and a financial year end stocktake are to be carried out.

The existing practice is that a full stocktake is carried out only at year end. Enquiries about the stocktake with staff indicate there were no formal instructions issued for this exercise.
Stock counts may not be conducted properly or consistently in the absence of formal instructions.

Inventory Valuation
The review of inventory valuation for (consumable), it was noted that the inventories are valued only at invoice price. Other purchasing costs such as freight charges and customs duty are excluded.

Valuation is not in accordance with IAS 2, Costs of Inventories. Para 10 &11 states that the costs should be:

- All costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

The company's accounting policies also reflect the requirements of the standards. Cost of inventory is understated.

Stock Usage – consumables
When an inventory (consumables) is issued out of stores for use in the aircraft, the inventory listing in Envision (Inventory Management Software) is reduced by the same quantity; however this is not automatically updated in Green Tree (GL) since the two systems are not integrated.

A stock usage report is generated from Envision and the amount of stock issued is updated in Green Tree via a journal entry. The update in the Green Tree GL is only done at year end. This means that the financial results including the Consumables inventory balance reported in the monthly or quarterly reports is misstated.

Misstatement of financial results during the year as cost of consumables used is not a accounted for in the GL throughout the year.

Payroll issues

Segregation of duties
Audit noted that the following functions are being performed by the same personnel, the Paymaster:

- Payroll Processing
- Entering new employee details in the system
- Removing terminated employees from the system
- Changing pay rates in the system.

The paymaster has full access rights into the payroll system. There is no segregation of duties.

Potential risk of manipulating the payroll system through among others the unauthorised change of pay rates, hours worked and creation of fictitious staff leading to losses.

Double processing of annual leave
Audit noted that the annual leave for a particular employee was processed twice by the payroll department and paid. This reflects a breakdown in control over the approval and payments of employee benefits.

Unsigned and expired contracts
Contracts with the five consultants were noted to have expired or were unsigned. The absence of proper contracts may result in legal obligations not being identified by the company and there would be no reference point for the company in case of any disputes.

Property, plant and equipment issues

Disposal of rotable spare parts
Disposals of rotable spare parts, which are recorded in Envision, have not been updated in the Greentree GL system and also in the fixed asset register (FAR).

Following the physical stocktake verification at year end, the value of physical stock in Envision was found to be lower than the value of inventory of rotables in the GL by SBD 1,785,978. This was mainly to do with the fact that the GL was never updated when the rotables were issued out of stores for aircraft use.

Like consumables a stock usage report was generated for stock movements in Envision but was never used to update the GL throughout the year.

The reported rotable inventory figures in GL were overstated.

Lack of review of fixed assets register

There is a variance between the fixed asset register and the fixed asset account in the general ledger. Cost is overstated by $10,911,850 and the accumulated depreciation by the same amount.

There is no evidence of a reconciliation between FAR and GL.

Valuation not conducted for aircraft H4 - SID Twin Otter

The valuation assessment conducted by the independent valuation company DavAir Group did not include the Twin Otter (H4 - SID) aircraft that is parked in Cairns for the last 2 years. Asset values may be misstated.

According to management the book value was USD300,000.

Expiry of land lease agreements

The following land leases have expired:

- Hangar complex
- Single Quarters Henderson and
- Gizo offices

As for the Catering building, the company does not have title to the lease. The lease title is under the commissioner of Lands. The ownership of the lease title needs to be clarified.

Non-renewal of leases may expose the company and also impact on business operations.

Physical verification of property, plant and equipment

The results of the physical verification of a sample of assets by audit show that certain items could not be verified and located. These include the following; Oil Pump, ID Card Machine and Dual Platform Scale which had a total carrying value of $11,317.

It is also noted that management had not conducted any physical verification of assets during the year.

Depreciation rates

In the review of depreciation expense, it was noted that management had used depreciation rates that were not in line with policy.

Computer and communications equipment – depreciation rates of 10% used for existing assets and 30% for new purchases and additions. This is inconsistent with policy which states that computer and communication equipment should depreciated at 30%.

Motor vehicle – depreciation rate for motor vehicle was at 10% however the policy states 20% per annum.

The use of 10% for computer equipment is not consistent with market practice and likewise the rate used for motor vehicle. Board approval of the changes has yet to be sighted.

Inconsistent application of depreciation rates may be seen as manipulating the depreciation figures.

Revenue issues

Intact banking
Delays were noted in the banking of cash receipts. The delays were in the range of 6 to 10 days and these were occurring at the company's sales office at Point Cruz and Henderson Airport. The lag of up to 6 days is unreasonable. From the tests on intact banking by audit, delays in banking were prevalent in all the locations.

The company's policy requires banking to be carried out the following day. The risk of loss of cash through misappropriation and theft is high.

Lack of controls in outer island travel agents cash and sales recovery
The company continues to face challenges with outer station travel agents.

- Agents are providing unauthorised discounts on ticket sales.
- All ticket sales are not reported to the company and are only identified when ticket sales are compared to flown tickets.
- Delays in receipt of ticket sales vs cash reconciliations which could be weeks or months do not assist in the timely identification of the differences between flown tickets and sales.
- Recovery actions against travel agents from the above also delayed or not done at all.

A major obstacle to management efforts in this area is the lack of connectivity in a number of these locations.

The delays in the reconciliation from outer agents impact the processing of company's revenue and also have other financial implications on the revenue cycle.

Excess Baggage
Testing of controls around excess baggage was limited due to system (AMADEUS) constraints.

Excess baggage reports showing data on weights waived or paid could not be extracted from AMADEUS as data available is only for the last three days i.e. no audit trail.

Controls surrounding waiver of excess baggage may not be effectively exercised which could result in potential leakage in revenue.

Delays in processing ticket sales and flown data

There is delay of approximately 2-3 months in the processing of ticket sales and flown data in VECTIS. This delays overall revenue reconciliation process and the monthly or quarterly management accounts.

In addition the “no sales but uplift report” from VECTIS is not reviewed regularly as evident by the high level of debits in the Unearned Revenue at financial year end of $293,741. The debits include amounts dating back to February 2016.

This review process needs to be carried out regularly so that the company can identify those amounts that need to be claimed from Agents as tickets have been flown but funds have not been received.

The absence of such review impacts on revenue recognition and the timely billings and recovery of debts from Agents.

Duplicate Tickets

A review of the flown ticket listing revealed that certain tickets were utilised twice as identified from the exception reports generated by VECTIS.

For such tickets, the revenue staff manually adjusted the ticket value to a nil amount in the system. A total of 193 tickets were identified as being utilised twice.

Controls around the uplift of tickets are not effective leading to loss of revenue. The delays in processing of tickets which is a control in itself is not helping the company in addressing this issue.

VECTIS to Greentree reconciliation

The revenue data in VECTIS is uploaded into the general leger system (Greentree) manually after a month’s transaction is processed.

There is no evidence of any reconciliations or review being carried out to ensure the completeness and accuracy of the data from Vectis into Greentree. Data could be processed twice in Greentree overstating revenue.

Trade receivables and other receivables issues

Trade receivables and other receivable reconciliations

The GL has different categories of debtors with their respective subsidiary ledgers. Whilst the overall reconciliation between the control account and the subsidiary shows a difference of $7,946 the individual categories have significant variances.

The concern is that reconciliation of staff debtors balance is part of the variance whilst the two other debtors accounts are trading debtors. In addition statements to customers may not be correct as the control account and subsidiary ledger are not reconciled.

Accounts receivable follow-up process

The aged debtors listing show a large portion of receivable balances to be over 90 days. With the delays in processing, these reports are made available after a lag of 2-3 months so the actual outstanding days for some of the debtors could be more.

The follow-up with respective debtors on outstanding balances is further delayed. Credit limits granted to customers may be excessive. Debt recovery becomes an issue leading to doubtful debts. The +90 day balances were provided for at year end.

Staff Debtors

There is no debt recovery plan for staff debts. As indicated above staff debtor reconciliations need to be addressed so that the correct staff debt is determined.

