



**SOLOMON ISLANDS GOVERNMENT**

# **OFFICE OF THE AUDITOR GENERAL**

## **AUDIT REPORT ON PROVINCIAL GOVERNMENTS AND HONIARA CITY COUNCIL**

Financial years ended 31 March 2019 and 31 December 2015

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## FOREWORD FROM THE AUDITOR-GENERAL

I am pleased to present this Report to Parliament covering the results of audits performed on the nine provincial governments for the financial year ending 31 March 2019. These audits were performed in 2020. The report also contains the results of the audit of the Honiara City Council (HCC) for the year 2015.

### **Results of audits**

For the first time Central Province has received an unqualified opinion (clean opinion) which was a great achievement for the province. I acknowledge the good work done by three provinces (Choiseul, Isabel and Western) who have received qualified audit opinions. The other Provincial Governments and HCC continue to receive a disclaimer audit opinion which is a concern to this office. There is a correlation between poor record keeping, poor financial performance and results.

### **Acknowledgements**

I would like to acknowledge the great work done by my officers during the audit field work and the preparation of the field reports.

I thank the provincial governments and council for their support during the audit without which the audits could not be done.



Peter Lokay  
Auditor-General

31 December 2020

## SUMMARY

### PROVINCIAL GOVERNMENTS AUDITS

In 2020 the Auditor General issued audit opinions on financial statements received in respect of the following provincial governments. An explanation of what the audit opinion means is detailed in Appendix 1 of this report.

**Table 1: Provincial governments which received audit certificates**

N o	Auditee	Financial Year-end	Date certified by Management	Date received by OAG	Date of audit certification	Audit Opinion
1	Central	31/03/2019	11/11/2019	11/11/2019	01/04/2020	Unqualified
2	Choiseul	31/03/2019	28/06/2019	28/06/2019	12/05/2020	Qualified
3	Guadalcanal	31/03/2019	30/12/2019	30/12/2019	04/12/2020	Disclaimer
4	Isabel	31/03/2019	29/06/2019	29/06/2019	12/05/2020	Qualified
5	Makira Ulawa	31/03/2019	31/12/2019	31/12/2019	07/05/2020	Disclaimer
6	Malaita	31/03/2019	30/12/2019	30/12/2019	29/06/2019	Disclaimer
7	Rennell Bellona	31/03/2018	29/06/2018	29/06/2018	23/03/2020	Disclaimer
8	Rennell Bellona	31/03/2019	23/08/2020	23/08/2020	17/12/2020	Disclaimer
8	Temotu	31/03/2019	31/12/2019	31/12/2019	08/05/2020	Disclaimer
9	Western	31/03/2019	03/12/2020	03/12/2020	04/12/2020	Qualified

From the list above, it is evident that great progress is being made by four Provinces in meeting their statutory financial reporting obligations. The standard of financial management and financial statements is still poor for the other provinces.

#### **HONIARA CITY COUNCIL AUDIT**

Table 2 below shows the audit done on the Honiara City Council. From the list below, it is evident that no progress is being made by HCC in meeting their statutory financial reporting obligations.

**Table 2: Honiara City Council (HCC) audit certificates status**

<b>No</b>	<b>Auditee</b>	<b>Financial year-end</b>	<b>Date certified by management</b>	<b>Date received by OAG</b>	<b>Date of audit certification</b>	<b>Audit opinion</b>
1	HCC	31/12/2015	12/09/2018	12/09/2018	01/11/2019	Disclaimer
2	HCC	31/12/2016	19/06/2020	19/06/2020	Not yet	
3	HCC	31/12/2017	19/06/2020	19/06/2020	Not yet	
4	HCC	31/12/2018	Not yet	Not yet	Not yet	
5	HCC	31/12/2019	Not yet	Not yet	Not yet	

## **Overall assessment**

### **Provincial Governments**

The *Provincial Government Act 1998* [PG Act] requires provincial governments to produce, within nine months after the end of the financial year, financial statements for audit. All of the financial statements were submitted to the Auditor-General within the statutory time frame except for Rennell and Bellona Province and Western Province.

Central Province has created history by being the first province to be issued with an unqualified audit opinion for the financial year. Three provinces (Choiseul, Isabel and Western) financial statements were issued qualified audit opinions.

For five of the provincial governments annual financial statements submitted for audit in the 2018 -2019 fiscal year, the Auditor-General was unable to express an opinion on the financial statements due to missing records and poor control over receipting and payment of moneys. This means that the information contained in the financial statements cannot be relied upon to be materially correct and a true and fair view of the operations of the provincial governments.

The provinces were using International Public Sector Accounting Standards (IPSAS) cash basis to prepare their accounts.

There were several areas of concern noted that all or most provincial governments had in common. These were:

- Lack of planning and monitoring of investment companies and businesses, and their financial statements not being consolidated in the provincial governments' financial statements.
- Poor controls over Ward Development Grants.
- Non-performance of or incomplete bank reconciliations.
- Poor control over the collection, recording and banking of receipts.
- Missing, unsupported and unauthorised payment vouchers.

- Poor control over payroll.
- Poor control over imprests and advances.
- Poor control over fixed assets.

OAG also noted instances of illegal and usurious loans being taken out by provincial governments.

The detail report for each provincial government is in the chapter relating to that particular province.

### **Honiara City Council**

The Honiara City Council Act requires the HCC to submit to the Auditor General for audit the accounts of the council within 3 months after the end of the financial year. The council is also required to prepare its financial statements in accordance with IPSAS Accrual basis. HCC is yet to comply with these financial reporting obligations.

For the HCC 2015 financial statements submitted for audit, the Auditor-General was unable to express an opinion on the financial statements due to missing records and poor control over receipting and payment of moneys. This means that the information contained in the financial statements cannot be relied upon to be materially correct and a true and fair view of the operations of the council. There was continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts.

## CHAPTER 1: CENTRAL PROVINCE

### Audit opinion

The Central Province annual financial statements for financial year 2018/2019 received an unqualified (clean) audit opinion as they were assessed as having complied with the International Public Sector Accounting Standards (IPSAS) cash basis.

The Central Province is therefore congratulated for being the first province to receive a clean audit opinion.

### Audit issues

The summary of audit issues for Central Province are in the table below.

**Table 3: Audit issues Central Province**

No	Audit issue	Risk rating
1	Direct deposit not receipted with official receipts	Low
2	Overspending on utilities	Low
3	Overspending on repair and maintenance	Low
4	Funds available not disclosed on requisition form	Low
	High	0
	Moderate	0
	<b>Low</b>	<b>4</b>
	<b>Total audit issues</b>	<b>4</b>

## 2. Audit findings and recommendations

### 2.1 Revenue

#### 2.1.1 Direct Deposit not receipted with official receipts

Revenues directly deposited into the bank accounts were not issued with the province official receipts. Those transactions were referenced to the bank statements instead of receipt numbers. It is good practise that all direct deposits are issued with the province's official receipts.

#### Implication

Risk of revenue not being properly classified and not accounted for in the general ledger.

Recommendation	Risk Rating	Executive Response
<b>Central Provincial Government:</b> <ul style="list-style-type: none"> <li>• Ensure to issue receipts for the direct deposits made into the provincial bank account</li> <li>• Ensure Provincial Treasurer or Deputy Treasurer reviews receipting of direct deposit for completeness.</li> </ul>	Low	<p>The Executive concurs with the findings and recommendations.</p> <p>The Central Provincial Government Treasury Division, had implemented the recommendation of this recurring audit issue. There are instance business operators made direct deposits for business licences but failed to inform the province of the deposit made. This makes it difficult to receipt the money when the depositor is unknown. However, in order to recognise the deposit as revenue of the province in its accounts (MYOB) it is referenced to bank statement as source of the transaction.</p>

## 2.2 Procurement and expenditure

### 2.2.1 Overspending on utilities

Utilities budget, a line item in the financial Statement was overspent by \$28,969. The Province did not apply for virements to address the overspending.

#### Implication

- Increases the risk of fraud occurring.
- Misappropriation of provincial fund.
- Illegal use of provincial fund which are not appropriated by the provincial assembly.

Recommendation	Risk Rating	Executive Response
<b>Central Provincial Government:</b> <ul style="list-style-type: none"> <li>• Ensure Provincial Treasurer or Deputy Treasurer Reviews the requisition form for funds available before payments are raised.</li> </ul>	Low	<p>The Executive concurs with the findings and recommendations.</p> <p>Utilities comprise of telephone, electricity and water bills. The overspending was for electricity bills which was incurred and spent purposely for the operation of the Provincial Government. The fact that an</p>

<ul style="list-style-type: none"> <li>• <b>Ensure Provincial Treasurer monitors all account codes budget lines.</b></li> <li>• <b>Comply with Financial Instruction 2018, section 9 (2) on budget implementation</b></li> </ul>		estimate transfer warrant/virement was not prepared when electricity exceeded its budget limit that needs to be improved. However, this would be now addressed in the compliance check currently performed by the province and should no longer an issue in the next financial year.
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### 2.2.2 Overspending on repair and maintenance

The repair and maintenance budget line was overspen<sup>1</sup> by \$ 27,026. The province did not apply for a virement to regularise the overspending.

#### Implication

- Increases the risk of fraud occurring.
- Misappropriation of provincial fund.
- Overspending of appropriate budget.

Recommendation	Risk Rating	Executive Response
<b>Central Provincial Government:</b> <ul style="list-style-type: none"> <li>• <b>Ensure Provincial Treasurer or Deputy Treasurer reviews the requisition form for funds availability before payments are raised.</b></li> <li>• <b>Ensure Provincial Treasurer closely monitor all account codes.</b></li> <li>• <b>Comply with Financial Instruction 2018, section 9 (2) Budget implementation</b></li> </ul>	Low	<p>The Executive concurs with the findings and recommendations.</p> <p>Central Provincial Government usually draws up an annual budget based on the annual work plan submitted by each division. There are instance activities which are not included in the annual work plan were carried out or executed because of its urgency. For example, constructing of new septic tanks to replace old septic tanks for three provincial staff house. The Provincial Planning and Works divisions cannot foresee when septic systems will be full hence the challenge.</p>

### 2.2.3 Funds available not disclosed in the requisition forms

Audit noted that the funds available amounts were not stated on the requisition forms.

#### Implication

- Lack of monitoring of available fund in account code budget line could result in overspending of appropriate budget.
- Lack of compliance to regulation.

Recommendation	Risk Rating	Executive Response
<p><b>Central Provincial Government:</b></p> <ul style="list-style-type: none"> <li>• <b>Ensure Provincial Treasurer or Deputy Treasurer states the funds available on all payment requisitions.</b></li> <li>• <b>Ensure Provincial Treasurer closely monitor all account codes budget lines.</b></li> </ul>	Low	<p>The Executive concurs with the findings and recommendations.</p> <p>Central Provincial Government have performed compliance check for payments out of recurrent budget towards the end of 3<sup>rd</sup> quarter of 2019/2020 financial year. One of the requirements on the compliance check is to ensure <i>Funds available for the account code is written</i> on the requisition.</p> <p>In addition, compliance checklist was also created for other payments out of the capital development budget for which to be implemented this year.</p> <p>The issue on funds availability not stated in the requisition therefore will now be addressed as per the compliance checklist in the next financial year.</p>

## CHAPTER 2: CHOISEUL PROVINCE

### Audit opinion

The annual financial statements of the Choiseul Province (CHP) for the financial year ended 31 March 2019 were certified by the Auditor General in 2020.

The Auditor General issued a qualified opinion on the financial statements for Choiseul Province for the 2019 financial year. The basis for issuing a qualified opinion was because the financial statements were not consolidated with the investment arm of the Province as required by International Public Sector Accounting Standards (IPSAS) cash basis.

### Audit issues

The audit issues identified during the audit are summarised in the table below.

**Table 4: Audit issues Choiseul Province**

No	Audit issue	Risk rating
1	Revenue not banked on timely basis	High
2	Expired and uncollected business license fees	Moderate
3	Non-compliance with budget procedures	Low
4	Tender board members conflict of interest declaration	High
5	Poor monitoring of employees advances	Low
6	Lack of formal overtime request	Low
7	Poor acquittal of ward development grant	Moderate
8	Non-consolidation of controlled entity	High
9	No evidence of checking and verification of cash received	High
10	Incomplete and un-updated cashbook for each bank account	Moderate
	High	4
	Moderate	3
	Low	3
	Total	10

## 2. Audit findings and recommendations

### 2.1 Revenue

#### 2.1.1 Revenue not banked on a timely basis

**Risk rating: High**

The cash received as revenue were not banked on a timely basis. The cash received from revenue collections were supposed to be banked in a timely manner to avoid misuse and theft.

#### **Implication**

- Risk that delaying deposits could result in loss of cash due to theft, careless handling or natural disaster.

#### **Recommendation 1**

*Choiseul Province ensure:*

- To bank all cash received on a daily basis as required in the Choiseul Province Financial Instructions and Stores Instructions – section 10 (1).

#### **Executive response**

*Issue is noted. Will ensure Treasury Division adhere to this recommendation and comply accordingly after receiving this report.*

#### **OAG comment**

*OAG acknowledge response and will do follow-up in 2019-2020 to confirm the progress of resolving the issue.*

#### **2.1.2 Expired and uncollected business license fees**

**Risk rating: Moderate**

Audit identified that most businesses had expired licenses but were still operating. The account receivable database revealed that businesses had expired licenses as far back as from 31/10/2010 to 31/03/2018.

#### **Implication**

- Increases risk of businesses operating illegally.
- Province will lose revenue every financial year.

#### **Recommendation 2**

*Choiseul Province ensure:*

- Treasury section to maintain and update all business licenses within the province
- To comply with section 24 of Choiseul Province Business License Ordinance 2011.

#### **Executive response**

*We acknowledge that our data base was up to date. Business licenses were collected every year. Most businesses are micro in nature. Therefore, were not sustainable all throughout the year. You will notice that some businesses do not necessarily survived more than one year. However, information on businesses cease operations need to be updated.*

*With logging companies, we acknowledge fees have not been paid on time, however taking strict measures to close operations becomes a last resort. In all cases we liaise with companies*

*to pay up with assistance from Ministry of Forestry. This normally results in a win-win situation for both.*

*OAG comment*

*OAG acknowledge response and will do follow-up in 2019-2020 to confirm the progress of resolving the issue.*

## **2.2 Payments**

### **2.2.1 Non-compliance with budget control procedures**

**Risk Rating – Low**

The budget control measures were not fully implemented to ensure management and compliance of spending with appropriated budget. The payment requisition forms were authorized without properly checking the available budget and the uncommitted balance.

#### **Implication**

- Overspending and budget constraints.
- Unauthorized spending.
- Conflict of interest.

