



**Solomon Islands Government**

**Office of the Auditor-General**

**Report of the Auditor-General on the  
Financial Statements**

**of the**

**Solomon Island Government**

**for the period**

**1 January 2017 to 31 December 2017**

Office of the Auditor-General  
Mud Alley  
P O Box G18  
Honiara

June 2020

## **Table of Contents**

Report on the Audit of the Financial Statements of the Solomon Islands Government for the year ended 31 December 2017 in accordance with the Public Financial Management Act 2013 .....	3
Report on the Audit of the Financial Statements of the Solomon Islands Government for the year ended 31 December 2017.....	7

# Solomon Islands Office of the Auditor-General



## Independent Auditor's Report to the Ministry of Finance and Treasury

### Report on the Audit of the Financial Statements of the Solomon Islands Government for the year ended 31 December 2017 in accordance with the Public Financial Management Act 2013

#### ***Disclaimer of Opinion***

I have audited the accompanying financial statements of the Solomon Islands Government (the Government) which comprise:

- Statement of the Source and Application of Funds,
- Comparative Statement of Revenue and Expenditure,
- Balance Sheet Statement,
- Statement of Public Debt,
- Statement of Contingent Liabilities and Loan Guarantees,
- Statement of On Lent Loans,
- Statement of Arrears of Revenue,
- Statement of Special Funds, and
- Notes to the financial statements, including a summary of significant accounting policies.

I do not express an opinion on the accompanying financial statements of the Government for the year ended 31 December 2017. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

The basis for disclaimer of opinion of the financial statements of the Government for the year ended 31 December 2017 is attributed to the following:

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

In my 2015 audit, testing identified that there were missing supporting documents for procurement, expenditure and imprest. This amounted to 45% in number and 62% of the value of payment vouchers tested and \$989million of payroll items tested. In 2017 we found that corrective action has not been implemented to address this.

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

#### *Missing supporting documents for revenue*

In my 2015 audit, testing identified that there were missing supporting documents for receipts in relation to taxation and licences and fees. Corrective action has not yet been implemented.

As a result, I was unable to verify the completeness and accuracy of receipts in the Financial Statements.

#### *Lack of interface reconciliations in key revenue systems and payroll systems*

In my 2015 audit, there was a lack of interface reconciliations between revenue systems and the general ledger and the payroll system and the general ledger. Corrective action has not yet been implemented.

Accordingly, I was not able to determine the accuracy of receipts and payroll expenditure in the general ledger.

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

In my 2015 audit, testing found several key bank accounts did not reconcile and many bank accounts have large values of unadjusted differences dating back as far as the beginning of 2011. In addition, many bank accounts controlled by the ministries had not been reconciled, or there was no evidence of an independent check of reconciliations performed. Corrective action has not yet been implemented.

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

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

In my 2015 audit, there was inadequate supporting documentation for some assets and liabilities. In 2017 we have found that corrective action has not been implemented.

My audit has also identified that the Solomon Telekom Compensation was incorrectly classified as a contingent liability rather than a debt in 2016. This remains uncorrected in the prior year comparison as at 31 December 2017.

Accordingly, I was not able to confirm Note 16: Government Debt and Note 17: Contingent Liabilities as they appear in the 2017 Financial Statements.

#### *Lack of financial statements for Special Funds*

Special Funds have been legislated for Noro Fuel Depot Sinking Fund, National Disaster Fund and Correctional Fund. These have not been identified within the Financial Statements.

Section 22 of the PFMA Act require financial statements to be prepared for Special Funds, and that they be submitted to the Auditor General for audit. None of the Financial Statements for Special Funds have been submitted to the Auditor General for audit.

Accordingly, I was not able to verify the accuracy of the transactions and balances as they appear in the Statement of Special Funds.

#### *Lack of supporting documentation for the Statement of Arrears of Revenue*

Statement of Arrears of Revenue is materially understated as significant amount of revenues arrears are not fully accounted for and disclosed in financial statements.

Accordingly, I was not able to verify the accuracy of the balances as they appear in the Statement of Arrears of Revenue.

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

I noted that the financial statements were not prepared fully in accordance with the Public Financial Management Act, 2013. The following were identified as needing to be addressed to improve presentation and disclosure:

- A statement of commitments outstanding for the supply of goods and services under PFMA section 77 (h), and
- A statement of public stores and other assets under PFMA section 77 (i).

*Non-disclosure of Subsequent Events*

The financial statements do not include the disclosure of any subsequent events. On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic and two weeks later the Solomon Island Government declared a State of Public Emergency. As a result, economic uncertainties have arisen which are likely to negatively affect the operations and services of the Government. At this time it is difficult to determine the full effect of the COVID-19 pandemic, and there could be a number of ways the Solomon Islands Government accounts are affected.

***Responsibilities of Management and Those Charged with Governance for the Financial Statement***

Management are responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. The 2016 Solomon Islands Government accounts have been prepared under the reporting requirements of the Public Financial Management Act (PFMA Act) 2013.

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

Management are responsible for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management are responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Government or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Government's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

My responsibility is to conduct an audit of the Government's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of the Government in accordance with International Organisation of Supreme Audit Institutions (INTOSAI) Code of Ethics, and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements.