Information technology general control issues

No formalized documented IT risk, IT governance framework and IT strategic plan

There is no documented formalised information technology (IT) risk and IT governance frameworks in place for IT. Further, it was also noted that the IT strategic plan has not been formally documented to reflect the current IT objectives and operational environment. Currently, the risk area in IT such as IT security risks; IT operational risks are managed informally and on ad-hoc basis.

The company may also be exposed to potential IT and governance risks which may lead to the lack of clear ownership of responsibilities, inefficient decision making, and may cause disruption in the business activities dependent on IT. The company may be exposed to the potential IT risks which may cause disruption in the business activities, potential to fraud.

Further, IT strategic plan not formally documented for a large company may lead to the inadequate IT alignment to the company's business strategy, inefficient utilisation of IT resources, incur additional IT costs.

Absence of backup and restoration procedures

Data backup and restoration procedures are not documented. There is no documentation on the data backup and restoration procedures. In case of unavailability of the key backup operators, the inadequate high-level documentation may result in incomplete and incorrect database backup process. In case of unavailability of the key backup operators, the inadequate and incorrect database backup process may result in the restoration failure and loss of data during emergency or disaster scenario.

Absence of firewall monitoring procedures

From the review of the network security, it was noted that the firewall logs and monitoring is not performed. Lack of baseline documentation and monitoring will result in the failure of identifying unauthorized changes or changes need to strengthen the security rules.

Absence of formal reporting for disaster recovery performed

There was no formal reporting for disaster recovery performed on the Brisbane server. The above does not guarantee full recovery of data.

Back up logs not available for back up performed
During our review of the backup testing, it was noted that there was no back-up logs available for the applications during the financial year.

The risk is that in case of an emergency, restoration of data or programs is not possible due to the loss of data.

No documented program development and program change management procedures in place
We noted the absence of documented program development and program change management procedures. Furthermore there is no formal procedure regarding the testing of program changes and upgrades prior to it becoming live in the system.

Currently, all the project documentation is kept either in the form of emails or memos. In addition, there is no proper audit trail of approval for proposed projects and upgrades, lack of standardized program development and change control procedures will result in the inability to monitor software or hardware changes made to the system and hence complicate problem resolution in the event of errors and problems that are encountered.

The absence of standardised program development and program change management procedure indicates that there are no specified guidelines in regards to the approval and undertaking of proposed projects and upgrades. It may also result in projects and upgrades which may not be efficient and disruptive to the Company's business activities.

No formal service level agreement with the service providers of Greentree and Vectis
During our review of support agreements, it was noted that there were no formal signed agreements in place for support and maintenance for Greentree and Vectis System with the service providers.

Since the above are key applications utilised in the organisation's day to day operations, the absence of such agreements may expose the company as it does not have cover against any risk arising from malfunctioning.

No uninterrupted power source for data processing system available
Only the server is supported by the UPS system and no other department is provided with a backup power source. Such a system is necessary to avoid significant time delays in rebuilding the computer files if an interruption to power were to occur. The risk that these interruptions would lead to delays in processing accounting information which in turn would cause delays and inefficiencies to the company's operations.

Third party controls opinion – Amadeus
During our review of IT General Controls (ITGC), it was noted that for vendor-managed components of the Amadeus system, a third party controls opinion is not available to evidence the effective design and operation of key ITGC for financial year 2017.

Consequently, we are unable to gain ITGC comfort for IT domains below and the associated controls:

- Access to Programs and Data (Operating System and Database)
- Program Change Control
- IT Operations

Further, additional internal control areas to the above that might be operationally significant may need to be considered by management. Without a third party controls opinion for vendor managed components of Amadeus system, ITGC comfort is not able to be obtained for financial audit purposes and therefore any associated business process controls (e.g. automated controls, calculations and reports) is unable to be relied upon without performing additional procedures.

Access rights are not periodically reviewed

No independent review of the user access and administrator access accounts and activities over the key business applications like Green-tree and Vectis is being carried out by IT section. This is currently undertaken on an ad-hoc basis. No assurance and audit trail on the user access control over the business applications and the domain. Any erroneous access controls may result in access breach over restricted access.

Data centre visit observations

During our visit of the Data Centre (24 April 2018), we made the following observations:

- There is no separate server room and it is located inside the IT Support office.
- Temperature and humidity control is not installed in the server room to monitor the room temperature.
- Smoke and Dust detector is not installed
- There are no sprinklers
- Non-IT related equipment and items are placed within the server room such as papers all around the server.
- There is no CCTV in the server room to monitor the staff in the room plus there is no visitors log book maintained to monitor movement in and out of the server room.

The above may have potential risk of security breach.

Conclusion

The above issues did not have any material impact on the financial statements of the company for the financial year. Solomon Airlines is acknowledged for maintaining a clean opinion.

The board and management have agreed with the findings and have put in place measures to address them.

Chapter 5: Solomon Islands Broadcasting Corporation

Audit opinion

The financial statements of the Solomon Islands Broadcasting Corporation (SIBC) for the financial year ending 31 December 2017 were audited by this Office.

The Auditor General issued an unqualified audit opinion on the 2017 financial statements of SIBC as they gave a true and fair view of financial affairs of the corporation as at the end of the financial year. The financial statements were prepared in accordance with International Financial Reporting Standards.

Audit issues

The 2017 risk issues identified during the audit are summarised below.

Inconsistent billing rates for revenue

Audit noted during review of rates applied to bill customer, SIBC has no clear approved rates to charge customers with. In 2016 Manager Radio Operations, signed a revised commercial rate card used for charging customers. However during 2017 financial year, new rates were introduced (Recommendation rates for 2017). As a result customers were charged with different rates throughout the year. Audit cannot verify with any board minutes that these changes were supported by the board.

Lack of monitoring and control over imprest

Audit noted that imprest was not monitored and controlled effectively. This is evidential as uncleared imprest in 2016 financial year is still outstanding. Audit further noted two employees receiving multiple imprests even without retirement of outstanding imprests.

Over payment of allowances

Audit review of payroll movement from prior year to current year noted significant increase of 15% on payroll expenses. This has attributed to payment of senior employee bonus including end of employment contract allowances. OAG re-performed allowance computation and noted the corporation has over paid the sum of $61,000.

Internal control over fixed asset register

There was no physical count of the fixed assets owned by the corporation in 2017 and therefore noted the following weaknesses.

a) Five assets appeared on the FAR with different amounts;
b) Six assets not appeared on the FAR with zero value; and
c) Four assets not recorded in FAR.

Leasehold land not amortized over the years

The leasehold lands were not amortised accordingly over the lease term. Leasehold lands are leased on a fixed term i.e. certain years from the Commissioner of Lands and as per the International Accounting Standards (IAS) 17 – Leases, it is required that the leasehold lands be amortised over the fixed term.

Provisions for doubtful debt

There was no movement in the balance for the provision for doubtful debts since prior year. The assessment for ageing debtors was not performed in 2017 thus the same balances were carried forward to 2017. The corporation under provided for bad and doubtful debts. This is due to yearly (180 days) provision provided by SIBC. Therefore debtors with less than 90 days ageing have not been considered for provisioning as the corporation believes these will be recovered during the year.

Loss for the year

The corporation made a net loss of ($355,372) in 2017 and net profit $2,004,202 in 2016. This requires the attention of the board and management as a going concern issue.

Conclusion

The above issues did not have any material impact on the financial statements of SIBC for the reporting period. Management needs to address those issues to improve the financial management system of the Corporation.

The board and management have agreed with the findings and have put in place measures to address them.

Chapter 6: Solomon Islands National University

Audit opinion

The Solomon Islands National University (SINU) financial statements for the years ended 31 December 2013, 31 December 2014, 31 December 2015 and 31 December 2016 were audited by this Office. The audit opinions were issued in 2018.