### **Recommendation 3**

*Choiseul Province ensure:*

- Treasury Division properly check and confirm availability of budget before making payments.
- Provincial Secretary not to endorse requisitions if budget and availability of funds are not confirmed by treasury section.
- Comply with relevant sub-sections under section 9 of Financial & Stores Instructions 2018.

#### **Executive Response**

*Issue acknowledged and we will address as recommended. From now on a commitment ledger was created and implemented to ensure funds requested are budgeted for and actual payments do not exceed budgets. Furthermore, virements have now been channelled in their right process. PS acts upon verification by Treasury.*

*OAG comment*

*OAG acknowledge response and will do follow-up in 2019-2020 to confirm the progress of resolving the issue.*

### **2.2.2 Tender board members conflict of interest declaration**

**Risk Rating – High**

Tender Board Members must complete a declaration of conflict of interest during a procurement and contract awarding process. This is to ensure that members of provincial

tender board have no conflict of interest on procurements undertaken by the province. Audit noted that conflict of interest declarations were not done before awarding contracts to successful bidders.

#### **Implication**

- Lack of transparency and integrity.
- Conflict of interest
- Contract variations, failed or incomplete projects.

#### **Recommendation 4**

*Choiseul Province ensure:*

- Members of provincial tender board complete a conflict of interest declaration during a contract procurement process.
- Comply with Procurement Manual 2008, FMO 2018 and Financial & Stores Instruction 2018.

#### **Executive response**

*Issue is acknowledged. We will ensure that Conflict of interest declaration must be completed by members of Tender Board and Technical Evaluation Committee before awarding of contracts to successful bidders.*

#### **2.2.3 Poor monitoring of employee advances**

**Risk rating – Low**

It was a policy of the Province that Provincial Secretary should approve advances on behalf of the executive. However, this control was not properly monitored. Advances to employees of the province exceeded the limit required by law and there were instances where advances were not fully deducted from the salaries but new advances were approved.

#### **Implication**

- Provincial funds are held up in advances and not used in appropriate priority areas in service delivery.
- Authorising advances to those who have not yet fully accounted for previous advances.
- Lack of monitoring, control and enforcement of accountability.

#### **Recommendation 5**

*Choiseul Province ensure:*

- Ledgers for employee advances are updated in a timely manner.
- Comply with s.27 (3) of FMO 2018 for proper management of advances.
- Treasury department to monitor repayment of advance of salary until the entire advance is repaid before new advance is approved.

#### **Executive response**

*Issue is acknowledged, that advances in the past were paid to staff that were more than the required standard amount as per S27 (3) of FMO 2018. Advances are now being monitored by Treasury Division to ensure advances requested are within the limit per annum. Furthermore, repayments are completed within the requested period before new advances are considered so as to comply with relevant section of the FMO.*

#### **2.2.4 Lack of formal overtime request**

**Risk rating - Low**

There was no evidence of formal requests for overtime by employees. It was confirmed by the accounting officer that officers did their overtime duties then submitted the claim forms later for approval of payment for work done.

For good administration practices, all overtime work must be approved prior to officers carrying out duties by immediate supervisors or appropriate authority. This is to ensure officers do not defraud the province, hours worked are authorized and overtime budget is available.

##### **Implication**

- Increase overtime cost but less productivity.
- Budget overrun.
- Malpractices by officers of the province.

#### **Recommendation 6**

*Choiseul Province ensure:*

- Formal request for overtime in writing is sent to the supervisor for approval before carrying out overtime duties.
- Authority for overtime is granted by the supervisor before overtime work is carried out.
- Approved overtime documents must always be attached to payroll payment voucher for completeness.

##### **Executive response**

*Issue is acknowledged and we will ensure with immediate effect that formal request for overtime must be requested via Supervisors and approved before staff is engaged in overtime work. That all documentations will also be attached to overtime payments.*

#### **2.3 Ward development grant**

##### **2.3.1 No acquittal of ward development grant.**

**Risk rating: Moderate**

Audit noted weaknesses in the management of the ward development grant fund. The following instances were identified:

- Budget appropriated was \$160,000 (\$10,000 each ward), but the actual was \$295,000 (\$20,000 each ward).
- No acquittal reporting to prove usage and proper management of the fund.
- Grant application form not signed by MPA.

- Lack of grants register.
- Ward development committee is yet to be established.

#### Implication

- Could result in inappropriate release of grant money.
- Risk that grant not used for its intended purposes.
- Lack of transparency and accountability

#### Recommendation 7

Choiseul Province ensure:

- Develop policies to ensure certain acquittal requirements must be met before issuing second tranche of grant, e.g. acquittal report of first tranche.
- Treasury department to maintain a register of grants for all 16 wards to ensure proper monitoring and control.

#### Executive response

*Issue is acknowledged. A policy Blue print was designed and completed by Ministry of Provincial Governments and approved by Cabinet in 2012. Furthermore, the provincial financial management ordinance 2018 have further endorsed cabinet's decision on participatory planning process and provided for under **part 2 section 5 of the FMO 2018**. Therefore, In the Financial year 2019/20, Ward development grant will be administered by the Ward development Committees. As such utilisation and monitoring of funds will done by ward development committees under oversight role of the Provincial administrators.*

## 2.4 Investment

### 2.4.1 Non-consolidation of controlled entity

**Risk rating: High**

The non-submission of audited financial statements of Lauru Shipping Limited to the Choiseul Provincial Assembly was noted again which is a long standing recurring issue for the province.

#### Implication

- Choiseul Province has not issued consolidated financial statements.
- Not complying with International Public Sector Accounting Standard (IPSAS) Cash Basis and this will affect the audit opinion.
- Breach of Provincial Enterprise Ordinance 2011 section 9, sub-section 1 and 2.

#### Recommendation 8

Choiseul Province ensure:

- Lauru Shipping Ltd must comply with Section 9 (1) and (2) of Provincial Enterprise Ordinance 2011.
- To prepare consolidated financial statements as per IPSAS Part 1.6.5.

### **Executive response**

*Choiseul Provincial Government could not issue consolidated financial statements so as to comply with International Public Sector Accounting Standard (IPSAS). One of the main reasons is, Lauru Shipping Services Limited Management and Board had failed to furnish the Provincial Government with their financial statements on timely basis. The latest audited financial statements received was for financial year 2013.*

*Furthermore, a task force was created to look at the whole Lauru Shipping operations and report to the Provincial Government. By March 2020, the Provincial government should come up with a concrete decision whether or not to still keep Lauru shipping as her commercial arm.*

## **2.5 Cash**

### **2.5.1 No evidence of checking and verification of cash**

**Risk rating - High**

There was no evidence of checking and verification of cash received and the cash book summary by Provincial Treasurer before depositing the revenue being collected and no deposit slips were kept on file.

#### **Implication**

Maintaining proper segregation of duties is critical to an effective internal control environment. The absent of segregation of duties and incompatible duties are allowed and done by one person increases the risk of fraud. There is risk of undetected fraud as same officer could manipulate receipts and deposit slips.

#### **Recommendation 9**

*Choiseul Province ensure:*

- Accounting officer must verify and check cash received and cash book summary before the cashier does the banking.
- Copies of receipts, cash book summary and deposit slips are properly filed for audit trail.
- Accounting officer to always monitor compliance with section 3 (5) of Financial Instructions & Stores Instructions 2018.

### **Executive response**

*Issue is noted. Treasury division has already acted upon the recommendations raised in the 2019/20 financial year.*

### **2.5.2 Incomplete and un-updated cash book for each bank account**

**Risk rating – Moderate**

The province has incomplete and un-updated cash books for its bank accounts. Some bank accounts were not included in the cash book record. It is very important to maintain cash book in order to keep track of cash, receipts, payments and banking transactions for each bank account operated by province.

**Implication**

- Inaccurate cash transactions, receipts and payments information.
- Inaccurate business performance and position.
- Management rely on the information and would make poor decision making.

**Recommendation 10**

*Choiseul Province ensure:*

- Treasury section to always update and complete cashbooks for each bank account operated by province.
- To create separate cash book for each bank account.

**Executive response**

*Choiseul Provincial Government has recorded and maintain her financial transactions from the six bank accounts operated through the Mind Your Own Business (MYOB) accounting software. The only bank account that was concurrently recorded and maintained with Excel is the recurrent bank account or commonly termed as 'main account'.*

*Treasury Division sees creation and maintaining of cashbook via excel on all bank accounts as duplication of work and will soon do away with excel cashbooks.*

## CHAPTER 3: GUADALCANAL PROVINCE

### Audit

The annual financial statements of Guadalcanal Province received a disclaimer audit opinion for the financial year ended 31 March 2019. The disclaimer of opinion is attributed to the continuous failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support accounting transactions. There was no alternative means of verifying the balances and disclosures with respect to the annual financial statements.

The province failed to comply with the reporting requirements of the International Public Sector Accounting Standards (IPSAS) cash basis.

### Audit issues

The 2019 audit risk issues identified during the audit are summarised below.

The process to manage and monitor procurements, payments, receipts, assets, bank accounts, payroll and imprests procedures was inadequate and fell short of the requirements of the Financial Management Ordinance 2018 and Financial and Stores Instructions 2018.

A summary of the main issues leading to the disclaimer opinion are disclosed in the table below.

**Table 5: Main audit issues Guadalcanal Province**

Audit issue type	Opinion impact	Audit issue
Financial statement irregularity	Disclaimer of opinion	General Ledger was not on cash basis
		Non-reconciliation of temporary accounts from trial balance
		Important disclosures omitted from the financial statements
		Discrepancy in cash and cash equivalent
		Bank reconciliation did not reconcile
Insufficient and inappropriate documentation	Disclaimer of opinion	Missing receipts
		Missing payment vouchers
		Lack of sufficient supporting documents for payments
		Missing imprest retirement file

### Impact of COVID-19

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 operations and services.

At present the Solomon Island Government has not finalised its budget for 2021. As a result the funding for the Provincial Government in 2021/2022 is uncertain.

As a result this poses a material uncertainty for the going concern basis of the financial statements. This reflected in the audit opinion.

## **2. Detailed audit findings and recommendation**

### **2.1 Financial statements**

#### **2.1.1 General ledger is not on a cash basis**

In 2019 the Provincial Government added MYOB modules to its financial system to enable it to record its debtors and creditors. This will put the Provincial Government in a good place in the future to prepare for accrual reporting. However, as the organisation is not yet at this stage, there have also been some unintended consequences of this.

The audit has found that although the financial system has a cash basis of IPSAS reporting function, the Provincial Government has not been able to provide audit with Cash Basis transaction reports from the financial system to enable the OAG to test transactions. The Provincial Government has also not undertaken its own reconciliation of balances to translate the general ledger to Cash Basis.

As a result audit tests have found that there are material and pervasive discrepancies between Financial System (the general ledger) and Financial Statements. As there is no reconciliation between the two, we have been unable to verify that there were no errors within these adjustments in addition to the differences resulting from the accrual presentation in the ledger.

Audit test found financial statements account balance figures being traced to general ledger did not agree. The variance equated to \$1,022,469.89.

Further, tests also found an amount of \$216,381.28 in the financial statements was not found in the general ledger.

Due to the accrual basis applied within the general ledger, we have identified errors during our testing of receipts and payments. This further highlights the uncertainty in the financial statements.

### ***Implication***

Material uncertainty in Financial Statements leading to a disclaimer of opinion.

Rating	Recommendation	Executive response	OAG response
<b>High</b>	<p>The Provincial Government should ensure that financial system can report on an IPSAS Cash basis and provide Cash Basis supporting evidence. The Provincial Government may need to seek advice from the system provider or other advisors to ensure that appropriate reporting functions are available.</p> <p>The Provincial Government should ensure the Financial Statements are reconciled to the financial system prior to the commencement of our audit.</p> <p>The Provincial Government should ensure that staff are appropriately trained and knowledgeable to use the system to facilitate the audit and undertake regular checks to ensure early identification of any errors or missing information.</p>	<p>The discrepancy between the Financial System and the Financial Statement exist due to the MYOB system being setup to recognised accrual transactions.</p> <p>With the audit testing based upon GL/TB balance figures trailing from therein to the Financial Statement the discrepancy is expected, or will not agree because the auditor's comparison is different from the basis for preparing the Financial Statement (P&amp;L – Cash Transaction). The Financial Statement is prepared as per IPSAS cash basis.</p> <p>Elimination process is being discussed with PTR, Auditor and MPGIS. The next reporting will reflect the elimination process and reconcile the discrepancies.</p>	<p>OAG acknowledge response. In the future ensure finance division provide FS mapping and clearly show elimination items (transactions) as your financial system is being set-up for accrual accounting rather than cash basis.</p>

#### **2.1.2 Non-reconciliation of temporary accounts from Trial Balance.**

We found three accounts which had not been reconciled through the accounts preparation phase. This process would have correctly allocated these balances to the appropriate receipt or payment heading. These were:

- \$31,684.49 of un-deposited funds;
- \$14,306,111 relating to historical balancing items; and
- \$27,954 relating to a temporary PV requisition account.

As this has not occurred, these items have not been correctly classified within the financial statements.

### ***Implication***

- Material uncertainty in Financial Statements leading to a disclaimer of opinion.
- Risk of fraud.

Rating	Recommendation	Executive response	OAG response
<b>High</b>	<p>All suspense, temporary, clearing or balancing accounts should be reconciled and reviewed monthly (or more frequent if required). Any outstanding balances at year end should be resolved prior to the preparation of the financial statements.</p> <p>Cashiers should ensure they cash-up and validate (reconcile and update) financial records with revenue/data officers and Provincial Treasurer on a daily basis so that funds are correctly allocated across the correct account codes to report in the financial statements and ensure to avoid cash being held unnecessarily in the Office.</p>	<p>PV requisition Account - Adjustment through a general journal entry to be done to clear this account at the end of the financial year.</p> <p>Historical balancing account – GP Finance need to discuss the treatment of this account with MPGIS and the MYOB Specialist.</p> <p>Undeposited funds – PTR &amp; Accounting Specialist have agreed to monitor the account on monthly basis.</p>	<p>OAG acknowledge response and will do a follow-up audit to check on progress of resolving the error noted.</p>

### **2.1.3 Important disclosures omitted from the financial statements.**

Audit has identified two material disclosures which are encouraged under IPSAS Cash Basis accounting but have not been included within the financial statements:

- We have identified \$12.4 million creditors and \$0.5 million debtors which are not included in the additional disclosure. Whilst these are option additional disclosures, their omission means that readers of the financial statements are unaware of these very significant balances which could impact the overall assessment of the Provincial Government's financial health.