### **Report on Other Legal and regulatory requirements**

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion as described in the Basis for Disclaimer of Opinion section of my report:

- i) Proper books of account have not been properly kept by the Government to enable financial statements to be prepared;
- ii) The financial statements have not been prepared in accordance with the requirements of the Government's Interim Financial Instructions 2014; and
- iii) The Government did not comply with the requirements of the Public Finance and Audit Act (Cap 120) and the Public Financial Management Act, 2013, which require the financial statements to be submitted to the Office of the Auditor General not later than six months of the following year to which the financial statements relate. The signed statements were presented to me on 05 June 2019.



Peter Lokay  
Auditor-General  
2 June 2020

Office of the Auditor-General  
Honiara, Solomon Islands

# Solomon Islands Office of the Auditor-General



## Independent Auditor's Report to the Ministry of Finance and Treasury

### Report on the Audit of the Financial Statements of the Solomon Islands Government for the year ended 31 December 2017

#### *Disclaimer of Opinion*

I have audited the accompanying financial statements of the Solomon Islands Government (the Government) which comprise the Statement of Cash Receipts and Payments and the Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2017 and notes to the financial statements, including a summary of significant accounting policies.

I do not express an opinion on the accompanying financial statements of the Government for the year ended 31 December 2017. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### *Basis of Disclaimer of Opinion*

The basis for disclaimer of opinion of the financial statements of the Government for the year ended 31 December 2017 is attributed to the following:

##### *Missing supporting documents for procurement, payments and imprest*

In my 2015 audit, testing identified that there were missing supporting documents for procurement, payments and imprest. This amounted to 45% in number and 62% of the value of payment vouchers tested and \$989million of payroll items tested. In 2017 we found that corrective action has not been implemented to address this.

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

##### *Missing supporting documents for receipts*

In my 2015 audit, testing identified that there were missing supporting documents for receipts in relation to taxation and licences and fees. Corrective action has not yet been implemented.

As a result, I was unable to verify the completeness and accuracy of receipts in the Financial Statements.

##### *Lack of interface reconciliations in key revenue systems and payroll systems*

In my 2015 audit, there was a lack of interface reconciliations between revenue systems and the general ledger and the payroll system and the general ledger. Corrective action has not yet been implemented.

Accordingly, I was not able to determine the accuracy of receipts and payroll expenditure in the general ledger.

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

In my 2015 audit, testing found several key bank accounts did not reconcile and many bank accounts have large values of unadjusted differences dating back as far as the beginning of 2011. In addition, many bank accounts controlled by the ministries had not been reconciled, or there was no evidence of an independent check of reconciliations performed. Corrective action has not yet been implemented.

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

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

In my 2015 audit, there was inadequate supporting documentation for some assets and liabilities. In 2017 we have found that corrective action has not been implemented.

My audit has also identified that the Solomon Telekom Compensation was incorrectly classified as a contingent liability rather than a debt in 2016. This remains uncorrected in the prior year comparison as at 31 December 2017.

Accordingly, I was not able to confirm Note 16: Government Debt and Note 17: Contingent Liabilities as they appear in the 2017 Financial Statements.

### *Lack of financial statements for Special Funds*

Special Funds have been legislated for Noro Fuel Depot Sinking Fund, National Disaster Fund and Correctional Fund. These have not been identified within the Financial Statements.

Section 22 of the PFMA Act require financial statements to be prepared for Special Funds, and that they be submitted to the Auditor General for audit. None of the Financial Statements for Special Funds have been submitted to the Auditor General for audit.

Accordingly, I was not able to verify the accuracy of the transactions and balances as they appear in the Statement of Special Funds.

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

I noted that the financial statements were not prepared fully in accordance with IPSAS Cash Basis Accounting. There are elements of the Cash Basis IPSAS Part 1 Mandatory requirements which are not complied with. The following were identified as needing to be addressed to improve presentation and disclosure:

- The Financial Statements consolidate only those entities described under the disclosure Note 1.1, not all entities which meets the definition of a controlled entity.
- The Statement of Receipts and Payments does not include all cash received and paid and all bank balances of SIG.

### *Non-disclosure of Subsequent Events*

The financial statements do not include the disclosure of any subsequent events. On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic and two weeks later the Solomon Island Government declared a State of Public Emergency. As a result, economic uncertainties have arisen which are likely to negatively affect the operations and services of the Government. At this time it is difficult to determine the full effect of the COVID-19 pandemic, and there could be a number of ways the Solomon Islands Government accounts are affected.



## ***Responsibilities of Management and Those Charged with Governance for the Financial Statement***

Management are responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS Cash Basis, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management are responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Government or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Government's financial reporting process.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

My responsibility is to conduct an audit of the Government's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of the Government in accordance with International Organisation of Supreme Audit Institutions (INTOSAI) Code of Ethics, and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements.

## **Report on Other Legal and regulatory requirements**

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion as described in the Basis for Disclaimer of Opinion section of my report:

- i) Proper books of account have not been properly kept by the Government to enable financial statements to be prepared;
- ii) The financial statements have not been prepared in accordance with the requirements of the Government's Interim Financial Instructions 2014; and
- iii) The Government did not comply with the requirements of the Public Finance and Audit Act (Cap 120) and the Public Financial Management Act, 2013, which require the financial statements to be submitted to the Office of the Auditor General not later than six months of the following year to which the financial statements relate. The signed statements were presented to me on 05 June 2019.



Peter Lokay  
Auditor-General  
2 June 2020

Office of the Auditor-General  
Honiara, Solomon Islands