Disclaimer audit opinions were issued for the annual financial statements of SINU for the following financial years 2013, 2014, 2015 and 2016. This was due to the inability of the university to keep proper books of accounts, supporting documents and timely preparation of annual financial statements in accordance with International Financial Reporting Standards (IFRS).

Audit issues

The 2013 to 2016 risk issues identified during the audit are summarised below.

Applicable Financial Reporting Framework – (recurring issue)

The financial statements were not prepared in accordance to any financial reporting framework such as International Public Sector Accounting Standards Cash Basis or International Financial Reporting Standards. This issue was reported in 2012 Management Letter and is still an issue for the university to address.

The statement of compliance in note 2 b) to the financial statements states that the financial statements have been prepared in accordance with acceptable Accounting Standards in the Solomon Islands and the requirements of the College of Higher Education Act 1984. However this is not a statement of compliance with a specific financial reporting framework.

OAG acknowledges that the University is still working towards complying with all relevant International Financial Reporting Standards (IFRS) and it may take some time before a statement of compliance with IFRS can be disclosed as required by IAS 1.

Compliance with International Accounting Standards requirement: IAS 1.1 Presentation of financial statements.

Audit noted during review of the 2013 to 2016 financial statements that the Statement of Cash Flow was missing in the financial statements. The contracted accountant, preparer of the financial statements, has advised that the Statement of Cash flow could not be prepared as the records were not maintained by SINU to enable them to prepare cash flow statement.

Reconciliation of key information systems

The university has two information systems that process and store at least two critical databases. The Roll Call system records and maintains student information while Attaché records and maintains financial information. These two systems are not integrated and therefore reconciliation is a key function to ensure these two key systems reconcile with each other. Reconciliation between the two systems was supposed to be performed twice in a semester, after registration and before examination week. However, these were never performed as no evidence of reconciliation was performed between the two systems.

No timely recording of receipts in Attaché

The Finance Department used both Attaché and Excel to record receipts of students that paid tuition fees. Excel was used during the break down of the Attaché system. However, the information on Excel was not uploaded into Attaché in a timely manner. Receipts were not recorded in a timely manner which resulted in understatement of receipts totalling $123,638,988.26.

Management of student information

There was lack of management over student information particularly list of the actual number of students registered for each course. There was no communication between Lecturers, Student Academic Service (SAS) and Finance Division regarding students' attendance. The list that showed the actual number of students registering for each course and the list provided to SAS by lecturers of each school should reconcile. Without this information, student information and report in Roll Call and Attaché would not be updated and therefore impacted on the recognition of Revenue and Receivables.

Property, plant and equipment

The non-revaluation and exclusion of some of its properties remain an issue since 2012. Fixed Assets reported in the 2013 to 2016 financial statements were not revalued since the last revaluation in 1991. Also the reported fixed assets in the 2013 to 2016 financial statements did not include all the fixed assets owned by SINU.

Conclusion

The above issues impacted the financial statements of the university for the four years which resulted in the Auditor-General issuing disclaimer audit opinions. The council and management are required to address these issues so that clean opinions could be issued in future years.

The council and management agree with the findings and put in place measures to address them.

Chapter 7: Solomon Islands Electricity Authority

Audit opinion

The audit of the Solomon Islands Electricity Authority (SIEA) accounts was outsourced to EY, Fiji under a five year contract agreement for the years ending 2013 to 2017. SIEA traded as Solomon Power (SP) during the reporting period.

The Authority's 2017 statement of comprehensive income, statement of changes in equity and statement of cash flows received an unqualified opinion as they gave a true and fair view of the financial position of the Authority and complied with International Financial Reporting Standards.

The Authority did comply with Section 14 of the State Owned Enterprises Act which requires audited financial statements and the auditor's report thereon to be presented to the accountable ministers within three months of the end of the financial year.

Despite meeting these achievements however, our audit also identified issues that required action and implementation. These issues did not materially impact the fair presentation of the 2017 financial statements.

Audit issues

2017 significant accounting and audit matters are described in the following sections of this report.

Discrepancies with property plant and equipment

The issues identified include the untimely transfer of completed projects that were classified as work in progress at year end, failure to recognise expenses for projects that were discontinued and discrepancies in the system generated fixed assets register ('FAR').

Weak debt management practices

Based on the review of the Kilowatt ('KWH') debtors' account, it was observed the lack of timely follow up action for long outstanding balances.

Inadequate insurance coverage

Our review of insurance policies revealed a shortfall in insurance cover for several key assets.

Insufficient commercial and industrial customer deposits

Customer deposits are set at nominal values.

Inconsistent cash power prepaid calculations

SP had used inconsistent date formats in the calculation for cash power prepaid.

Incorrect postings in opening balance of SISEP liabilities account

There were various issues associated with commercial and industrial customer deposits, cash power prepaid and calculations of general ledger postings.

Bank reconciliation errors
Several errors and incorrect postings were detected in the cash account at year end.

Leave records not updated in a timely manner
Our audit of the employee benefits liability account revealed that ex-employees have not been removed from the leave register in a timely manner.

Untimely action taken against long outstanding staff debtor balances
The staff debtor's reconciliation recorded several long outstanding staff debtor balances for staff who had already left the organisation. Several negative balances were also detected indicating a corresponding debit was not initially recorded.

Untimely release of deferred income
Our review of the deferred income account revealed that funds received from a discontinued project had not been released to statement of comprehensive income in a timely manner.

Unread meters unaccounted for
There were various accounts not taken up in the unread meter calculation because these accounts remained unread as at the date of our testing, being the 23rd of February, 2018.

Inventory storage
Various inventory items were not properly organised as observed during the stock count, making it difficult to determine inventory physical existence.

Conclusion
The above issues did not have any material impact on the financial statements of Solomon Power for the financial year. Solomon Power is acknowledged for continuing to receive clean audit opinion.

The board and management agree with the findings and put in place measures to address the recommendations.

Chapter 8: Solomon Islands National Provident Fund

Audit opinion

The audit of Solomon Islands National Provident Fund (SINPF) accounts is outsourced to KPMG, Fiji under a five year contract for audit of the 2014 to 2018 financial statements. SINPF financial statements for year ending 30 June 2018 received unqualified audit opinion as they were found compliant with the International Financial Reporting Standards.

Audit issues

Issues identified in the SINPF audit are summarised below.

Bank reconciliations were not performed during the financial year

Reconciliations were performed to note the movement in the opening and closing bank balance in the general ledger and bank balances however reconciliation hadn't been performed between the closing bank balance in the general ledger and bank statement until June 2018 when the audit field work commenced. Monthly bank reconciliations were therefore not performed from July 2017 to May 2018.

Expired Contracts

The Fund currently makes payments of management fees to Hibiscus Apartments at an amount derived from an expired contract. Additionally, there is no contract in place between the Fund and management of Tavanipupu Island Resort and therefore the payment of management fees is based on the amount paid historically. There is no written agreement to support the amount being paid as management fees.

Review of investment property desktop valuations

Desktop valuations of investment properties were not thoroughly reviewed by the responsible personnel to confirm that the methodology was consistent to the prior year, assumptions were appropriate and the material movement in the value of the investment property is valid.

Delay in the recording of invoices in the appropriate financial year

We identified two payments valued at $3,614,013 that related to the 2018 financial year however they had not been recorded in the general ledger at 30 June 2018.

Prior year unresolved issues

Solvency

Since 2013 the General Reserve has been declining as a result of the high interest provided to members notwithstanding the reduced rate provided in 2017, the buffer available to the Fund to continue with such high rates has significantly decreased. Accordingly, long term target for rates to members needs to be established to ensure that the Fund can sustain providing future benefits to all members equitably.

Additionally, since 2013 the balance of the special death benefit reserve (SDBR) has been declining and been more than exhausted in the last 3 years, resulting in the need to transfer additional funds out of general reserve.