- An assessment of the entity's ability to continue as a going concern. If any material uncertainties related to events or conditions cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is also encouraged. This note is not included despite the poor and worsening financial position reported in the financial statements.

In addition we note that the Debt Servicing note does not provided further detail. Given this is in relation to outstanding loans the Province previously entered into without the legal authority to do so, the details of these repayments, the size of any residual loans balances and where any related party transactions are involved would all provide important information in the context of the financial position of the Province. We note from the general ledger that these loan balances were recorded at \$0.4m at 31 March 2019.

#### ***Implication***

- Misleading financial users of the Provinces financial statements.
- Material misstatement in Financial Statements leading to a disclaimer of opinion.

Rating	Recommendation	Executive response	OAG response
High	Ensure the full range of disclosures are used to tell the full story of the Provincial government's financial position.	Agreed – PTR and Accounting Specialist tasked to develop process for preparation and reconciliation of disclosure note as required before the next reporting period.	OAG acknowledge response and will do a follow-up audit to check on the progress on resolving the issue noted.

#### **2.1.4 General improvements**

Our review of the financial statements identified a number of areas where improvement to the presentation of the financial statements could be made:

- Cross referencing of notes is not consistent; and
- Many notes are very detailed and could be consolidated to make the financial statements more useable.

#### ***Implication***

- Readers of the statements find it harder to place reliance on the statements.

Rating	Recommendation	Executive response	OAG response
<b>Imp Opp</b>	Implement a peer review process to ensure that the draft financial statements are reviewed prior to submission to audit.	Agreed – The government will support the Finance team in ways to improve on this issue.  PTR and Accounting Specialist tasked to put in process for improvement of the notes before the next Financial Statement 2019/2020.	OAG acknowledge response.

## 2.2 Cash and cash equivalents

### 2.2.1 Discrepancy in cash and cash equivalent

Cash is the key component to ensuring the accuracy of the financial statements. Our review of the financial statements noted that the balance of cash and cash equivalent in the financial statement does not agree to the note of cash and cash equivalent as explained in the table below. This is a material uncertainty in the financial statements.

**Table 6: Cash and cash equivalent discrepancy Guadalcanal Province**

Disclosure	2018/2019
Closing cash and cash equivalent in the statement of cash receipts and payments	-\$1,501,282.84
Closing cash and cash equivalent in the computation of cash and cash equivalent	+\$1,439,235.50
Difference	+\$2,940,518.34

#### **Implication**

- Management and those charged with governance are not able to effectively manage or oversee cash flows and the going concern of the organisation.
- Material uncertainty in Financial Statements leading to a disclaimer of opinion.
- Readers of the statements are unable to place reliance on the statements.
- Lack of effective control over cash balances and transactions.
- Risk of misappropriation of funds.

Rating	Recommendation	Executive response	OAG response
High	Ensure there is a clear audit trail between the financial statements, the general ledger (Trail Balance) and the bank statements.	Agreed – PTR & Accounting Specialist will liaise with MPGIS to address this long outstanding matter before submitting to GP Executive for approval the adjustment.	OAG acknowledge response and will do a follow-up audit to check on the progress on resolving the issue noted.

### 2.2.2 Bank reconciliations did not reconcile.

Audit has verified the general ledger balances with the Bank Statement confirmations. We noted that for three of the accounts there were unexplained variances in the reconciliations as noted in the table below.

**Table 7: Unreconciled bank reconciliations Guadalcanal Province**

Bank account	Alias	Variance
Guadalcanal Provincial Assembly	Main Account	-\$2,000
Guadalcanal Provincial Assembly Salary	Salary Account	+\$125,000
Guadalcanal Provincial Local Revenue	Local Revenue Account	+\$18,440
Total		\$141,440

Furthermore, the bank balance disclosed in the financial statement for the Cash and Cash Equivalent, did not agree to the reported general ledger account balance. There was a differences of \$380, 549.00.

**Table 8: GP bank balance discrepancy**

Cash and cash equivalent per the financial statement (gross)	Cash and cash equivalent per the general ledger	Difference
\$1,439,235.50	\$1,058,686.50	\$380,549.00

### **Implication**

- Non-compliance with Financial Management Ordinances.
- Difficulty monitoring cash flows.

Rating	Recommendation	Executive response	OAG response
<b>High</b>	<p>Ensure bank reconciliations occur on a timely (monthly) basis and are independently reviewed.</p> <p>Ensure to keep track record of unpresented cheques using (in) the bank reconciliation, as sufficient funds must be maintained in the bank account to cover the cheques as and when they are presented for payment.</p>	<p>Agreed: Measures are not put in place as part of the reform under the current government to ensure monthly bank reconciliations is produced. A full time Financial Reporting officer is managing the MYOB to achieve this objective and other financial reporting requirements. PTR is responsible for oversight of this task.</p>	<p>Implementation measures to address audit issues of reconciliations are encouraged. Responsible officers to ascertain the controls are in place.</p>

## 2.3 Receipts

### 2.3.1 Missing receipts

Our audit test noted that out of 61 samples selected, 4 receipts are missing in the file listing. Poor record keeping increases the risk of manual receipts being used for inappropriate collection of cash and this go undetected and uncorrected by management. Consequently, this represents a significant risk to the completeness of revenue collected.

#### *Implication*

- Risk of misappropriation and fraud from lack of proper filing system.
- Insufficient and inappropriate documentation leading to disclaimer of opinion.
- Risk of uncollected or misappropriated receipts.
- Risk of understating the receipts amount for 2018/2019 FY.
- Non-compliance with Financial Instructions and Stores Instruction 2018 Section 5 (15).

Rating	Recommendation	Executive response	OAG response
<b>High</b>	<p>Comply with Financial Instructions and Stores Instruction 2018 Section 5 – Control &amp; Use of Official Receipts, sub-section 15 Loss of cash or receipts.</p>	<p>The government has supported the finance team in implemented a process for receiving cash through to banking it. And segregation of duties become one of the core element in the process. This will avoid the tendency for fraud. Reform in the filing systems has been implemented by GP for the whole</p>	<p>OAG acknowledged response. Follow-up audit will done in 2019/2020 FY.</p>

	Ensure responsible officers to file the receipts and receipts books accordingly.	organization. Specifically for finance the filing process has been worked on to ensure all supporting documents are attached in the files.	
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## 2.4 Payments

### 2.4.1 Missing payment vouchers

Audit found that 12 payment vouchers (PVs) were missing from a sample of 95 tested for the recurrent budget. The missing PVs amount equate to \$436,300.00. The missing payment vouchers are detailed in the table below.

**Table 9: GP missing payment vouchers**

FS component	Cheque #	Date	Amount (\$)
Ward development grant	1149162	16/08/2018	\$10,800.00
Premier's Discretionary Fund	1336811	01/03/2019	\$30,000.00
Premier's Discretionary Fund	1319083	20/02/2019	\$20,000.00
Premier's Discretionary Fund	1215512	09/11/2018	\$15,000.00
Premier's Discretionary Fund	1215571	07/12/2018	\$15,000.00
Second Appointed Day Celebration	1149141	02/08/2018	\$46,000.00
Utilities	1149167	16/08/2018	\$2,000.00
Utilities	1215531	14/11/2018	\$500.00
Other Operating Costs	1149140	16/10/2018	\$42,000.00
Other Operating Costs	1215518	13/11/2018	\$15,000.00
Debt Servicing	1215437	01/10/2018	\$140,000.00
Debt Servicing	1215151	08/02/2019	\$100,000.00
Total			<b>\$436,300.00</b>

In addition our testing found that filing of Payment Vouchers was not being done in accordance with the Provincial Government's financial instructions. Filing is not being done in sequential and date order which makes finding supporting documentation difficult.

### **Implication**

- Insufficient and inappropriate documentation leading to disclaimer of opinion.
- Poor transparency and a lack of accountability.
- Risk of conflicts of interest and fraud.
- Inadequate control environment.

Rating	Recommendation	Executive response	OAG response
High	<p>Ensure payment vouchers are filed properly and kept in a safe location from unauthorized officers or public.</p> <p>Ensure payment vouchers and other supporting documentation is filed in accordance with Financial Instructions section 9, sub-section 4(1) &amp; (2).</p>	<p>Filing Officer now recruited for proper filing of all vouchers to improve our filing system. Proper Filing storage is now being allocated for safe keeping and access to files.</p> <p>Agreed- Filing and registry function within GPG has been implemented to support the filing in the Finance Division.</p>	<p>Agreed. An ease of access filing system is encouraged.</p>

#### 2.4.2 Lack of sufficient supporting documents for payments.

Audit found that 19 samples tested out of total population of 195 selected did not have relevant supporting documents. Two instances related to lack of invoices but the majority related to lack of tender board approval.

The unsupported documents equate to \$513,989.05.

#### *Implication*

- Poor transparency and a lack of accountability.
- Conflict of interest and misuse of public funds.
- Non-compliance with the Procurement Manual.

Rating	Recommendation	Executive response	OAG response
High	<p>Comply with Financial Instructions and Stores Instructions section 9, sub-section 6(1) by ensuring appropriate supporting documentation is retained and filed to support transactions.</p> <p>Comply with the Provincial Government Procurement and Contract Administration Manual by ensuring that the Tender Board approvals are provided for all payments meeting the stated thresholds.</p>	<p>Agreed- This has been noted as per the FMO. PS and PTR to take note of this matter for compliance.</p>	<p>OAG acknowledged response. Follow-up audit will done in 2019/2020 FY.</p>

#### **2.4.3 Quotations not obtained for payments between \$2,001 and \$10,000.**

Audit found three instances where there was no evidence of the required three quotations obtained for payments between \$2,001 and \$10,000 as required by financial regulations.

The quotations not obtained for payments between \$2,001 and \$10,000 equate to \$30,000.00.

##### ***Implication***

- Poor transparency and a lack of accountability.
- Non-compliance with the Procurement Manual.
- Risk of conflicts of interest and fraud.

<b>Rating</b>	<b>Recommendation</b>	<b>Executive response</b>	<b>OAG response</b>
<b>Moderate</b>	Comply with FI section 7, sub-section 1(1), (2), (3) & (4) and the Procurement Manual by ensuring that the requirements around obtaining quotations are adhered to and appropriate documentation is retained to evidence this.	Agreed: with the help of the Procurement Specialist, Procurement thresholds should now be followed. And checklists should be done properly now with the implementation of checklists for all payments.	OAG acknowledged response. Follow-up audit will be done in 2019/2020 FY.

#### **2.4.4 Allowance paid did not reconcile with allowance schedule.**

Audit found that sitting allowances for Guadalcanal Province Public Accounts Committee (GPPAC) meeting were not paid according to the approved schedule rates. According to the Provincial Government Act 1997 under the Provincial Assembly Members' Salaries and Allowances Determination (PAMSAD) 2015 clause 10 stated that “a member is entitled to a sitting allowance for meetings at the rates prescribed in the schedule”. However the amount paid did not correspond to the amount specified on the schedule.

For instance, testing of sitting allowances paid on 19/11/2018 (cheque 1215539) shows that rates of \$300 and \$250 were paid for the Premier and other members compared to the approved schedule rates of \$200 and \$180 respectively.

### **Implication**

- Poor transparency and a lack of accountability.
- Non-compliance with prescribed schedule rates.

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	Ensure the Salaries and Allowance Determination 2015 and rates schedules are complied with when sitting allowances are being paid to members.	Agreed – GPG is now using the right schedule for payment of allowances to MPAs. Using the rates in PAMSAD.	OAG acknowledged response. Follow-up audit will be done in 2019/2020 FY.

### **2.4.5 Unauthorized payment**

OAG found that imprest paid to Accounting Officer was only authorised by the Provincial Secretary. According to FMO Part 7 Division 2 section 34(3), imprest for the Accounting Officer must be authorised by the Accountable Officer together with the Premier.

Cheque #	Date	Details	Amount (\$)	Audit observation
<b>1215443</b>	05/10/2018	Accounting officer	\$32,395.00	Payment are all authorised by PS only while it should be authorised by both PS and Premier.

### **Implication**

- Poor transparency and a lack of accountability.
- Conflict of interest and misuse of public funds.
- Non-compliance with FMO Part 7 Division 2 section 34(3).

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	Comply with FMO Part 7 Division 2 section 34(3) by ensuring Imprest paid to the Accounting Officer is appropriately authorised by the Accountable Officer and Premier.	This is noted and GPG will ensure this section is adhered to as a way forward.	OAG acknowledged response. Follow-up audit will be done in 2019/2020 FY.

## 2.5 Payroll and allowances

### 2.5.1 Poor control over overtime

Audit discovered during test of payroll that overtime was not consistently being pre-approved. We found that employees were claiming overtime after having undertaken the work. This does not enable an assessment of the need for the overtime.

#### **Implication**

- Lack of effective control over payments.
- Risk of misappropriation of funds.

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	Ensure the requirements set out in the Financial Instructions are adhered to and that overtime is approved in advance and only for those eligible.	This issue is noted and GPG will ensure this is adhered to as a way forward.  At the start of this financial year on April 1st 2020, no overtime has been allowed or approved due to no budget for overtime in all Divisions.	OAG acknowledged response. Follow-up audit will be done in 2019/2020 FY.

### 2.5.2 Payroll register sheet not approved and certified by management

Audit tested the payroll transactions and noted that two payroll registers (15 June 2018 and 7 September 2018) did not have evidence the Provincial Treasurer and Provincial Secretary checked and certified them before drawing the cheques as required by Guadalcanal Provincial Financial Instructions and Stores Instructions 2018.

#### **Implication**

- Lack of effective internal control over the payroll processes increases the risk of misappropriation of funds;
- Lack accountability and transparency.

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	Ensure the payroll register sheet be checked and certified for payment by Provincial Treasurer and Provincial Secretary before drawing of cheque	As a way forward, the PTR and PS to make sure they check and verify	Agreed. Validation checks to certify payments is encouraged.

	as required by Guadalcanal Province Financial Instructions and Stores Instruction 2018 section 11 - salary and payroll.	payroll register before drawing of cheque.	Implementation controls are also encouraged.
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## 2.6 Imprest

### 2.6.1 Missing imprest retirement files

Our audit testing found that imprest retirement files are missing. The files located are labelled as retired, however, our testing has not found any evidence of the acquittals.

The amount for the missing imprest files equate to \$709,760.00. As such OAG is unable to verify the unretired imprest of \$709,760.00 at the end of 2018/19 as retirement files cannot be located.

#### **Implication**

- Non-compliance with FMO.
- Misappropriation of funds.
- Missing imprest retirement poses the risk of misuse of public funds and fraud.
- Material uncertainty leading to a disclaimer opinion.

Rating	Recommendation	Executive response	OAG response
<b>High</b>	OAG recommends that GPG ensure to comply with the given section of the FMO- Under FMO Part 7 Division 2 section 34 (1) & (2), imprests must be paid back to the Provincial Government immediately that the necessity for it ceases.  Ensure that controls are adequate to issue imprest in line with the requirements of the FMO 2018 and then to ensure that imprest retirement records are adequately filed and can be easily located on request.	Reform are being implemented to streamline the imprest management. Task & responsibilities are being reviewed and strengthen the management and reporting to executive and compliance to FMO. A review report the streamlined process will be made available to the Executive.  Refer to the reform referenced above. The filing system for the organisation has been implemented which include the filing within the Finance Division.	OAG acknowledged response. Follow-up audit will be done in 2019/2020 FY.



## CHAPTER 4: ISABEL PROVINCE

### Audit opinion

The Auditor General issued a qualified opinion on the financial statements for Isabel Province for the financial year ending 31 March 2019. The basis for issuing a qualified opinion was that the Auditor General could not place reliance on the Isabel Investment Corporation (IIC) financial statements as presented in the consolidated financial statements.

### Audit issues

The OAG found that Isabel Provincial Government has adequate control over the management of its resources. The OAG has no assurance over the Isabel Investment Corporation figures presented in the Consolidated Financial Statements. There were minor audit issues that needed management attention.

The issues that the OAG has identified that lead to the qualified opinion are disclosure in the table below.

**Table 10: IP audit issues**

No	Audit issue	Risk rating
1	Isabel Investment Corporation (IIC) financial statements	High
2	Uncollectible revenue	Low
3	Business register not update	Low
4	Overtime claims not preapproved	Moderate
5	Imprest application not signed by imprest holder	Moderate
6	Late retirement of imprest	High
7	Imprest retirement forms recorded without approval	Low
8	Project payments made without verification report	High
9	Lack of monitoring of stale cheques	Moderate
	High	3
	Moderate	3
	Low	3
	Total	9

## 2. Audit findings and recommendations

### 2.1 Financial statements

#### 2.1.1 Isabel Investment Corporation (IIC) financial statements.

OAG noted from its additional testing done on IIC accounts and records that opinion issued by the external auditor was not accurate and misleading. For the revenue figures, OAG was unable to trace receipts to the General Ledger in MYOB and to the bank statements. For the payments, seven of the 31 samples select were noted to be missing. This amounted to \$20,249. In addition, seven of 31 payment vouchers were not properly authorised.

The general ledger of IIC had a variance of \$45,038.49 with the financial statements. OAG noted the risk of self-review occurring in that the external auditor was responsible for setting up the MYOB and preparation of the accounts for IIC.

#### Implication

- Information presented on the financial statements could not be true and fair reflect of the operation of the IIC.
- Auditor General may qualify the consolidated financial statements due to the misstatements on IIC financial statements.

Rating	Recommendation	Executive Response	OAG response
High	Ensure risk of self-review needs to be reduced or avoid.  Ensure to engage an audit firm that is a financial member and registered with Institute of Solomon Islands Accountants.	IPG acknowledged the recommendation and will ensure to resolve or reduce the risk of self-review by not engaging external auditors that previously responsible for subject matters.  IPG acknowledged the recommendation and will rectify the issue by engaging an audit firm that is registered with Institute of Solomon Islands Accountants.	OAG agree and acknowledge the response. A further follow up will be carried out during the audit of the 2019-2020 FY to confirm compliance.

## 2.2 Receipts

### 2.2.1 Uncollectable revenue from non-operating businesses

OAG noted that business licence arrears of businesses who no longer operate were still recognized as receivables. Recommendation for write-off were not made to the executive for approval as required by financial regulations.

#### Implication

Expected future cash receipts is overstated result in unreliable budgeting for revenue.

Rating	Recommendation	Executive Response	OAG response
Low	Ensure to comply with Provincial Financial Instructions and Store Instructions section 10, subsection 17.	IPG agree with the auditor's finding and duly acknowledged the recommendation made herein but lack to comprehend the bases for the risk rating of moderate.  IPG would appreciate if the issue is quantified to substantiate the risk rating given, otherwise downgrade the risk rating to low	OAG agree with your response and will down grade the risk rating to Low. This is because it does not affect the FS and it first raised in the current year. OAG will do a follow-up audit on the issue on the next audit for 2019-2020 FY.

### 2.2.2 Business register not updated

IPG did not update its business register.

#### Implication

Receivables cannot be tracked and total debit due for the year cannot be accurately determined.

Rating	Recommendation	Executive response	OAG response
Low	Ensure to keep business register updated so that receivables can be tracked effectively.  Ensure to comply with Provincial Financial Instructions and Store Instructions section 7(1) (2).	IPG agree with the auditor's finding and duly acknowledged the recommendations. IPG will appreciate if OAG can quantify the issue so to justify the risk rating, otherwise downgrade the risk rating to low.	OAG agree with you response and will down grade the risk rating to Low. This is because it does not affect the FS and it first raised in the current year. OAG will do a follow-up audit on the issue on the next audit for 2019-2020 FY.

## 2.3 Payment and procurement

### 2.3.1 Overtime claims not pre-approved

The overtime claims were not pre-approved by supervisors and Provincial Secretary. 100% of the selected overtime payment claims were not pre-approved.

#### Implication

Overtime cannot be controlled and monitored hence, budget may be overspent.

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	The current chart of accounts, (the financial system's account codes, their descriptions and how they map to the financial statements) should be reviewed and simplified.	Ensure that officers intending to work overtime must have their request pre-approved by their respective supervisors and the Provincial Secretary. This is to comply with Section 702 of the Provincial Government Staff Instructions 2009.	OAG note your response and will do follow-up audit the issue to check the progress on resolving the issue.

### 2.3.2 Imprest application not signed by imprest holder

An imprest holder did not sign the application form for an imprest of \$13, 871 that was paid to him.

#### Implication

The imprest holder may not be liable to repay the funds should he fail to retire the imprest.

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	Ensure that imprest applications must be signed by the imprest holder.	IPG agree with auditors finding and duly acknowledged the recommendation. IPG will appreciate if OAG can quantify the issue to justify the risk rating.	OAG knowledge response and the bases for the risk rating is because it is significant risk of province lost \$ 13, 871 if that officer not retiring the imprest, that officer have no obligation to retire the imprest.

### 2.3.3 Late retirement of imprest

Out of the 30 samples of imprests selected, only 13% were retired within the authorised due date while 87% were retired after the due date. Despite the fact that imprest retirements were delayed, there were no salary deductions made.

#### Implication

The imprest paid was not used for its intended purpose and was accounted for with fictitious receipts.

Rating	Recommendation	Executive response	OAG response
High	Ensure that imprest is accounted for within one week after its necessary ceasing. Failure to comply will result in deduction of the imprest holder's salary to recover the unretired imprest.	IPG agree with the auditor's finding and duly acknowledged the recommendation. Measure has been done to recover outstanding imprest by authorising deduction from the imprest holders' salary. This is done and information on such are provided in the records.  OAG need to re-check its version FMO as IPG has been using FMO 2014 prior to current FMO 2018.	OAG knowledge the response and will do a follow-up audit to check how the province resolve and manage the issue.

### 2.3.4 Imprest retirement forms recorded without approval

The imprest retirement forms were not certified as approved by the Provincial Secretary and Treasurer before they were recorded.

#### Implication

Imprest retirement is not monitored by senior level management.

Rating	Recommendation	Executive response	OAG response
Low	Ensure that imprest retirements must be certified as approved by Provincial Secretary and Treasurer before they are to be recorded.	IPG agree with auditor's finding and duly acknowledged the recommendation.	OAG knowledge the response and will do a follow-up audit to check how the province resolve and manage the issue.

### 2.3.5 Project payment not certified

A PCDF funded project payment of \$54,638.01 was paid without verification report from the works division.

#### Implication

Since there was no verification report, there was a probability that the payment was paid for an incomplete work.

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	Ensure that payments for infrastructure projects to be made after work done is assessed and verified, and report provided by the provincial works division.	IPG agree with the auditor's finding and duly acknowledged the recommendation but disagree with high risk rating as there was no quantification or bases for it.	OAG knowledge and agree to down grade the issue to moderate, however it will upgrade to high risk if no action taken by executive to resolve the issue.

## 2.4 Cash

### 2.4.1 Lack monitoring of stale cheques

OAG noted during the audit that there was no prompt writing back of stale cheques into the relevant cash book and did not promptly inform the relevant bank of the stale cheques. A total amount of \$14,722 noted to be stale cheques for the various banks accounts of the province.

#### Implication

Cheque accounts balances in the cash books are less than the actual balances in the bank.

Rating	Recommendation	Executive response	OAG response
<b>Moderate</b>	Ensure to comply with Provincial Financial Instruction and Store instruction section 3, subsection 7.	IPG agree with auditor's finding and duly acknowledged the recommendation but disagree with the risk rating of moderate as there was no data to quantify and justify the bases for the rating.	OAG knowledge response and but will not change its risk rating. A significant issue needs management attention to resolve.

## CHAPTER 5: MAKIRA ULAWA PROVINCE

### Audit opinion

The Auditor General issued a disclaimer audit opinion on the 2018/2019 financial statements of Makira Ulawa Province. The basis for disclaimer audit opinion was the failure of the province to produce annual financial statements in accordance with IPSAS cash basis.

The significant issues that give rise to this conclusion are detailed below.

### Audit issues

The process to manage and monitor receipts, payments, imprests and assets was inadequate and fell short of the requirements of the Financial Management Ordinance 2018 and Financial Instructions and Stores Instructions 2018.

The main issues leading to the disclaimer of opinion are summarised the table below.

**Table 11: Makira Ulawa main audit issues**

No	Audit issue	Risk rating
1	Lack of consolidation of Makira Ulawa Investment Corporation	High
2	Financial statements irregularities	High
3	Going concern	High
4	Lack of supporting documents for receipts	High
5	Lack of supporting documents for payments	High
6	Unreconciled cashbook register	High
7	Unreconciled bank account	High

## 2. Audit findings and recommendations

### 2.1 Financial statements

#### 2.1.1 Lack of consolidation for Makira Ulawa Investment Corporation

Our audit noted that the Province is not yet providing consolidated financial statements as required by IPSAS 2.1.37.

Makira Ulawa Investment Corporation (MUIC) has not provided a financial report on its activities for the period in question to enable the Province to consolidate. As the owner of the Investment Corporation, the Province should use its power to effect changes in the

Investment Corporation to address the deficiencies leading to the non-delivery of financial reporting.

### ***Implication***

- This has led to the *Disclaimer Opinion* in the financial statements as the effects of the misstatement have not been determined as it is not practicable to do so.
- Mismanagement of MUIC by management.
- Lack of information on the performance and operational status of the investment arm.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>The Financial Statement of Makira Ulawa Investment Corporation should be prepared and audited to enable consolidation in the Province Financial Statements.</b>	High	<p>The MUPIC board had since 2017 engaged the services of a former Officer from the OAG on a 3 year contract term. The officer's principal task was to prepare the MUPIC's financial statements for the different past years up to the current one.</p> <p>So far repeated calls for his office to produce these FSs have not been successful. He has failed to produce any single Financial Statement to date. MUPG since made Assembly Resolution to;</p> <ul style="list-style-type: none"> <li>• Suspend MUPIC;</li> <li>• Transfer operations under MUPG admin;</li> <li>• review MUPIC;</li> <li>• Determine if to continue as corporation.</li> </ul>	OAG will do a follow-up audit on the issue to confirm the resolution from assembly.

### **2.1.2 Financial statements irregularities**

The following irregularities were found in the financial statements for the financial year 2018/2019:

- Cash and cash equivalent does not reconcile within the financial statements. A difference of \$1,901,269.95 has been identified.

- Misclassification of a component of salaries and wages into trading activities expenses.
- Accounts payable incorrectly classified as restricted cash. Accounts payable is an accrued or outstanding liability.
- Net cash flow does not balance with the increase/ (decrease) in the financial statements.

### ***Implication***

- Material Misstatement leading to disclaimer opinion.
- Information disclosed is not reliable for decision-making.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>The draft Financial Statements presented to audit should be subject to review before presentation to audit to ensure the financial statements are consistent and follow good practice disclosures.</b>	High	MUPG accepts that portions of the FS for 2018/19FY were drawn up incorrectly. As it is now, that cannot be undone.  Looking forward, with the upcoming FS for the 2019/20 FY, it is decided that upon completion of the draft FS by end of May 2020, the FS will be submitted to MPGIS PME for review before it is finally submitted to OAG.	OAG looking forward, for FS 2019/20 FY to confirm the accuracy of the balances

### **2.1.3 Going concern**

The Province operated in a deficit budget position and further reduced its cash position through overspending in the year. This raises concerns over its ability to continue to operate as a sustainable entity in the future.

### ***Implication***

- Emphasis of matter in the opinion.
- The Province may run out of funding to undertake its statutory activities.
- The Province may need to resort to loan funding which would be an illegal activity for the Province in this financial position.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>A sustainable budget should be established for 2020/21 and strong budgetary control implemented to ensure the organisation is able to operate within its financial position.</b>	High	<p>Strict and strong measures already in place for 2020/21FY by administration on means for disbursement of divisional budgets and work plans.</p> <p>(To start with 2020/ 21FY Q1 SIG Service Grants. All disbursements to be done during monthly HOD meetings ensuring strict compliance in all aspects including documentation AWP's and cash flow projections</p>	OAG will do a follow-up audit to confirm the issue been resolve.

#### 2.1.4 Lack of effective budgetary control

The Province has not properly implemented budgetary control measures to ensure compliance with the budget and control its spending.

Analysis of spending against budget indicated that the budget was over spent in 2018/2019. The two main reasons were due to overspending on overtime (see 2.3.2 below) and non-appropriated expenditure.

There was no evidence that funds available had been verified on the requisitions and payment vouchers. Such information is vital for the Accountable Officer decision making and endorsement.

#### *Implication*

- Risk of uncontrolled spending and overspending against budget.
- Failure to seek approvals for virements.
- Risk of further budget deficit.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>Ensure controls are in place and understood by staff to verify budget availability prior to approval of the requisition form and subsequent payment to ensure compliance with FI&amp;SI 2018.</b>	Mod	<p>HODs meeting has been instructed on the above stated newly introduced mechanism; still awaiting FS Grants to start implementing.</p> <p>There had been misconception previously that the PS (Accountable officer) authorizes payments prior to Treasurer who does the final checking. This has now been resolved in the demand by the Accountable officer to place his authority on disbursements/payments only</p>	OAG will review the process to confirm the changes made.