While the board has reduced the benefits payable on death to $3,000 from $10,000 during the current year, the annual contribution by each member is not sufficient to sustain the SDBR. Contributions therefore need to increase, which we understand are not permissible under the provisions of the current Act. Therefore, either contribution should increase or a mechanism established to better tend the SDBR via general reserves i.e. assuming appropriate regulations are in place.

We understand that the Fund has engaged an actuary to provide services in October 2017.
We note that the Fund has been declaring and crediting interest rates to members over the last 5 years that are in excess of the annual “realised” earnings (excluding fair value gains from capital appreciation). Further, interest rates provided to members are approved before the financial statements are audited.

Maximisation of investment returns
The Funds investment portfolio is comprised of the following:
Equity investments 50%;
Commercial paper and treasury bills 26%;
Investment properties 13%;
Held to maturity investments 6%; and
Loans and advances 5%.

Within the equity investment portfolio, the oil and telecom industries comprise 93% of the equity investment portfolio.

At 30 June 2018, the Fund held cash and cash equivalents of $367m. This was in excess of the cash required to meet the estimated withdrawals/ benefits to be made by members in the coming year ($206m).

Solomon Islands National Provident Fund Regulations
The Solomon Islands National Provident Fund Regulations [CAP 109] was established in 1973 and was last updated in 1996. Areas that require updating include the following sections:

- Section 9 – “As soon as possible after the end of each financial year the Board shall, having considered the recommendation of the General Manager, declare the maximum sum to be added to an entitled member's credit on his death for the purposes of section 34. Provided that the amount so declared shall be not less than five hundred dollars.”
- Section 34 – “(1) On the death of a member the amount standing to his credit in the Fund shall be increased by such proportion of the maximum sum as may be prescribed in accordance with subsection (2) and the amount of such increase shall be paid from the general revenues of the Fund.”
- Section 24 – “(2) The amount to be added to the deceased member's credit for the purpose of subsection (1) shall be related to the member's period of membership of the Fund and to the number and amount of contributions paid on his behalf and standing to his credit in such manner as may be prescribed.”

Further, the regulations do not contain specific accounting frameworks, solvency requirements, or member interest entitlements. Inquiry with management revealed an updated regulation has been drafted but hasn't yet been passed by Parliament.

Impact of new standards

The Fund will be impacted by the new standards: IFRS 15 "Revenue from Contracts with Customers", 9 "Financial Instruments" and 16 "Leases".

The Fund needs to take the impact of the new standards into consideration as it is not only an accounting issue but also has business impacts.

The telecom industry will be significantly impacted by the IFRS 15 new standard on revenue meanwhile all entities, including the Fund itself will be impacted by IFRS 9. This will include determining how investments are valued and the change in the basis for impairment. This will have a flow on effect to the value of the equity investment in the Fund's books.

Rental receivables general provisioning

Application guidance in IAS 39 Financial instruments: Recognition and Measurement states (AG89) "Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Entities that have no entity-specific loss experience or insufficient experience use peer group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently."

At year end the Fund recorded a general provision of $94,000 calculated at 5%, 10% and 50% of rental receivable balances aged 30 days, 60 days and 90 days respectively. The rationale for the allocation did not appear to be based on historical data or other verifiable assumptions.

Bank reconciliations – unresolved reconciling items

Bank reconciliations at year end included unpresented cheques with aging greater than one year.

Payroll – segregation of duties

The payroll officer had privileged access to the payroll software which represents a segregation of duty risk. She is responsible for the import of data to the payroll software, creation of new staff, making changes to staff details and removal of terminated or resigned staff from the payroll system.

Conclusion

The above issues did not have any material impact on the financial statements of the Fund during the financial year. The board and management agree with the findings and are in the process of addressing the recommendations.

Chapter 9: Solomon Islands Postal Corporation

Audit opinion

The financial statements of the Solomon Islands Postal Corporation (SIPC) for the financial period ending 31 December 2017 were audited by this Office.

The 2017 SIPC financial statements received a disclaimer of opinion. The basis for disclaimer of opinion was attributed to the deletion of five transactions in the Corporations accounting software MYOB in 2017. There were no documents to support the basis for the deletions.

An emphasis of matter paragraph was also issued in the Auditor General's audit certificate for 2017 because a going concern issue was raised over the financial year as the Corporation had a deficiency in current assets over current liabilities.

SIPC did not comply with section 14 of the State Owned Enterprises Act which requires audited financial statements and the auditor's report thereon to be presented to the accountable minister within three months after the end of the financial year. The signed financial statements were received on 22 August 2018.

Audit issues 2017

The details of matters disclosed by the audit for 2017 are as below.

No segregation of duties over receipting, banking and bank reconciliation – (recurring issue)

The issue with segregation of duties for cash handling and banking was not resolved in 2017. The same officer who received the cash also deposited it in the bank account. All bank reconciliations were performed by one officer but were not reviewed by a supervisor.

Lack of source documentation to support contractors re-mailing activities

The Corporation was not able to provide supporting documentations for the Royal Mail Postal, United States Postal Services and Post Denmark with variance of US$12,160.09, US$5,923.73, US$10,893.17 respectively.

Express invoicing report did not reconcile with MYOB financial system – (recurring issue)

There was no monthly reconciliation performed between the express invoicing system and MYOB financial system to update debtors' ledger in MYOB.

The Corporation has not performed monthly reconciliation on its receivables accounts

The Corporation did not performed monthly reconciliation on the accounts receivable.

The Corporation has not performed monthly reconciliation on its payables accounts

The Corporation did not performed monthly reconciliation on the accounts payable.

Outstanding trade payables balances
There were significant trade payables balances that were long overdue and still outstanding at $76m in 2016 and $80m in 2017. This material liability balance posed a huge concern to the financial affordability of SIPC and a material uncertainty over the going concern of the Corporation.

Un-supported and unreconciled outstanding cheques and deposits – (recurring issue)
OAG reviewed three bank accounts reconciliations for the month of January and December 2017 reconciliation and noted that there were unpresented cheques and outstanding deposits on the reconciling items that were not fixed since 2015. OAG further requested to review their supporting source documentations but SIPC management failed to provide them for audit.

Deleted transactions – (recurring issue)
The issue of deleted transactions in MYOB system was noted during the 2015 and 2016 and was significant in number. The 2017 showed an improvement a decrease of 111 deleted transactions in 2016 to five in 2017. The uncertainty over the value of the five deleted transactions has impacted the 2017 financial statements and the audit opinion.

Conclusion
The findings indicated that management needed to address the recommendations of the OAG on a timely basis. The board and management needed to address the high risk issues in the audit report in order to gain a clean opinion in future.

The board and management agree with the findings and are in the process of addressing the recommendations of the Auditor-General.

Chapter 10: Solomon Islands Ports Authority

Audit opinion

The audit of Solomon Islands Ports Authority (SIPA) was outsourced to KPMG, Fiji for the 2017 to 2021 financial statements. Unqualified audit opinion was issued on the financial statements of the Authority for year ended 30th September 2017 in accordance with International Financial Reporting Standards.

The Authority did not comply with legislative requirements that audited financial statements to be submitted to the responsible Ministers before 31 December of the same year to which the financial statements relate. The signed statements were presented to the Auditor-General on 6th June 2018.

Audit issues

The details of significant issues identified during the 2017 SIPA audit are summarised below.

Invoicing process to be strengthened

(i) No segregation of duties

There is no segregation of duties between personnel creating, approving, posting and deleting invoices and credit notes in the XERO system, which is SIPA's financial reporting system, since the access levels in the system are not defined. Furthermore, there is no evidence of review of invoices by management prior to it being issued to the customers.

(ii) Incorrect invoicing

The details from the supporting documents (Form 20, Manifest and Container summary) were incorrectly entered into the billing module. The tariff rates charged on the invoices were not in accordance to the gazette rates. Consequently, the customers were charged incorrectly. There were instances where customers were both overcharge and undercharge on invoices which were not detected by management.

(iii) Ability to edit tariff rates in XERO

The personnel creating invoices have the ability to manually edit tariff rates in the system. Rates are uploaded in the system based on the respective service types and are fixed as per the gazetted rates. However, the system does not prevent users from editing rates when invoices are raised.