<b>Review and identify pressure budget items and formulate a strategy to minimise overspending.</b>	High	<p>after relevant checks have been performed by the Treasurer.</p> <p>The PS should not be doing the checks, he as the holder of the final authority, authorises payments after all checks and compliance needs are met.</p>	
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## 2.2 Receipts

### 2.2.1 Lack of supporting documentation for receipts

Audit noted from its testing that 48 receipts could not be located. The value of these receipts summed up to \$529,878.87. Audit detected that one receipt, number 1346 worth \$11,000.00, was collected but not deposited. \$10,000.00 of this receipt was not recorded in any of the allocated codes. In addition, direct deposits from customers worth \$3,177,087.56 were not issued with official receipts.

As a result, it was not possible to verify the accuracy and completeness of receipts.

#### *Implications*

- Material misstatement leading to disclaimer opinion.
- Risk of fraud occurring and misappropriation of funds.
- Loss of revenue to the Province.
- Lack of effective control over receipts.
- Conflict of interest.
- Non-compliance with FMO 2018 and FI&SI 2018.

<b>Recommendation</b>	<b>Risk Rating</b>	<b>Executive Response</b>	<b>OAG Response</b>
<b>Cashier to ensure receipts are issued for any direct deposit made to the Provincial Bank Account.</b>	High	<p>These are issues experienced in those years of 2018 and 2019; since August 2019 a new staff has been recruited for the position of Head quarter cashier.</p> <p>Former Cashier since suspended from MUPG. New Cashier under daily control of PTR and Accounting Specialist has been instructed to observe these requirements and to ensure receipts are raised for deposits made directly to the bank accounts. Further as advised during last audit, he is now using separate receipt books for the differing funds handled by MUPG into different bank accounts. Eg for</p>	OAG acknowledged tough measure taken by the current executive of mismanagement and fraud and will do a follow-up audit on the audit issue.

		Salaries grant from SIG; Basic rates from employers in MUPG etc.	
<b>Review internal control process safeguarding the revenue and implement effective controls in line with expectations of FMO 2018 and FI 2018</b>	High	Previously MUPG Treasury has been controlled by and subjected to Officers with strong interests to defraud the Province and override systems. These officers (PTR/HQ Cashier) have since been removed and replaced with different ones.	OAG acknowledge action taken and will do a follow-up audit in 2019/20 FY

### 2.2.2 Poor management of receipts

Audit noted that the Province did not properly manage its receipts and receipt books. The following issues were detected:

- Receipt books were not located in one location.
- Receipting was not done sequentially according to receipt numbers and dates.

#### *Implication*

- Risk of fraud occurring and misappropriation of funds.
- High risk of receipt books lost or issued to an unauthorised officer.
- Non-compliance with laws and regulations.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>Ensure all receipting is sequential, and all receipt books used and unused are filed in accordance with the requirements of FMO 2018 and FI&amp;SI 2018.</b>	Moderate	As stated above, these are issues of 2018 and 2019 when a different officer was manning the HQ cashier position. The newly recruited officer has been instructed against the old practices and he is keenly addressing them; ensuring sequential receipting and proper filing.	OAG acknowledge action taken and will do a follow-up audit on the audit issue in 2019/20 FY.

### 2.2.3 Unrealistic business license revenue budget projection

Audit noted budgeted business license revenue of \$8,706,074.50 was not collected during the year. This was confirmed from the Business License Holders Master List 2018/2019 provided to audit. Audit has not received a suitable explanation for this lack of revenue collection.

#### *Implication*

- Lost revenue opportunity.
- Misappropriation of Provincial funds.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>The province needs to develop and enforce revenue strategies and policies to ensure revenue is collected from all potential sources.</b>	Moderate	<p>This is one way of viewing the issue. The other is when viewing it from the budgeting perspective. When the revenue portion of the budget is formulated unrealistically, thereby unnecessarily inflating the Revenue Budget. The PG is found only to be struggling during implementation phase to try and collect that revenue forecast that it does not have the ability to collect. It ends up with the situation highlighted in this issue.</p> <p>In such instances, it really is a budgeting issue rather than a collection issue where MUPG is advised against unnecessary inflation of revenue budgets in the future starting 2020/21FY.</p> <ul style="list-style-type: none"> <li>A 3 year Revenue Enhancement Strategic Plan is WIP.</li> </ul>	OAG acknowledged response and amend heading of the issue to align with the audit observation.

## 2.3 Payments

### 2.3.1 Lack of sufficient documentation

OAG testing of payments found 13 Payment Vouchers (PVs) (\$695,748.88) which were not located during the audit. It was therefore not possible to verify the accuracy and completeness of the payments.

#### *Implication*

- Material misstatement leading to disclaimer of opinion.
- Lack of effective control over payments.
- Risk of misappropriation of funds.
- Poor transparency and a lack of accountability.
- Non-compliance with laws and regulations

Recommendation	Risk Rating	Executive Response	OAG Response
<b>Ensure sufficient and appropriate evidence is provided to support the authorisation of payments and then</b>	High	<p>The need for proper documentation up to the point of authorization is fine. Authorization always occur with supporting documents intact.</p>	OAG acknowledged response and will do a follow-up audit to check on the progress.

<p><b>retained and filed to support the Province's activities and transactions.</b></p>		<p>However it is the filing of PVs and documents that has been the problem in the past. The former HQ Cashier had the practice of not filing documents immediately when payments occur. She used to retain these documents on her desk till the end of month before she attempts to do all her filing. There used to be huge and chaotic problems filing documents to right PVs and payments; many become missing. The newly recruited officer files his documents soon after each payment is raised.</p> <p>Secondly, documents are removed from files by other govt. officers but not replaced. Officers have now been instructed not to remove documents that are filed for future reference. PS to FU with Memo.</p>	
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### 2.3.2 Overtime discrepancies

Audit noted that controls over the overtime processes were not properly implemented. Specifically, the following deficiencies have been identified:

- Lack of formal overtime requests ensuring pre-approval is provided by Heads of Departments (HODs).
- Overtime appeared to have been paid using cheques to avoid PAYE and other statutory deductions.
- Staff were inflating overtime hours to defraud the Province due to lack of proper checking.
- Overtime claim forms were not authorised but proceed to payment

#### ***Implication***

- Poor budgetary control.
- Lack of effective control over payments.
- Risk of misappropriation of funds.
- Non-compliance with laws and regulations

Recommendation	Risk Rating	Executive Response	OAG Response
Good practice ensures that overtime request is done in writing or via email to supervisor/HOD and must be approved in advance of carrying out the specified duties.	Mod.	This matter has been discussed during HOD meeting with heads of divisions and they have been advised to comply. Circular to be issued on the matter.  OTs without such requests will be returned to HODs.	OAG acknowledge action taken and will do a follow-up audit in 2019/20 FY.
Overtime hours and rate must be properly checked before authorising the overtime claim form.	Mod.	Instructions since issued to the D/PTR and payroll officer to ensure compliance.  To FU with circular.	OAG acknowledge action taken and will do a follow-up audit in 2019/20 FY.
Overtime should be paid along with salaries and wages and appropriately taxed.	High		

### 2.3.3 Non-declaration of conflict of interest during contract procurement processes

Testing of the contract procurement processes for Provincial Capacity Development Fund (PCDF) Projects found that members of both the Technical Evaluation Committee and the Provincial Tender Board did not declare conflicts of interest. This declaration is important as it ensure members were independent and the process to awarding contracts to successful bidders was transparent, and not in conflict with public interest.

#### *Implication*

- Lack of transparency and integrity.
- Conflicts of interests may have existed.
- Misappropriation of funds.

Recommendation	Risk Rating	Executive Response	OAG Response
Ensure Members of Provincial Tender Board and Technical Evaluation Committee completed a conflict of interest declaration during the contract procurement	Moderate	Unsure if it is compulsory for PTB members to complete such declaration each time; OR they do so only when there is conflict in a particular bid when the affected PTB/TEC member needs to do a declaration.	It is very important to be transparent and accountable in all provincial processes. Abide to FMO 2018 regulation is paramount.

process to comply with FMO 2018 section 52 (3).			
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#### 2.3.4 Non-compliant process for awarding contracts

The Provincial Government has the authority to procure all works, supplies and services under the authority of the Provincial Secretary as the Accountable Officer.

Audit identified issues with the service providers meaning they should not have been eligible for a Provincial contract and that in other areas the regulations and processes were not followed. Issues noted were:

- Some of the contractors were not registered according to business register master list 2018/2019;
- Some contractors had not paid their business licenses for previous and current years according to the business register; and
- All works local contracts signed by Works Officer only. There was a requirement on the agreement that Provincial Secretary should sign, however, there was no evidence they did sign any of these contracts.

Therefore, these contracts were entered into inappropriately.

#### **Implication**

- Conflict of interest.
- Risk of inflating contract prices.
- Contract awarded to unregistered contractor.
- Illegal payments.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>Ensure compliance with the requirements of FMO 2018 and FI&amp;SI 2018</b>	High	Fully agreed. Non-compliance to contracting procedures by Works is why contracts are not signed by PS. Later since works have already been done & completed by contractor and under pressure from contractors, so payments are merely processed.  SWO to be warned again of procedures by PS.	OAG acknowledged responses and following the right procedure is paramount for the betterment of the province.
<b>Ensure eligibility requirements for procurement processes consider whether contract firms are</b>	Improvement Opportunity	SWO to be warned of procedures.	OAG acknowledged action taken and will do a follow-up audit on the audit issue in 2019/20 FY.

appropriately registered and up to date with their fees and licences.			
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### 2.3.5 Poor management of ward development grant

Audit noted two (2) payments done through ward development grant were paid to MPAs bank account instead of WDA bank accounts.

#### *Implication*

- Lack of transparency and integrity.
- Misappropriation of funds.
- Inappropriate authorisation of grants.

Recommendation	Risk Rating	Executive Response	OAG Response
<p><b>Ensure Ward Development Grant is paid into Ward Development Authority Bank Account as required by FMO 2018.</b></p> <p><b>Maintain a register of Ward Development Grants to monitor grant payments to all wards.</b></p>	Moderate	Will issue circular to remind concerned administration staff and MPAs of matter.	OAG acknowledged action taken and will review the process in our next audit for 2019/20 FY.

## 2.4 Imprest

### 2.4.1 Multiple imprest holders

Upon review of the imprest register, we have identified that measures to ensure proper management and accounting of special imprests were not implemented. It was noted that officers were being issued with new imprests before they had retired previous imprests. In some instances some officers were issued with two special imprests on the same day.

#### *Implication*

- Non-compliance with Financial Management Ordinance 2018.
- Misappropriation of Province funds.
- Lack of accountability and transparency.

Recommendation	Risk Rating	Executive Response	OAG Response
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Ensure that controls are adequate to issue imprest is managed in line with the requirements of the FMO 2018 and then to ensure that imprest is retired on a timely basis thereby preventing any imprest being advanced where a previous imprest is still outstanding.	Moderate	Strict instructions already issued to Treasury staff to properly check applications for imprests to avoid multiple imprests. To FU with memorandum.	OAG acknowledged action taken and will do a follow-up audit in 2019/20 FY for the progress of resolving the audit issue.
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## 2.5 Cash management

### 2.5.1 Unreconciled cashbook register

Audit is pleased to see that the Province has maintained a cashbook register for its main operating account. However, our audit testing found that the register was not up to date as the year end balance did not agree to the bank reconciliation at the end of the month.

#### *Implication*

- Risk of manipulation of figures and cash book not reliable.
- Undetected errors.
- Bank accounts not reconciled.

Recommendation	Risk Rating	Executive Response	OAG Response
Ensure the cashbook register is regularly updated and reviewed to ensure it reconciles with the bank each month.	High	Since engagement of Accounting specialist, MYOB is now functional where HQ Cashier and MYOB officer are updating Cashbook and MYOB Bank register on daily basis; CB and BS reconciled at end of each month.	OAG acknowledged measures already taken by the province. A follow-up audit will be done in 2019/20 FY check on the progress.

### 2.5.2 Bank reconciliation not reconcile

We re-performed the monthly bank reconciliations prepared for the main operating account and found it did not reconcile. The following weaknesses have been identified:

- Cash book did not reconcile with general ledger and the bank statement.
- Bank reconciliation did not balance.

#### *Implication*

- Material misstatement of the financial statements.
- Cash flow will not be properly monitored.

- Cash on hand at end of month will not be fairly stated.
- Management lacks reliable information on the cash flow.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>Ensure the bank reconciliations are completed monthly and reviewed to ensure it resolved reconciling items in a timely manner and agrees with the cashbook.</b>	High	Former Treasurer was facing issues reconciling the Bank accounts for many months. This led to MUPG failing the PCDF assessments.  Matter has now been addressed by newly recruited Accounting Specialist.	OAG acknowledged response and action taken to resolve the audit issue. A follow-up audit will be done to check on the progress.

### 2.5.3 Poor operation of the banking agency by treasury division

Audit identified practices which were of high risk of fraud and required further investigation. The review identified potential fraudulent activities within the banking agency which was managed by the treasury division of the province. Override of bank internal control was evident. Issues noted were:

- A cancelled cheque was withdrawn from the provincial bank account.
- A cheque had been withdrawn twice with different amounts from the main operating account.
- A PCDF cheque withdrawn from the main operating account was withdrawn again from the PCDF account. No adjustment was done in the main account to indicate entry.
- Misappropriation of depositors' funds.
- Conflict of interest between provincial staff performing the bank agency functions and the provincial treasury.

#### **Implication**

- Misappropriation of provincial funds.
- High risk of fraudulent activities occurring.

Recommendation	Risk Rating	Executive Response	OAG Response
<b>Develop and implement a policy that will allow proper control and restrictions when drawing of cheques and depositing</b>	High	Former PTR and HQ Cashier who had interest to meddle with MUPG finances between Treasury and the Bank;	OAG acknowledged tough measure taken to resolve the audit issue.

<p><b>of funds to alleviate risk of fraud and collusion.</b></p> <p><b>Seek assistance of internal audit to do review and implement controls in the Treasury and the BSP Bank agency functions.</b></p>		<p>overriding Bank systems have been removed and replaced.</p>	
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## CHAPTER 6: MALAITA PROVINCE

### Audit opinion

Disclaimer audit opinion was issued for the annual financial statements of Malaita Province for the financial year ending 31 March 2019. The disclaimer of opinion is attributed to the continuous failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support transactions and accounts. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

### Audit issues

The Auditor General found that the Provincial Government has poor control over the management of its resources. AG issued a disclaimer opinion.

The process to manage and monitor procurement and payments, receipts, assets, bank accounts, payroll and imprests was inadequate and fell short of the requirements of the Financial Management Ordinance 2018 and Financial and Store Instructions 2018.

The main audit issues leading to the disclaimer opinion are disclosed in the table below.