(iv) Lack of supporting documents for invoices

Supporting documents for invoice were not attached. These documents may have been misplaced due to improper filing.

Lack of stringent controls over payroll process

The following deficiencies were noted on the payroll process at the Authority:

(i) No segregation of duties

The payroll master who is responsible for payroll processing has super user access to the payroll system (UNIX). The pay master is able to add, edit, update and delete employees in the system.

The changes made to employee data in the system is not reviewed or approved by independent personnel. The pay master also has access to edit pay rates for employees in the system.

(ii) No review of payroll reports and lack of variance reporting

Payroll reports are not reviewed by senior personnel to ensure accuracy of pay run.

Missing Board Minutes

There were no Board minutes available for our review from February 2017 to September 2017. The authority has a full time Board Secretary and neither hard copy nor soft copies were made available to us. We are not aware how the minutes of the previous meetings were rectified or approved if they are not available. The minute book acts as a primary source of reference in the event of dispute or miscommunication. Minutes serve as proof of active and informed deliberation by the Board and they demonstrate courses of action considered by directors.

They document the decision-making process, briefly showing what was considered, what authorized (ratified or formal consent) was and who is responsible for the approved action. Additionally, minutes show that the Board acted in the best interest of the Corporation, in good faith and took reasonable steps to prevent harm (proves due diligence, due care).

This issue was also noted in the 2016 financial year whereby no records of Board meeting minutes were available. This matter is considered to be a significant weakness in the Governance and affairs of Board administration.

Revenue assurance function does not exist

The review of the processes and procedures surrounding the revenue cycle of the Authority highlighted weaknesses in the revenue assurance process. The assurance over the completeness that all revenue is brought to account cannot be ascertained due to weak processes. There are no analyses or checks to ascertain the level of revenue to be brought to account. The following were noted:

- There are no processes to ensure that amounts that are recorded as cash or debtors are reflective of all revenue transactions taking place. The process is non-existent and the process is not documented. The Authority heavily relies on manual data processing and there is high dependency on flow of manual documents in the capturing of all transactions.
- No revenue assurance review has been performed over the revenue balance to provide comfort that omissions are minimized and irregularities are identified.
- There are no operational reports provided to finance section on a periodic basis which can be used to develop revenue expectations and compared to actual revenue recorded.
- The control environment and accounting conditions in existence, prevented management from accurately estimating the cost associated with particular contracts, which contributed to the poor performance. It is noted that the Authority has several stream of port activities which generate revenue. The job costing performed at a revenue stream level would provide management with an

indication of the profitability of the activity and help identify any leakages which may be prevailing.

Debt management to be improved
Our review of the debtors sub ledger noted a significant increase in debtor balances over 3 months. As of September 2017 debts over 3 months amounted to $14.5m which make up 43% of the total trade receivable balance of $33.9m. It was further noted that the debtors' turnover has dropped to 60 days when compared to 45 days for the 2016 financial year. We noted that there is no robust strategy over debt collection and there is also lack of follow ups done to recover these debts. Instances were noted where debtors with long outstanding balances are continuously granted additional credit.

Supplier contracts not managed appropriately
The Authority engages with various suppliers and service providers who provide goods and service to the Authority over a period of time at agreed prices and rates. SIPA does not maintain a register of all the contracts that it has entered into with suppliers and service providers. The Authority was not able to provide a signed contract with a service provider and for catering services outsourced by the Authority. The authority indicated that most of these arrangements were verbally made with the service providers.

Ineffective procurement and tender process
Procurement and tender process is an extremely important process for SIPA as it undertakes various scales of procurements due to the nature of its operation. The following weaknesses are noted in the internal control and process:

- There is lack of a formal procurement and tender policy. This includes the end to end process from requisition approval, purchase order approval, goods received and payment authorization for capital expenditure;
- Lack of effective procurement planning to establish the needs for projects, goods and services;
- Goods received not acknowledged for receipt;
- Lack of "cost benefit analysis" performed and limited use of "business cases" by operations to support significant procurement; and
- The procurement committee was not involved in the review and approval function particularly in regards to the higher end costly heavy equipment prior to approval by the Board. These were often handled by the Board members.

The above issues could indicate lack of transparency and could give rise to the risk of irregularity and fraud, significant wastage of funds and no value for money.

Lack of documentary analysis and use of broker
An overseas procurement broker is used by the Authority to purchase a broad range of goods and services from specialized heavy machinery for wharf operations to other general items. In relation to the procurement of heavy machinery and other specialised equipment, specialised skills, technical knowledge and experience is required by the broker to make informed assessments.

Documentary evidence on the selection process and analysis of the Broker's experience, qualification and suitability for procurement of the broad range of goods and services was not available. There is no documentary evidence to assess that the broker possesses the required skills, experience and knowledge to make recommendation for the purchases of specialised machinery. The analysis and the review of the machinery and equipment that was recommended by the broker disclosing the quotation obtained was not available.

Lack of documentary evidence of the criteria for the selection of supplier of goods and services increases the risk of lack of transparency and potential irregularities.

Lack of follow up and monitoring of dishonoured cheques and debtors

SIPA does not have a list of dishonoured cheques that relate to financial years prior to 2016. The follow up process is also weak since no regular follow ups are made to ensure that these debts are collected. This raises the risk of bad debts increasing as a result of poor record keeping and lack of robust debt collection procedures.

Timely review of bank reconciliations

Bank reconciliations are prepared on a monthly basis but there was no evidence of review of these reconciliations to assert the completeness and accuracy of the reconciliations. A review is performed by the Manager Finance only for the year-end bank reconciliations. The bank reconciliations as at 30 September 2017 identified stale cheques carried forward from August 2016 as reconciling items and were not reversed.

Completeness and accuracy of employee numbers

The Human Resources department was not able to provide a complete list of personnel employed by the Authority as at 30 September 2017. The list provided did not agree to the payroll reports and the difference between the payroll report and the list maintained by HR could not be appropriately explained by HR. The employee list provided by HR contained errors as employees who had exited the Authority continued to appear in HR's list.

Assets prepaid but not received

As at 30 September 2017 the Authority had $13.8m relating to advanced payments made for machineries and equipment of which $1.5m related to items where deliveries have not been received by the Authority for more than 12 months. Some items in the pending deliveries list were made on the basis that they were urgent and were required to be delivered to the Authority urgently. Some of these items have still not been received after 12 months.

Long Service Leave paid in excess of entitlement

Long Service leave is accrued on a yearly basis by the Authority in accordance with the policies and IAS 19. The accrual is reversed when paid to employees. Instances were noted whereby Long Service leave paid out to employees during the 2017 financial year was in excess of amounts accrued. This was due to lack of review of staff benefit payments.

Term deposit certificates not maintained
We noted that the Authority does not have deposit certificates in place for fixed term deposits held with the banks. Furthermore, interest income on these term deposits was not recorded during the year into profit and loss nor any receivable recognized at year end.

Unresolved observations in prior year

Strategic planning and management reporting
A key requirement in achieving success in attaining the goals and objectives of the Authority is the receipt of timely, relevant, and accurate financial information. Currently, management may not have all the information it requires to make appropriate long-term financial decisions as the monthly report provided to management are simplified and do not depict the conditions which are being experienced by the Authority. Areas that may be considered in the development of a financial plan include:

- Marketing strategy;
- Revenue forecasts;
- Capital budgets;
- Cash flow analysis;
- Information systems; and
- Segment reporting.

The above issue remains unresolved as of 30 September 2017.

Grant revenue – new international wharf
The Authority received a grant from JICA to fund the newly built international wharf which was completed during the 2016 financial year. We noted that this wharf was not captured in the general ledger as at 30 September 2016. During the audit, we had to assess the supporting documents to ascertain the true cost of this new wharf. As such, the value of the grant was $175m and we had proposed for accounting entries to take up the capitalised assets and the deferred revenue in accordance with the requirements of IAS 20 Accounting for Government grants and disclosures. There was a material misstatement in the 2016 trial balance as this accounting entry was not initially taken up by SIPA.

2017 Update
In the current financial year release of deferred income amounting to $3,510,528 was not recorded.

Key policies and procedures are non-existent
Policies and procedures for the key processes for SIPA are not only critical but fundamental to the effectiveness and efficiency of activities carried out. We noted that the key policies for SIPA are non-existent and this is a serious concern considering the nature and significance of its operation and the volume of instances of significant breaches in the norms due to the lack of an effective procurement and tender processes were noted in the previous financial year.

Lack of a formalized 'delegation of authority' for authorization of tenders, procurement and payments has resulted in unauthorized transactions which gives rise to significant losses and higher risk of irregular and fraudulent activities:

- Lack of a project and asset management policy resulting in wastage of resources, poor delivery, increased cost overruns and high risk of irregular activities; and
- Lack of effectiveness and discipline in the finance function partly due to the non-existence of a finance policy. This gives rise to heightened risk of lack of timely and regular management reports, and the increased rate of errors and anomalies.

2017 update
The Authority has drafted the policies and procedures but is waiting for vetting and approval by the Board before it could be adopted.

Project and contract management function to be strengthened
Project management is a major process for the Authority. The Authority engages in major capital projects and it is imperative that best practices for project management are implemented. The Authority also engages with third parties for hiring of equipment and services. We noted the following in connection with the processes for project and contract management.

- Lack of formal policies, processes and systems over project and contract management;
- Ineffective documentation and monitoring of contractors;
- Ineffective reporting to Management and the Board;
- Lack of effective monitoring & evaluation and tracking of project costs, status and key outcomes;
- Lack of proper closure for projects and coordinating with the Finance department for capitalization; and
- Lack of risk assessments undertaken during the phases of the projects.

These issues give rise to the wastage of resources, high cost overruns, poor project deliveries and high risk of irregular and fraudulent activities.

2017 Update
The above issue remains unresolved as of 30 September 2017.

Finance function needs to be strengthened
We noted that the finance function is not effective due to a number of key factors:
There were a number of issues highlighted over the reconciliation function:
- Reconciliations not reviewed on a regular basis.
- No overriding framework to manage the reconciliation process. Consequently, this gives rise to the lack of effective oversight and monitoring;
- Inadequate level of scepticism applied for account reconciliations (preparer and reviewer). Accordingly, it gives rise to higher risk of errors and anomalies;
- Payroll reports are not reviewed prior to posting from payroll system to the general ledger;

- It appears that there is a lack of relevant skills and expertise amongst the finance team and there is an opportunity to enhance these attributes;
- Lack of effective training and development programs for the finance team; and
- There is an apparent lack of direction, guidance and support provided to the finance staff by a more senior staff or management.

2017 update
The above issue remains unresolved as of 30 September 2017.

The following instances were noted in the current year:

(i) Mis-posting of accounting entries
During the course of the audit, we noted various incorrect entries processed in the general ledger:
   - refund of a petty cash had been incorrectly posted into the petty cash advance account while the initial petty cash issued was recorded against the general suspense.
   - double posting of invoices and POs during the year.
   - accruals not recorded and reversed accordingly.

(ii) Unidentified balances in general suspense account
We noted that the general suspense account contained unidentified balances which had been carried forward since October 2016. The following instances were noted:
   - deposits received in the bank account not traced to source of deposit; and
   - payments debited to SIPA's bank account not traced to supplier payments.

It was noted that neither the bank nor SIPA is able to trace the source of these deposits and payments.

(iii) Trade payables with negative balances
Review of the trade payables reconciliation as at 30 September 2017 noted negative trade payables balances.

These resulted from over payments to suppliers.

Non-existence of the corporate governance framework
Having effective corporate governance is essential considering the scale and the nature of operations of SIPA. This involves developing the framework to set out the structure, systems of rules and processes to govern and control the organisation.

The following matters were note:
- Non-existence of a corporate governance policy for the Authority. The policy sets out the policies and guidelines to assist the Board in carrying out their duties and responsibilities.
- The key committees and their respective charters that outlines the purpose, objectives and responsibilities of the committees. For example, Audit & Risk committee, HR committee, etc.

- There was no policy to guide staff conduct and ethics. For example policies on code of ethics, conflict of interests, business judgement rule, fraud management and Whistle blowing.

2017 update
The above issue remains unresolved as of 30 September 2017.

Human Resource function to be improved
The Human Resources (HR) function requires significant improvements. The issues include:

- The organisation structure has not been reviewed and aligned to the strategic direction, operations and activities of the Authority;
- There is an apparent lack of appropriate skills and expertise for key positions in the organisation;
- There appears to be a need for more direction, supervision and monitoring to be effectively provided by key officers;
- Lack of training needs analysis and training & development plan for staff;
- Job description and KPIs of key staff not reviewed and aligned to remuneration system;
- Working culture of the organisation requires significant improvement; and
- Lack of succession planning for key positions of the organisation.

2017 update
The above issue remains unresolved as of 30 September 2017.

Operational performance to be monitored and strengthened
The Operations process requires significant improvements. The issues include:

- Lack of timely acquisition and replacement of new plant and machinery including the detailed technical and business case assessments prior to procurement were not available;
- Lack of schedule for repairs and maintenance especially for plant and machinery;
- Setting of KPI for efficiency and continuous monitoring. For example, crane productivity (number of moves per hour vs. industry standards)

KPI has not been developed for key areas of the business including:

- Operational – vessel turnaround time, truck turnaround time, ship planning, rate of cargo handling damage;
- Skills and expertise – training plan, training modules, transfer of skills (secondment) and effective PMS; and
- Safety – staff training, safety and security procedures, protective equipment and safety systems.

2017 update
It was noted that the Authority is focusing on improving its composition of machinery and equipment with given significant investment in new plant and machineries made in 2016 and 2017. However, detailed technical and business case assessment and technical and price evaluations of the bids and quotes prior to procurement were not available. Other issues highlighted above remain mostly unresolved.

Risk management and internal audit

Risk Management is a critical function for any organisation especially the Board and senior management. To sufficiently fulfil their duties, directors and management need to ensure that they are cognisant of the unique circumstances and potential legal, reputational, operational and financial risks that exist within their operations.

We noted that the Authority currently does not have a formal enterprise risk management ("ERM") framework. ERM is a systematic and structured approach to identifying, assessing and analysing risks and to develop a response strategy. Furthermore, we noted that the Authority does not have an internal audit function. Internal audit function enables an organisation to carry out a detailed assessment of its processes, risks and controls to improve their efficiency and effectiveness.

2017 update

It was noted that an ERM framework has been developed however this is yet to be approved by the Board and adopted by the Authority. Furthermore, an internal auditor has been recruited by the Authority; however, the audit charter (plan) is in the process of formalization. In the current financial year only one internal audit was conducted but was not completed.

Management reporting function to be developed

The quality of management information is pivotal to the decision making process for management and the Board. We noted that the Authority does not have a comprehensive management reporting process. The following matters were noted:

- Finance department produces a monthly profit and loss and balance sheet to management for review. There is a high risk that these reports are inaccurate as they are not completely reviewed.
- The 'non-financial data' available for revenue is not optimized as it is not appropriately analysed. For example, vessel register and container register. This non-financial data could be integrated with the financial data to provide more useful and relevant reports.
- There are no separate reports for key revenue streams such as stevedoring, tonnage, handling, storage. The reports should include the revenue and the associated costs (depreciation, payroll, repairs, utilities) to determine the profitability of each revenue stream
- The accounting system is not set up to enable the Authority to generate automated management reports to aid the decision making process.

2017 update

The above issue remains unresolved as of 30 September 2017.

Maintenance of supporting schedules for revenue to be strengthened

Based our testing on revenue, we noted that there were certain key supporting schedules for revenue that could not be provided. These included the shipping register, container register and the container summary.