**Table 12: Malaita Province main audit issues**

Audit issue type	Opinion impact	Audit issue
Insufficient and inappropriate documentation	Disclaimer of opinion	Insufficient documentation
		Missing receipt book
		Lack of reconciliation between HR and payroll records
Failure of recording and controlling of financial records	Disclaimer of opinion	Discrepancies between the financial system and the financial statements
		No clearance of the suspense account
		Incomplete cash book
		Incomplete business licences and fees payers register
		Bank reconciliations not completed
Non-compliance with laws and regulations	Breach of laws	Non-compliant borrowing activity
		Non-compliant sale of property

## 2. Audit findings and recommendations

### 2.1 Non-compliance with laws and regulations

#### 2.1.1 Non-compliant borrowing activity

It was evident that the Provincial Government was taking out loans valued at \$1.775 million. This was contrary to the Financial Management Ordinance 2018. Section 56 and 57 provides conditions under which a Provincial Government may use loans. These are as follows:

- The Minister of Finance and Treasury must consent to the borrowing;
- The Provincial Government's audited financial statements must be current and of good standing;
- There must be no outstanding tax liabilities; and
- A lender must be a regulated entity under the Credit Union Act or the Financial Instructions Act.

The Provincial Government has not met these conditions and was therefore acting illegally.

#### ***Implication***

- Non-compliance with laws and regulations.
- Risk of material misstatements to the financial statements.

Rating	Recommendation	Management action
High	Comply with section 56 of the FMO 2018 in relation to borrowing.	Noted and Agreed. Current PS and his core staff are working on this from 19/20 going forward.
Mod.	Ensure that budgets set are sufficient for the Provincial Government to avoid having to resort to illegal borrowings.	Noted and Agreed. Current PS and his core staff are working on this from 19/20 going forward.
Mod.	Undertake training for staff and Assembly members on the FMO to ensure they understand the requirements and adhere to these requirements in future.	Training was already done in 19/20 FY.

### 2.1.2 Non-compliant sale of property

Our testing found that the Auki Plaza was sold for \$3.1 million. However, there were no supporting documents for the sale. This included no evidence to support the sale agreement, or the Tender Board approval. This is contrary to the requirements of the FMO.

#### *Implication*

- Non-compliance with laws and regulations.
- Risk of material misstatements to the financial statements.

Rating	Recommendation	Management action
High	Ensure sufficient and appropriate evidence is retained to support Provincial Government activities and transactions.	Current PS had put in measures for compliance before payments can be made. This is one of the examples we currently applied.

## 2.2 Financial statements

### 2.2.1 Discrepancies between the financial system and the financial statements

We found a number of areas in the financial statements where the amounts stated in the statements did not agree to the financial system (the general ledger). This was most marked in other operating expenses (\$6.4 million). The account codes and account descriptions referenced in the financial statements did not agree to the account codes and descriptions in the financial system. We were unable to re-perform the mapping that the Provincial Government had done to reconcile these accounts.

As a result we have been unable to undertake testing of the Other Operating Expenses.

A review of the financial statements also noted that there were a number of inconsistencies and inaccuracies. The main two are:

- The cash and cash equivalent figure did not equate to cash held at the end of the financial period.

- The receipts and payments on the financial statements included approximately \$1.5 million and \$1.7 million respectively in relation to borrowing. The note to the financial statements on borrowing has a nil balance for borrowing for 2019.

### ***Implication***

- Material misstatement of financial statements.

<b>Rating</b>	<b>Recommendation</b>	<b>Management action</b>
<b>High</b>	The current chart of accounts, (the financial system's account codes, their descriptions and how they map to the financial statements) should be reviewed and simplified.	FY 19/20 had been remapped by a consultant from New Zealand under MPGIS Project for all provinces.
<b>Mod.</b>	Provide training to ensure that Finance Officers correctly apply the Chart of Accounts and undertake regular checks to ensure early identification of any errors or missing information.	MPG Finance team currently using the new chart of account.
<b>High</b>	Ensure the Financial Statements provided to audit are reconciled to the financial system and reviewed for consistency of disclosures.	Under the Provincial Accounting Specialist's (PAS) compliance reporting to PS and the executive. He is continuously monitoring and reviewing the system on a weekly basis.

### **2.2.2 Insufficient documentation**

Our testing found a number of areas where insufficient documentation was available (in addition to those noted above). Some examples of the instances noted include:

- Executive minutes for the year were not available.
- \$6.1 million was paid to Canadian International Training and Education Corporation (CITREC) however there was no executive meeting minutes provided to support the approval or substances of the payment.

- 48% of the Appointed Members' Allowances tested had gaps in the evidence retained. These included a lack of Payment Voucher (PV) numbers, inconsistent PV dates, missing PVs, and no supporting memo to confirm and approve payments.
- Ward Development Grants (WDG) paid to members lacked appropriate evidence. Issues noted included a lack of Payment Voucher (PV) numbers, inconsistent PV dates, poorly filed PVs making them hard to find, and no WDG application, project proposal and cost breakdowns.
- Personnel files did not include up-to-date record of staff employment details for example their salary/wages or housing allowance.
- \$1 million payment vouchers tested had either missing, poor or illegitimate receipts attached as supporting documentation.
- \$3.1 million payments had missing payment vouchers meaning audit was unable to complete the relevant testing.
- Repayment of borrowings of \$1.1 million had no supporting documentation. The level of documentation to support other instances of repayment of borrowing totalling a further \$0.3 million was not well maintained. This included the absence as noted above of any consent provided by the Minister of Finance and Treasury or Provincial Government Assembly.

### ***Implication***

- Insufficient and inappropriate documentation leading to disclaimer of opinion.
- Lack of effective control over payments.
- Risk of misappropriation of funds.
- Poor transparency and a lack of accountability.
- Non-compliance with laws and regulations (Province Financial Instructions and Stores Instructions 2018 Part 9 Section 6(1-2))

Rating	Recommendation	Management action
High	Ensure sufficient and appropriate evidence is provided to support the authorisation of payments and then	Current PS had put in measures for compliance before payments can be

	retained and filed to support Provincial Government activities and transactions.	made. This is one of the examples we currently applied.
<b>2017/18 #2.11.2 High</b>	<p>Ensure all executive meetings have minutes written and kept by the accountable officer.</p> <p>Ensure Executive minutes must be signed by chairman and accountable officer including dates in which both signed the minutes.</p>	<p>Under the new Admin Leadership by the PS. All minutes are kept as per applicable legislations.</p>

### 2.2.3 No clearance of the suspense account

We found that no reconciliation had occurred of the suspense account and this was included within cash and cash equivalents (\$2 million).

#### *Implications*

- Material misstatement of Financial Statements.
- Potential accumulation of uncollected revenue.
- Risk of fraud.

Rating	Recommendation	Management action
<b>High</b>	Ensure that the suspense account is reviewed and cleared on a regular (monthly or more frequent if required) basis.	<p>As per email given to the team leader, this is for Fixed service grant for Prior years. It was misposted and never been Journalised to Correct revenue code.</p> <p>Agreed. As we now monitored.</p>

### 2.2.4 Incomplete cash book

Our review of the Cashbook provided by the cashier during the audit included all the Provincial Government's bank accounts. However, as a control, this appears limited as we understand the cashbook is populated by copying information from MYOB, the financial system.

### ***Implication***

- Internal control failure.
- Material misstatement of financial statements.
- Risk of manipulation of cash flows.
- Unable to provide the accurate cash flow information for executive.

Rating	Recommendation	Management action
High	Ensure cash book is kept up to date in compliance with Financial Instructions & Stores Instruction 2018	Agreed. Cash book now monitored on a weekly basis by Finance senior team, PAS and PCDA.

#### **2.2.5 Budget was overspent**

The Provincial Government has not properly implemented budgetary control measures to ensure compliance with the budget and control its spending. It was discovered that requisition forms were authorised without confirming the budget available balance resulting in the overspending of the budget. This is contrary to the expectations set out in the Financial Instructions and Stores Instructions, 2018.

This would normally also lead to the need for virements to enable on-going spending against the budget. However as discussed with the Treasurer and his Deputy there continued to be no virement documents and no executive meeting minutes filed to substantiate the approval of virements as required under the Financial Management Ordinance (FMO).

### ***Implication***

- Funds were expended outside of approved budgets.

Rating	Recommendation	Management action
Mod.	Ensure controls are in place and understood by staff to verify budget availability prior to approval of the requisition form and subsequent payment.	MPG Finance and Planning team already made awareness to HODs on virement. This tool already been used and now being observed and enforced.

<b>2017/18 #2.5.3 Mod.</b>	Ensure virements are approved by the Executive Committee before payment is endorsed and approved by the Accounting and Accountable Officers.	This tool or virement had already being implemented.
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## 2.3 Receipts

### 2.3.1 Incomplete business licences and fees payers register

The business licenses and fees database register kept by the province were still incomplete. This makes it difficult to know exactly how much revenue the province should have collected for the audited period and which businesses were yet to pay their licenses and fees charges. The register mainly consisted of business activities occurring in Auki Township. The register should capture all businesses operating in the province.

#### *Implications*

- Misstatement of the financial statements.
- Provincial Government unable to project accurate revenue forecast for budgeting.
- Accumulation of uncollected revenue.
- Risk of unauthorised officers collecting revenue and misappropriation of receipts.

Rating	Recommendation	Management action
<b>2017/18 #2.3.2 Originally raised in 2015/16 High</b>	Ensure that the database of business licences and fees payers are updated regularly and properly reported in the financial reports  Ensure Business license and fees register reconciled with MYOB data.	Agreed. The data base had been set up and monitored by the Finance Senior Team and PAS.  The current Monthly GL Reconciliations always align with the register and to the MYOB.

### 2.3.2 Missing receipt book

The receipt book numbering 3000 to 3105 was not sighted during the audit. Two revenue items relating to logging license and shipping (\$765,000 and \$67,000 respectively) were included in the missing receipt book. The revenue officer confirmed that the book was taken

by the former revenue officer. Several attempts were made to retrieve the receipt book but were unsuccessful.

### ***Implications***

- Insufficient and inappropriate documentation leading to disclaimer of opinion.
- Risk of uncollected or misappropriated receipts.
- Risk of understating the receipts amount for 2018/2019 financial year.

<b>Rating</b>	<b>Recommendation</b>	<b>Management action</b>
<b>High</b>	Prompt action should be taken by executive when they become aware of possible fraudulent activity by staff. This should include complying with Section 13 of Financial Instructions & Stores Instruction 2018 to ensure revenues are recouped.	The Finance and Planning team are working closing with PS to do follow ups on fraudulent activity for executive approval on both income and expenditure movements.
<b>Imp Opp</b>	Create a fraud policy for the Provincial Government to guide staff and management behaviours and responses to fraud.	With the current Legal officer with MPG, Finance and planning are currently working closely with him and PS to put in place a Draft

## **2.4 Payments**

### **2.4.1 Discrepancies in spending of ward development grants**

Our testing found under spending under ward development grants. It appeared that some members did not receive their allocated grant while other members received more than their allocated amounts.

### ***Implications***

- Poor transparency and a lack of accountability.

Rating	Recommendation	Management action
<b>Mod</b>	Ensure evidence is provided to support all payments for Ward Development Grants; there should be no advances for Ward Development Grants from provincial funds.	Agreed. The new process for the Ward development grant had been changed and implemented accordingly.

## 2.5 Payroll and allowances

### 2.5.1 Lack of reconciliation between the human resources and payroll records

In undertaking testing of payroll costs, we found that the personnel records were not being maintained adequately to support the changes to staff payroll costs. Most of the files seen did not include sufficient information to demonstrate the employees' appointments, current base salaries and allowances.

#### *Implication*

- Material misstatement to the financial statements.

Rating	Recommendation	Management action
<b>High</b>	Personnel files should be maintained and up to date with changes to employee salaries, wages and entitlements.	All PF and changes were in place. With the current Admin and Finance team. MPG applies very strong measures to counter this issue.

### 2.5.2 Lack of approval of overtime

The Provincial Government's processes require pre-approval of overtime. We found that this was not occurring and approval generally occurred after the work was done. In addition, we noted that overtime was also being paid to casual workers which were also not consistent with the Financial Instructions.

#### *Implication*

- Lack of effective control over payments.

- Risk of misappropriation of funds.
- Non-compliance with laws and regulations

Rating	Recommendation	Management action
<b>Mod</b>	Ensure the requirements set out in the Financial Instructions are adhered to and that overtime is approved in advance and only for those eligible.	With the current PS, a circular was send to all staff. This is to advise that, all Over time will put on hold to mitigate this issue. Senior team will monitor and advise going forward if there is any changes.

### 2.5.3 Lack of transparency in the recruitment process

Our testing found an example where there were no documents to support the short-listing of applications and selection of a candidate based on key selection criteria. In discussion with MPG officers they noted that this was a one off issue of misfiling.

In addition we noted from the review of the Payroll Officer's fortnightly listing that there were no consistent payments for each pay period. Whilst this may be linked to movements in staff, given the above, it is a concern that not all movements are sufficiently supported.

#### ***Implication***

There is a risk that MPG does not follow its recruitment procedures. This increases the likelihood that selections are not based upon a fair basis. It also increases the potential that shortlists could be subject to corruption or nepotism.

Unsubstantiated movements in payroll indicate there is a risk of payments being made to people who are not employed at the Provincial Government (ghost employees).

Rating	Recommendation	Management action
<b>Mod</b>	Payroll procedures should ensure the payroll reports are reviewed for accuracy prior to payment.	PS/HRM and Finance team are currently monitoring this. All reviews are currently done by PAS/Payroll officer and HRM

## **2.6 Cash and cash equivalents**

### **2.6.1 Bank reconciliations not completed**

Our testing found that bank reconciliations were not occurring regularly and this meant that there were unreconciled items.

We found that some accounts recorded by the Provincial Government were no longer recorded by the relevant bank.

#### ***Implications***

- Material misstatement of the financial statements.
- Non-compliance with Financial Management Ordinances.
- Lack of effective control over payments.
- Risk of misappropriation of funds.
- Difficulty in monitoring cash flows.

<b>Rating</b>	<b>Recommendation</b>	<b>Management action</b>
<b>High</b>	Ensure bank reconciliations occur on a timely (monthly) basis and are independently reviewed.	All bank reconciliations are done on monthly basis. This is confirmed under PCDF quarterly reports. MPG are currently monitoring this going forward.

### **2.6.2 Stale cheques and overdue outstanding deposits.**

Testing identified a large amount of long outstanding reconciling items within the bank reconciliations. These include unpresented cheques of \$2.8 million and outstanding deposits of \$363,000, both dating back to year 2015.