These registers would enable the Authority to carry out powerful analytics on the main revenue streams including stevedoring, handling and tonnage. Consequently, these analytics could not be performed. Further, the lack of proper maintenance of these schedules leads to the lack of audit trail over revenue which is a significant account.

2017 update
Issues remain unresolved as revenue schedules could not be provided to analyse volumes which could be used to develop revenue expectations.

Formal disaster recovery and business continuity plan
There is no formal disaster recovery plan that exists to provide details for the orderly resumption of operations subsequent to a total failure of the data processing system. Furthermore, there is also no business continuity plan with the occurrence of an unexpected catastrophic event such as a natural disaster.

The non-existence of a formal disaster recovery plan increases the risk of loss of data and disruption to the operations of the Authority in the event of a system failure. In addition, lack of business continuity plan could significantly impact operations arising from unexpected events.

2017 update
The above issue remains unresolved as of 30 September 2017.

XERO system deficiencies
The most significant problems encountered during the 2016 financial period audit with regards to Xero accounting system were as follows:

- Incorrect FAR sub ledger – It was noted that the fixed asset sub ledger did not reconcile with the general ledger. The variance was due to incorrect conversion of the manual FAR during the data migration process and the inability of the system to accept manual updates in order to remedy the problem.
- Incorrect depreciation – The depreciation expense in the GL was overstated.
- Accumulated depreciation – It was noted that there is a variance between the cost and accumulated depreciation between the Fixed Assets Register and General Ledger (GL).
- Depreciation rates are fixed for the classes of assets. This removes the flexibility with the range of depreciation rates available for the different assets.

2017 Update
The above issues remain unresolved as of 30 September 2017.

Incomplete fixed asset registers
While performing procedures over fixed Asset register, we noted that disposals or assets written off were not reflected in the FAR. Assets that form part of a set and can be depreciated as a whole are split-up and treated separately. We noted that the Company does not have any formal procedures for disposing of assets and for authorizing the disposal of assets. This affects the completeness, and existence of fixed assets.

2017 update
The above issue remains unresolved as of 30 September 2017.

Investment property
As at 31 December 2016, the investment property was valued at $31.6 million. The investment property is stated at fair value but we noted the following issues:

- The investment property was last valued in 2012 and subsequently it has been valued at the lower of the 'increase in CPI' or the 'present value of rental proceeds'. However, we noted that basis for the key data used in the valuation could not be validated;
- The properties are predominantly commercial lots and are on valuable prime land. The Authority has not developed a business case on how they can maximise the returns on their rental proceeds;
- There is no scheduled repairs and maintenance plan. Based on inspection of the properties, it appears that they were not all in good state of fit for purpose working conditions; and
- There is not separate management reporting to capture rental proceeds and associated costs by properties. These costs would include depreciation, repairs and maintenance, security, etc.

The above issues indicate that the valuation of the investment property needs to be reassessed and the property management function needs to be improved. In addition, this lack of detailed management reporting effects some decision making.

2017 update
The above issue remains unresolved as of 30 September 2017.

Cash and liquidity management function
The cash balance appears to be in excess of the reasonable needs of the business and this could result in the Authority losing out on potential interest income from investment. This indicates the non-existence of an effective cash management and liquidity management function.

The Authority should establish an effective treasury function whereby it properly budget the Authority's cash flow requirements and set aside the required amount of cash to cover short term commitments as and when they fall due. Any surplus or idle cash is invested in higher earning investment opportunities.

2017 update
We noted that the Authority has invested in fixed deposits in the current financial year. The Authority should consider investing more in fixed deposits to maximise returns.

No delegated levels of authority
Delegated levels of authority are critical part of having an effective corporate governance policy.

We noted that the Authority does not have a formal policy on delegated level of authority. During the audit, there were large procurement and projects and we could not substantiate if the senior officers authorising these transactions were delegated the authority by the Board. This gives rise to a high risk of unauthorised transactions.

2017 update
The delegated authority levels have been drafted but the instrument is waiting for vetting and approval by the Board before being adopted by the Authority.

Policy of vehicle entitlement for directors
The Authority currently does not have a documented formal policy with respect to the senior managers' vehicle scheme which allows them to use 50% of their salary base to purchase a vehicle for official business purposes.

It is a mutual understanding that the vehicle will be used for the business purposes for a period of 4 years before ownership is transferred to the managers. The absence of a formal documented scheme results in the lack of a binding contract for the vehicle to remain with the Authority for a period of four years for business purposes.

2017 update
The policy has been drafted but is waiting for vetting and approval by the Board before being adopted by the Authority.

Conclusion
These issues indicate that the board and management need to address them urgently in order to improve the financial management system of SIPA.

The board and management agree with the findings and put in place measures to address the recommendations.

Chapter 11: Solomon Islands Visitors Bureau

Audit opinion

The audit of the annual financial statements for the years 2015 to 2016 is progressing at the time of the production of this report. This is due to the inability of the entity to produce the annual financial statements on a timely basis.

The entity breaches its reporting obligation.

Chapter 12: Solomon Islands Water Authority

Audit opinion

The audit of the Solomon Islands Water Authority (SIWA) accounts was outsourced to EY, Fiji under a five year contract agreement for the years ending 2013 to 2017.

The 2017 SIWA financial statements received a qualified opinion. The financial statements give a true and fair view of the financial position of the Authority as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) except for matters raised in the "Qualified Opinion" paragraph below.

Basis for qualified opinion

The Authority changed legacy accounting and payroll software in August 2017. The data migration process was performed by the new ERP staff based on data provided by the Authority. The process of extraction from legacy system, import into the new ERP and subsequent reconciliation and adjustments had not been documented in sufficient detail, which has resulted in numerous errors and ongoing adjustments in the general ledger and subsidiary ledger. This has further raised concern while reconciling the major areas of the accounting functionalities such as bank reconciliations, inventory reconciliations, other assets and employee leave liabilities. As of the date of audit opinion, management was still in the process of rectifying the system deficiencies and correcting the errors with support of the new ERP staff. As a result of these matters, the Auditor-General was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, other assets, employee leave liabilities, reconciling bank transactions and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Audit issues

The significant issues identified during 2017 are summarised below.

Data migration from legacy system to the new ERP

The Authority changed legacy accounting and payroll software in August 2017. The data migration process was performed by the new ERP staff based on data provided by the Authority. The process of extraction from legacy system, import into the new ERP and subsequent reconciliation and adjustments had not been documented in sufficient detail, which has resulted in numerous errors and ongoing adjustments in the general ledger and subsidiary ledger. This has further raised concern while reconciling the major areas of the accounting functionalities such as bank reconciliations, inventory reconciliations, other assets and employee leave liabilities. Limitations of scope identified were as follows:

(i) Inventory valuation

The inventories were recorded at a total value of SBD 8,392,851 in the books of account at year end. It has not been practicable to determine the correct valuation of inventories as management were unable to provide the inventory reconciliation and final inventory listing due to issues with data migration from legacy system to the new ERP. Audit procedures undertaken to confirm the existence, accuracy and valuation of inventories recorded in the final inventory listing could not be reviewed due to limitation of scope and as such no reliance on final inventory balances could be placed.

(ii) Reconciling items in bank reconciliations:
The information relating to reconciling items on the bank reconciliations were not sufficient to express an audit opinion. The following issues were detected:

- Significant reconciling adjustments were processed in the general ledger at year end to reconcile the general ledger with bank statements. These adjustments were recorded by the new ERP team to reconcile the cash at bank balances during the new ERP data migration.
- During the data migration process, the Authority created two new clearing bank accounts to record transactions for which the Authority were unable to identify the corresponding receipts. Management were unable to provide the breakdown of these balances. The unavailability of sufficient appropriate audit evidence resulted in a lack of audit trail and incorrect financial reporting.

(iii) Annual leave and long service leave reconciliations:
We have not been able to obtain sufficient appropriate audit evidence relating to provision for annual leave and long service leave to verify the completeness of the balance recorded in the books of account thus, it has not been practicable to carry out normal audit procedures.

Audit findings:
The unavailability of sufficient appropriate audit evidence resulted in a lack of audit trail and incorrect financial reporting. Conversely, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, other assets, employee leave liabilities, reconciling bank transactions and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Conclusion:
The Authority have agreed to qualified opinion in the 2017 independent auditor’s report relating to data migration.

Non-revenue water - (recurring issue)
Non-revenue water for the year amounted to 62% (2016: 59%) of the total production. Therefore, with an average revenue rate of SBD 14.30 per litre, the total value of the non-revenue water was approximately SBD 119m (2016: SBD 109m with an average rate of SBD 16.65). The figures denote a significant loss of revenue for the Authority. The industry benchmark is approximately 25% for developing nations.

Ageing distortion
Based on our review of the debtors ageing, it was detected that the debtor ageing is distorted. The distortion is due to the system limitation as MagiQ software does not allow allocation of cash receipts to specific customer invoices. Therefore, the cash receipts from customers are not applied to specific customer invoices rather it is directly credited to the current debtor account.

Prepare inventory ageing report – (recurring issue)
The Authority does not prepare an inventory aging report.

Monitor inventory turnover and implement policy on provision for obsolescence – (recurring issue)
The Authority has not established a policy to provide for inventory obsolescence. The Authority's inventory listing, while containing details of inventory movements, is not comprehensive enough to provide management with useful information to monitor inventory turnover and to identify slow-moving inventory at a point in time. A policy on provisioning for inventory obsolescence should be developed and applied consistently every year.

Negative debtors – (recurring issue)
Based on our review of the debtors account, it was detected that the staff debtors had credit balances resulting due to application of a fixed amount of water concessions every month irrespective of the amounts billed.

Credit limits – (recurring issue)
Our review of the debtors account revealed that no credit limit was set for the customer accounts in the MaqiQ software.

Inefficient management of debtor account may expose the Authority to an unmanageable debt and may result to a potential impairment of debtors.

Banking not done intact
Based on the work done for cash receipts and banking test of controls, instances were detected where the cash receipted were not banked intact for Tulagi branch. Delay in banking may result to misappropriation of cash and theft.

Labelling of items
Electrical items were not properly labelled resulting to difficulties in identifying the items for counting. Furthermore, instances were detected by the OAG count team where items were stored under the trees such as pipes which was exposed to the heat thus may increase the risk of being damaged.

Ownership of land - (recurring issue)
The Authority has recorded under Land & Buildings, Lot 199, parcel No. 181-003-104 (Tulagi House) which had been purchased from Sasape Marina Ltd. in 1996. No formal documentation had been executed hence SIWA does not have any evidence of ownership for the land. The same land has been sold to SINPF by Sasape Ltd. Land is now registered under SINPF. However, SIWA has registered a caveat against the title. However there has not been a court hearing or correspondence from the lawyers since last 3 years. We are unable to obtain sufficient appropriate audit evidence to verify the rights and obligations of the land which has been recorded in the books of accounts.

Conclusion
The board and management agree with the findings and are addressing the issues.

Chapter 13: Telecommunications Commission of Solomon Islands

Audit opinion

The 2017 Statements of Cash Receipts and Payments for the Telecommunications Commission of Solomon Islands (TCSI) were audited by this Office and received unqualified audit opinion. These financial statements were prepared under International Public Sector Accounting Standards - Cash Basis rather than under full International Financial Reporting Standards.

Audit issues

Issues of concern for 2017 audit are summarised below.

Unacquitted and partly retired imprests

The issue of unretired imprests is still not resolved. Impresets were either not retired or partly retired.

Electricity bills for PB Salon paid by TCSI

A review of the electricity and utilities expenses revealed the following issues:

- Electricity invoice payment worth $36,162.67 with cheque reference no. 924778 which was paid for electricity bills for Pacific Beauty Salon (PBS) relates to 2015 financial year;
- The reimbursement for the above amount $36,162.67 were not sighted by audit in the current financial period; and
- The PBS electricity issue has been resolved in 2017. A new tenant has leased the office space previously sub-leased to PBS. The commission has resolved all outstanding debt from PBS in 2018.

Applicable withholding tax not withheld

TCSI did not comply with the Income Tax Act (cap 123). Withholding tax for gross payment of income from contracting and lease of property payments were not withheld as required by the tax legislation. An estimated $178,201.11 withholding tax for 2017 financial year was not withheld.

Telecommunications expenses

Audit noted the following issues in relation to telecommunication charges expenses.

- PVs were not approved for the two advance top up payments of $13,000 (January 2018 STL and Bmobile top-up); and
- Payment of EVD top-up for employees; where EVD top-up is for the purpose of reselling top-up credits.

Unsecured additional loan

An additional unsecured loan of $37,000 was given to a TCSI staff during the year.

Annual leave passage
The annual leave passage benefits were paid without any formal annual leave confirmation. It was noted that annual leave passage benefits were advanced for purposes other than annual leave. As per employee contracts annual leave passage benefit should be paid in respect of annual leave approval. A total of $210,500 annual leave passage was paid during 2017 financial year.

Conclusion
The above issues indicate that TCSI management needed to address them in order to improve the financial management system of the organisation.

The management agrees with the findings and put in place measures to address the issues.

Appendix 1 - Definitions and Technical Concepts

Risk Ratings

International Auditing Standard ISA 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment" and ISA 320 "Materiality in planning and performing an audit" both discuss audit risk and the risk of material misstatement the financial statements. These require an auditor to assess risk as it relates to the fair presentation of financial statements. The risk definitions are described in the table below.

Risk Rating	Description
High	Matters which may pose a significant business or financial risk to the entity; and / or 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 Moderate risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Moderate	Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year; and / or Matters that may escalate to high risk if not addressed promptly; and / or Low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	Matters that are isolated, non-systemic or procedural in nature; and / or Matters that reflect relatively minor administrative shortcomings and require action in order to improve the entity's overall control environment.
Improvement Opportunity	Matters of a procedural or administrative nature which could improve the efficiency or effectiveness of entity level, systemic or transactional processes.

Audit Opinions

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 audit findings our staff finds during the audit. The table below provides details of the different types of audit opinions that the Auditor General can 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	Qualified audit opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified audit opinion	Disclaimer of opinion

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 or clean audit opinion. This would mean that their financial statements are free from material misstatement due to error or fraud and that Parliament and members of the public and other stakeholders can have faith that the financial reports are true and correct.

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. For example, an Auditee not being able to have their financial certified by 31 March as prescribed by the SOE 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 whilst they may not result in modification to the financial statements but are important issues that the Auditor General wishes to bring to the readers' attention. A common example when an auditee has issues regarding events that have occurred after balance date (e.g. major damage incurred from a natural disaster or the signing of a contract for material investment in infrastructure) or if an auditee is experiencing difficulties trading as a going concern.

Appendix 2: Glossary of acronyms

CBSI	Central Bank of Solomon Islands
CEMA	Commodities Export Marketing Authority
IAS	International Accounting Standards
ICSI	Investment Corporation of Solomon Islands
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards for Supreme Audit Institutions
NPF	National Provident Fund
OAG	Office of the Auditor-General
SA	Statutory Authorities
SAL	Solomon Airlines Limited
SIBC	Solomon Islands Broadcasting Corporation
SIEA	Solomon Islands Electricity Authority
SINPF	Solomon Islands National Provident Fund
SINU	Solomon Islands National University
SINPF	Solomon Islands National Provident Fund
SIOAG	Solomon Islands Office of Auditor General
SIPA	Solomon Islands Ports Authority
SIPC	Solomon Islands Postal Corporation
SIVB	Solomon Islands Visitors Bureau
SIWA	Solomon Islands Water Authority
SOE	State Owned Enterprises
SP	Solomon Power
SW	Solomon Water
TCSI	Telecommunications Commission Solomon Islands