#### ***Implication***

- High risk of information provided to executive on the cash flow of the province could be misleading.

Rating	Recommendation	Management action
<b>2017/18</b> <b>#2.4.6</b> <b>High</b>	<p>Ensure all un-present cheques that remain in the bank reconciliation for more than 6 months needs to be cancelled and reissued if required.</p> <p>Ensure avoid issuing of cheques when cash is not available in the bank account</p>	<p>There were no un present chqs currently sitting in system. All chqs were cancelled and monitored on a monthly basis</p>
<b>2017/18</b> <b>#2.3.1</b> <b>High</b>	<p>Ensure that cheques received must be promptly deposited into bank account before withdrawals are made to comply with s30(2) of FMO 2008 and;</p> <p>Failure to comply with s30 (2) of FMO 2008 must be referred to section 91 and 92 of the FMO 2008</p>	<p>Circular already being issued to all HODs. PS to continue enforcing this to all points of collections with the support of PAS and Finance Team.</p>

## 2.7 Imprest

### 2.7.1 Management of imprest

We found no evidence that the issues arising in the prior year relating to the management of special imprest had been resolved:

- No formal written request from the head of division for issuing of special imprest to concerned officers;
- No formal request from other entity to attend the activities;
- Activities not related to provincial work plan or operation but special imprest was issued;
- Request for new special imprest without retiring the first imprest.

#### ***Implication***

- Non-compliance with FMO.
- Misappropriation of funds.

### 2.7.2 Poor retirement of imprest

There was no effective action taken by the Provincial Government to address the recurring issue of giving multiple imprests to individuals.

In addition we noted that unretired imprest was \$0.8 million at the end of 2018/19.

#### **Implication**

- Non-compliance with FMO.
- Misappropriation of imprest money.

Rating	Recommendation	Management action
<b>Mod.</b>	Ensure that controls are adequate to issue imprest in line with the requirements of the FMO 2018 and then to ensure that imprest is retired on a timely basis thereby preventing any imprest being advanced where a previous imprest is still outstanding.	The new core staff under the new PS and the Finance team are currently tiding this issue. All the current Imprest are monitored as per FMO and FI 2018.

## 2.8 Assets and liabilities

### 2.8.1 Fixed asset register was not up-to-date

The asset register provided by the Province was a booklet. However, information recorded was not updated to capture the assets procured and disposed during the financial year. Also certain important details were not completed and verification and validation of the assets were not evidenced.

#### **Implication**

- Misappropriation of assets.

Rating	Recommendation	Management action
<b>2017/18 #2.8.1 Originally raised in 2016/17 High</b>	Ensure to regularly update the fixed asset register with inclusion of more information to reflect the actual capital procurement or expenditure incurred during the fiscal year;	MPG currently working on this. This is to ensure that all the issues raised are covered in the FY 19/20. MPG now transferred all the

	<p>Ensure that assets are clearly labelled as the Province's property;</p> <p>Ensure to create a proper storage facility to safeguard the assets;</p> <p>Make sure to establish the method of assets disposal and;</p> <p>Ensure to create a robust mechanism such as annual stock-take to ensure all assets are captured in the fixed asset register.</p> <p>Transfer all the information on the asset register booklet to excel spread sheet to make register more efficient and reliable, can be easily recorded, reconciled and safeguard.</p> <p>Management to have an Asset Management Policy</p>	<p>required information in to an excel spread sheet. Agreed.</p>
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## 2.8.2 Accounts payable and receivable registers

The accounts payable and accounts receivable registers provided by the Provincial Government cannot be fully relied on since no reconciliation has been performed to prove the completeness and accuracy of the register. It is important that the accounts payable and receivable registers are regularly updated. Hence, the Provincial Government can determine its obligations for the financial year and to ensure the information are properly and appropriately disclosed in the encouraged note on the financial statements.

### **Implication**

- Misstatement of the financial statements.

Rating	Recommendation	Management action
<b>2017/18</b> <b>#2.9.1</b> <b>and</b> <b>2.10.1</b> <b>Originally raised in 2014/15 &amp; 2016/17</b>	<p>Immediately establish proper account payables and account receivables registers and ensure they are kept up to date.</p> <p>Ensure that the Provincial Treasurer has access to the registers to properly monitor the payables and receivables and regularly update the Executive.</p>	<p>MPG currently has registers in place and can be confirmed during the recent PCDF assessment team for 19 and 20 FY. The Finance team are currently monitoring this tool for accuracy</p>

High		and update for current data.
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## CHAPTER 7: RENNELL BELLONA PROVINCE

### Audit opinion

The Rennell Bellona Province annual financial statements for the year ending 31 March 2018 and 31 March 2019 received disclaimer opinions. The disclaimer of opinions is attributed to the continuous failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support account transactions. The Auditor-General was unable to confirm or verify by alternative means the balances and disclosures with respect to the financial statements.

### Audit issues

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

There was poor control over the management of the provinces resources. No effective measures were taken by the province to action the prior years' recommendations of OAG.

The process to manage and monitor procurement and expenditure, revenue, assets, bank accounts and imprests was inadequate and fell short of the requirements of the Financial Management Ordinance 2008 and Financial and Store Instructions.

The audit issues are summarised in the table below. The issues detected in both financial years.

**Table 13: Rennell Bellona audit issues**

No	Audit issue	Risk rating
1	Discrepancies on balances of statement of cash receipts and payments	High
2	Discrepancies in the preparation of financial statements	High
3	Incorrect opening balances	High
4	Un-acquitted imprests	High
5	No executive meeting minutes	High
6	MYOB system not in operation	High
7	No provincial officers present at the office	High
8	General ledger not reliable	High
9	Not all receipt books were available	High
10	Incomplete licences and fees payers database	Moderate
11	No evidence for collection of outstanding revenue	High
12	No segregation of duties	High
13	Lack of approved revenue policies and procedures	High

14	Unable to trace receipts from general ledger and cashbook	High
15	Payment vouchers with no supporting documents	High
16	No ward development grants	High
17	Bank reconciliations perform but lack evidence of review	High
18	Special imprest register not maintained	High
19	Payroll documentation and budget comparison	High
20	RBDA yet to be fully operational	High
21	Asset register not maintained	High
22	Lack of accounts payable register	High
23	Lack of accounts receivable register	High
	High	22
	Moderate	1
	Low	0
	Total	23

## 2.0 Audit findings and recommendations

### 2.1 Financial statements

#### 2.1.1 Discrepancies in the balances for statement of cash receipts and payments

**Risk rating: High**

The following were the noted discrepancies in the financial statements of the province for the financial year ended 31/03/2018:

	FS	Cashbook	variance	FS impact
Receipts recurrent	\$ 8,682,525	\$ 7,877,524.97	\$ 805,000.03	overstated
Receipts capital	\$ 3,432,825	\$ 2,147,532	\$ 1,285,325	overstated
Payments rec	\$ 8,363,129	\$ 8,156,921.37	\$ 206,207.63	overstated
Payments cap	\$ 1,589,550	1,745,232.20	\$ 155,682.20	overstated

The above clearly indicated that the financial statements produced by the province could not be relied on.

#### Implication

- Risk of figures presented not reflecting a true and fair view of the financial performance of the province.
- Material misstatement of the financial statements resulting in a disclaimer opinion.

#### Recommendation 1

Rennell and Bellona Province ensure:

- That adjustments are made to the FS line items when formulating 2018/19 financial statements;
- Cashbook and general ledger are properly maintained so that it is easy to post to trial balance, financial statements and notes and;

- Provide a draft financial statement with trial balance, general ledger and cashbook for review for any adjustment before signing off.

#### **Executive response**

- *The Executive is seriously looking into why there is a big overstated figures in comparison with FS and cashbook as tabulated above.*
- *The Provincial Treasurer to relook into the figures in the cashbooks and in comparison with figures in the FS so to reconcile and make consultation with the OAG how to correct this figures as soon as possible.*

#### **2.1.2 Discrepancies on the preparation of the financial statements**

**Risk rating: High**

The following discrepancies were noted on the financial statements:

- Lack of table of contents and page numbers.
- Statement of cash receipt and payments has information for three (3) years while IPSAS cash basis requires only the current year and the prior year information.
- Notes to the accounts were inadequate.
- Closing balance and cash and cash equivalent have a variance of \$584,266.
- Increase/ (decrease) in cash not reconciled with net cash flows which has a variance of \$2,434.

#### **Implications**

- Discrepancies in the notes to the statement increase the risk of unethical behaviour, manipulation of figures, incompetency and misstatement of the financial statements.
- Understatement or overstatement of total recurrent payment.

#### **Recommendation 2**

Rennell and Bellona Province ensure:

- That corrections are made prior to formulating 2018/2019 financial statements;
- Must exercise care and diligence when preparing the financial statements and notes; and
- To reconcile the difference of \$ 584,266 between the closing balance and the cash and cash equivalent balance.

#### **Executive response**

- *The Provincial treasurer will make sure to address the six points of discrepancies mention on section 2.1.2 as above on 2018/2019 financial statements and also to*

*prepare the 2019/2020 financial statement with ample time so to allow the report and notes to the report to be prepared with care and diligence.*

- *The treasurer will liaise with the OAG office to clarify the difference of \$584,266 between closing balance and the cash and cash equivalent balance so to make the adjustment accordingly*

### **2.1.3 Incorrect opening balance**

**Risk rating: High**

The province used the incorrect opening balance for 2017/18 financial statements. The province used closing balance for the year ended 31<sup>st</sup> March 2016 instead of the year ended 31<sup>st</sup> March 2017 for the opening balance for 2017/18 financial statements.

#### **Implication**

- The financial statements are misstated.
- The financial statements are not reliable.
- A disclaimer of opinion by Auditor General.

#### **Recommendation 3**

Rennell and Bellona Province ensure:  
Proper review is done by finance team to rectify the incorrect balances and do relevant adjustments to the prior balances including the current year balances.

#### **Executive response**

- *The treasurer will liaise with the OAG office as soon as possible so that the correct balance will be inserted in the 2017/2018 financial statement to rectify the incorrect balance.*

### **2.1.4 Un-acquitted imprest balance**

**Risk rating: High**

From supporting documentation and cashbook provided there was evidence of imprests outstanding after the end of the financial year 31<sup>st</sup> March 2018. However, the province failed to disclose the imprest amount under cash and cash equivalent in the financial statement.

#### **Implication**

- Risk of cash and cash equivalent amount understated.
- Material misstatement of the financial statements.

#### **Recommendation 4**

Rennell and Bellona Province ensure:

- The un-acquitted imprest balance after end of financial year is reflected in the statement of cash receipts and payments.

#### **Executive response**

- *Will get confirmation from the Provincial treasurer and treasury staff of the un-acquitted imprest and start deducting of unretired imprest accordingly.*
- *The records of imprest register to be monitored by the Accounting specialist and PCDA for compliance.*

## **2.2 Executive**

### **2.2.1 No executive meeting minutes**

**Risk rating: High**

OAG noted from Cashbook that a total amount of \$659,524.26 was incurred by the province for sitting allowance of various meetings including executive meetings. However, there was no signed minutes provided by the province to confirm those meetings. Minutes were either gone missing or not recorded at all due to poor record keeping and weak control.

#### **Implication**

The level of transparency over executive decisions made is reduced. This increases the risk that executive decisions made may not be implemented, or in accordance with the provincial ordinances.

### **Recommendation 5**

Rennell and Bellona Province ensure:

- Must ensure minutes are taken during meetings;
- Ensure all executive minutes and all supporting agenda papers are filed in a secure location.
- Ensure the chairman and secretary sign and date all minutes of the meetings.

#### **Executive response**

- *The executive will make sure that responsible officer will be available during the next audit so that minutes to the executive and assembly is made available for audit.*
- *The officer responsible will be consulted as to why the information or documents of minutes are not provided and why he did not attend during the audit period.*

### 2.2.2 No provincial officers present at the office.

**Risk rating: High**

OAG noted during its visit to provincial headquarters in Tingoa, Rennell that no officers were present in the office during the first day. The office finally open during the week of the visit but the required documents were not provide to the auditors. The documents were provided six (6) months later.

#### Implication

- High risk of information been manipulate before providing it to auditors.
- Reliability of the information provided is questionable.
- Lack of accountability and transparency.

#### Recommendation 6

Rennell and Bellona Province ensure:

- All relevant officers are available during auditing period.
- All relevant documents of the province are kept in office for review and audit purposes.
- Accountable officer and personal officer monitor the movement and performance of officers.

#### Executive response

- *To date travelling of officers from the provincial head office is now monitored accordingly as per our executive policy which in draft currently.*
- *The executive will make sure responsible officers are present and important documents required by the auditors for viewing must be present on February 2020 audit.*

## 2.3 Financial system

### 2.3.1 MYOB system not operational

**Risk rating: High**

Rennell and Bellona Province Finance Office did not operate a financial information system to manage it accounts and financial records.

#### Implication

The lack of a financial management system such as MYOB increases the risk of inefficiency and mismanagement of provincial funds.

### Recommendation 7

Rennell and Bellona Province ensure:

- Immediately liaise with MPGIS to put in place a financial management system such as MYOB;
- To consider including training package for MYOB system for Finance staff and;
- To regularly monitor the MYOB system for its licence's expiry date.

### Executive response

- *There is a training provided and undergone by treasury staffs on the 13<sup>th</sup> of May 2019 to 24<sup>th</sup> of May 2019 (two weeks) at the MPGIS governance recreational room.*
- *The MYOB specialist (Prasad Mahendra) will revisit the province sometimes on late February before the rollover of the MYOB system and there is continuous communication with the specialist when there is a problem with the system through emails, so this should address the regular monitor of the system.*
- *The system is now set up at the headquarters and in operational currently and the accounting specialist will continually monitor the daily inputs of the MYOB System.*

### 2.3.2 General Ledger (GL) not reliable

**Risk Rating: High**

Upon review GL provided by the province for 2017/18, audit noted that information recorded in GL is incomplete and unreliable. All transactions have no dates and particulars for all transactions were described as "BANK". There were no receipt or cheque numbers against all the transactions recorded in the GL. Since the GL was created from excel sheets the data was susceptible to manipulation.

### Implication

- High risk of information recorded in the GL been tempered with.
- Fraudulent activities could occur.
- Funds misappropriate.

### Recommendation 8

Rennell and Bellona Province ensure:

- To installation a financial management information system as soon as possible.
- If excel is used to record transactions, security over the GL data must be effective.

### Executive response

- *This is mentioned above (2.3.1 MYOB System) concerning setting up of the system and the system is currently in operational. Hope the GL for 2019/2020 will now be complete and reliable for users.*
- *The executive is doing everything in its mandated power to make sure responsible officers provide all the documents needed during the audit period and adhered to their responsibility accordingly, including provision of receipts and proper record of transactions in the GL.*

## **2.4 Revenue**

### **2.4.1 Not all receipt books were available**

**Risk rating: High**

Not all manual receipt books used during the fiscal year were available for audit as required by section 73 (l) of PFMO 2008.

#### **Implications**

There is the risk of material misstatement of the financial statements resulting in a disclaimer of opinion.

#### **Recommendation 9**

Rennell and Bellona Province ensure:

- To comply with section 73 (l) of the Provincial Financial Management Ordinance 2008 and;
- That used and unused receipt books are kept in a safe location and available for inspection.

#### **Executive response**

- *The accountable officer will make sure that the registration records for all receipts is kept and provision of all receipts to the auditors on next audit will also be made available, FI&SI section 5 and subsection 1, 2 & 3.*
- *The executive also noted that some receipts book was withheld by previous auditors visiting the province. If possible and by chance the receipts are still available in the OAG office to return accordingly.*

### **2.4.2 Incomplete Licence database**

**Risk Rating: Moderate**

The Province kept a business license register but the register was incomplete as the necessary information on the status of the businesses was missing.

### Implications

- Management unable to use information recorded on the register for good decision making.
- Management unable to identify total receipts from accounts receivable.

### Recommendation 10

Rennell and Bellona Province ensure:

Update the business register and include information on the status of the business for the current financial year.

### Executive Response

- The Finance Minister of Renbel Province on the 3<sup>rd</sup> of December had a discussion with the Treasury group before this report is made available to seriously looking into all business operating within the province and make proper and complete record of all businesses. Also, he urges the accounting officer to report on the status of every business domestic and non-domestic.
- The executive will make sure that this discussion will not be a mere discussion but will see that records of businesses and their status is made available on the next audit.

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

### 2.4.3 No evidence of collection of outstanding revenue

**Risk rating: High**

There was no evidence to indicate that outstanding revenue from past fiscal years was collected during the current year.

### Implication

Lack of strong revenue collection strategy increases the risk of unauthorized officers collecting revenue without the knowledge of the Provincial Government, loss of revenue, negligence and services to rural people not provided.

### Recommendation 11

Rennell and Bellona Province ensure:

- Establish an effective and efficient revenue collection strategy and;
- Properly classify the outstanding revenue for accurate reporting to stakeholders.

### Executive response

- **The new revenue mobilization strategic that will be adopted by all provinces and with our draft policy in place and once implemented will try and reconcile with the treasury records for 60% recovery process of all revenues for the start.**
- **This will involve our police officers to enforce the Rennell and Bellona Province Business License Ordinance as required necessarily.**

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

#### **2.4.4 No segregation of duties**

**Risk rating – High**

No one person should receipt the cash, record it in the cash book and deposit the cash in the bank. All these activities should be reviewed by an independent reviewer.

#### **Implication**

There is an increased risk that fraud could be committed and concealed. This may result in the misappropriation, issue of fictitious receipt and misstatement of provincial funds.

#### **Recommendation 12**

Rennell and Bellona Province ensure:

- Segregation of duties are in place between officers who prepare cash receipts, perform data entry in the general ledger and banking.
- Regular oversight by management over each of the function should be done.
- Monthly review by management on finance reports to examine receipts and revenue for reasonableness and unexplained variations.

#### **Executive response**

- **The executive understands that this is caused by limited staff within the treasury division. But currently with the recruitment of the accounting specialist, the treasury division with the accountable officer will see that duties are segregated including inputs of data in the MYOB system and partitions of inputs within the system for transparency purpose.**
- **The executive will continue liaise with the accountable officer and make sure to see that key result areas and performance indicators of individual staffs is adhered to.**

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

#### 2.4.5 Lack of approved revenue policies and procedures

**Risk rating – High**

The Rennell and Bellona Provincial government has not yet addressed this issue brought forward from the previous year's audit. No approved policies and procedures were in place over the receipting of cash and cheques and the recognition, measurement and reporting of revenue.

##### **Implication**

Inconsistency in the way that staff receipt cash and cheques, perform data entry, code revenue transactions and prepare financial reports (e.g. aged debtors listing) will likely to occur. Risk that errors or fraud may occur due to inconsistency and this go undetected and uncorrected by management.

##### **Recommendation 13**

Rennell and Bellona Province ensure:

That approved policies and procedures are put in place and followed which provide guidance to finance staff on who is to and how they are to receipt cash and cheque transactions, record this in the cash book / general ledger, undertake banking and financial reporting of results.

##### **Executive response**

- **The executive with the accountable officer – technical team will draw policies and procedures aligning with the FMO and Financial Instructions and Stores Instructions Section 3 and Section 5 to address the collection and receipts of revenues.**
- **With the current staff inclusion of the Accounting specialist, the accountable officer and accounting officer will segregate duties accordingly with reference to key result areas and performance indicators of each staff within the treasury office and duties to accommodate the above mentioned area.**

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

#### 2.4.6 OAG unable to trace receipts from GL and cashbook.

**Risk rating – High**

OAG unable to do further testing on completeness and accuracy of the receipts as GL and cashbook information lack receipt numbers that will identify the transactions to receipt book.

##### **Implication**

- OAG have no assurance over receipts recorded by the province for the financial year.
- High risk of funds received by province been manipulated and misappropriate.

**Recommendation 14**

Rennell and Bellona Province ensure:

GL and cashbook should have receipt number against all funds received by the province. And the receipt book amount should reconcile with the GL and cashbook.

**Executive response**

- **Our executive will see that revenue collection officer provides this receipts on the next auditing as stipulated in the Financial Instructions and Stores Instructions Section 3**
- **Also noted that the new executive is keen on improving all internal controls and this will see that the revenue collection officer to fully report and receipt all revenues collected by the province in accordance with section 3, subsection 5, clause 1, 2 & 3 of the Financial Instructions and Stores Instructions.**

**2.5 Procurement and expenditure****2.5.1 Payment vouchers with no supporting documents**

**Risk Rating: High**

Recurrent payments worth \$6,274,527.50 lacked supporting documentations. Capital payments valued at \$993,206.81 were paid without supporting documentations attached to the payment vouchers.

**Implication**

The lack of supporting documents increases the risk of unauthorised payments, financial reporting misstatements, funds diversion and fraud.

**Recommendation 15**

Rennell and Bellona Province ensure:

- To properly file the payment vouchers in the folder, store in a secure location and accessible for authorised inspection;
- Comply with the Government Records Management Policy; and
- Provide the documents upon audit request.

**Executive response**

- **After the Induction of Provincial Assembly Members from 25<sup>th</sup> November to 7<sup>th</sup> December 2019, the executive understands the role and responsibility of the government. And so we will see that responsible officer are complying with relevant policy and ordinance in providing the relevant document as requested by auditors during audit period.**

- The treasury office of Rennell and Bellona Province is now filing PVs accordingly and the Provincial Executive is asking help from the MPGIS to help out with the file registration within the Provincial Admin as well.

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

## **2.6 Ward development grant**

### **2.6.1 Non-disclosure of ward development grant**

**Risk rating: High**

Audit noted that there was no record of ward development grants for the current year in the financial statements. However the cashbook indicated payments were done under ward development grant.

#### **Implication**

- Misclassification of financial statements figures.
- Management unable to have information on funds provide by the province to each ward.

#### **Recommendation 16**

Rennell and Bellona Province ensure:  
Review the cashbook and reclassify all payments done under ward development grant to WDG line item on the FS.

#### **Executive response**

- Currently under the Policy Blue Print on Participatory Planning and Ward Development Grants for provinces, all ward development grants will be transferred to ward development committee accounts directly.
- The accounting officer will be directed to make sure that there is ample time for provision of financial statements so that there is thorough rectify of figures before submission of Financial Statement.

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

## **2.7 Cash and cash equivalent**

### **2.7.1 Bank reconciliation segregation of duties**

**Risk rating - High**

Bank reconciliations were performed for the various bank accounts operated by the province. However, there was no evidence of segregation of duties regarding the preparation and review of the reconciliation statements.

#### **Implication**

- High risk of error due to lack of a reviewer.
- Cashbook can be easily manipulated.

#### **Recommendation 17**

Rennell and Bellona Province ensure:

- Bank reconciliations are dated and signed off by the preparer and an independent reviewing officer. With supporting document attached such as original bank statement, general ledger account balance, list of unpresented cheques, list of outstanding deposits and any other adjusting items.
- Adequate training to be provided to existing finance officer on bank reconciliation.

#### **Executive response**

- **Bank reconciliations will be done accordingly and sign by the preparer and verified by the Provincial Treasurer and checked by the accounting specialist before submission of reports, so that supporting documents (original bank statement, general ledger, account, list of unpresented cheque and list of outstanding cheque) are confirmed and verified before file.**
- **See that officers responsible comply with bank reconciliation which is in accordance with the Financial Instructions and Stores Instructions Section 2, subsection 3 as per stipulated.**
- **Lack of compliance will result in proper process of disciplinary applied to the officer responsible if deem necessary.**

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

## **2.8 Imprest**

### **2.8.1 Special imprest register not maintained**

**Risk rating - High**

The province did not keep a special imprest register during the year. Due to the lack of a special imprest register it was difficult to identify all imprests issued from the cashbook. The inability of the province to provide supporting documents complicated matters further.

### **Implication**

- Increases the risk of misleading information to users
- Misappropriation of provincial funds
- Conflict of interest.
- Un-acquitted imprests accumulating to uncontrollable level.
- Budget over-run and misstatement of the financial statements.

### **Recommendation 18**

Rennell and Bellona Province ensure:

- To properly keep the records and documents for imprests and advances in a secure location; and
- That responsible officer understands his/her duties under Part X of PFMO 2008.

### **Executive response**

- **The Executive will direct the provincial treasury to update the imprest register for this financial year 2019/2020 so as to meet this audit issue.**
- **Will have a meeting with the treasury staff and make sure that everyone understands his or her duties under Part 7, Division 2 of the Rennell and Bellona FMO 2018.**

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

## **2.9 Payroll**

### **2.9.1 Lack of payroll documentation**

**Risk rating: High**

Payroll could not be tested due to lack of documents regarding the actual payroll payments and the payroll budget.

### **Implication**

- Risk of not fully utilising the payroll budget
- Conflict of interest, undisciplined workforce, work plan not implemented and accumulation of debts to settle in future.
- Determination of the occurrence, completeness and accuracy of the transactions cannot be done.

### **Recommendation 19**

Rennell and Bellona Province ensure:

- Must prioritize all payroll records to be filed properly and available for audit purposes.
- Payroll Officer or Personnel Officer is available during audits in future.

## Executive Response

- The executive understands that Renbel Provincial Payroll for FY 2019/2020 is now in proper process to payments and will see that this will continue to maintain continually and in accordance with Section 11, subsection 1 to subsection 9 as stipulated in the Rennell & Bellona Provincial Government Financial Instructions and Stores Instructions 2018.
- Payroll officer delegated will be made available in the coming annual audit in the Province as recommended by the office of OAG.

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

## 2.10 Investment

### 2.10.1 Rennell Bellona Development Authority operation

**Risk rating: High**

The province was unable to provide any financial documentation on its business arm therefore audit could not perform any audit testing.

#### Implication

- Risk of mismanagement of the province's business entities.
- Loss of revenue, theft of assets, abuse of power, wastage of funds and poor reporting.
- Misstatement of financial statements.

### Recommendation 20

Rennell and Bellona Province ensure:

- The board review the function of RBDA and re-establish a framework with related resources for the development of RBDA;
- Must provide support for the operation of RBDA; and
- That management always ensure RBDA is operating under the relevant ordinances.

## Executive Response

*OAG Response:*

*No response from executive*

## 2.11 Property, plant and equipment

### 2.11.1 Asset register not maintained

**Risk rating: High**

The asset register kept by the province was incomplete and audit was unable to do further testing using the register provided.

#### Implication

- Risk of abuse, misuse, stolen assets, budget over-run and undervaluing of assets.

#### Recommendation 21

Rennell and Bellona Province ensure:

- Must update the asset register to keep track of its assets;
- Categorise asset according to their nature of usage, cost of the asset, date purchase during the year to be reflected in the register.

#### Executive response

- There will be stock take of all provincial asset that is schedule for the month of April 2020 to register all provincial assets and safekeeping of such asset according to Rennell & Bellona Provincial Government Financial Instructions and Stores Instructions Section 12, subsection 15.
- This will be used as a basis to be disclosed in the notes of the Financial Statements

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

## 2.12 Account payable

### 2.12.1 Lack of accounts payable register

**Risk rating: High**

The province failed to keep accounts payable register to track the current liabilities of \$179,682.

#### Implication

- Increases the risk of obligations not met, payments made to ghost suppliers, loss of provincial funds, budget over-run and misleading information for critical management decisions.

#### Recommendation 22

Rennell and Bellona Province ensure:

- Establish an accounts payable register and regularly update the register;

- To follow financial regulations; and
- Register is available for review.

**Executive response**

- The Executive will see that responsible officer puts every effort in updating the accounts payable register so the executive will be able to be informed on all liabilities of the province.
- Make sure that the register is made available auditors on the next audit as recommended.

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue.*

## **2.13 Accounts receivable**

### **2.13.1 Lack of accounts receivable register**

**Risk Rating: High**

During the audit no register was provided by the province on funds yet to be paid by businesses operating and others owing funds to the province.

**Implication**

Management lacks information on uncollected revenue for the province.

### **Recommendation 23**

Rennell and Bellona Province ensure:

- Must immediately establish an accounts receivable register;
- To regularly update the register; and
- Register to be made available at all times for audit purposes.

**Executive response**

- The treasury staff with the supervision of the provincial treasurer will establish this accounts receivable immediately
- This register to be made available on the next audit period

*OAG Response:*

*OAG acknowledge responses and will do a follow-up on the progress of resolving the issue*

The focus for the 2018/19 financial statements audit was to ensure that the elements of the disclaimer opinion in 2017/18 remained relevant in 2018/19 and the disclaimer opinion was still applicable in 2018/2019 financial year.

### Summary of key issues

The Office has completed the audit of the Provincial Government 2018/19 Financial Statements and found that the Provincial Government has inadequate control over the management of its resources. The main issues that the Office has identified leading to this conclusion were summarised in the table 1 below.

The table notes the impact each significant matter arising has on the Audit Opinion. We have concluded that due to the ongoing nature of many of these issues, we are unable to express an opinion on the annual financial statements for 2018/19.

**Table 1**

<b><i>Account/ Transaction</i></b>	<b>Issue identified 2017/18</b>	<b>Applicability to 2018/19</b>
<b>FS level</b>	There were discrepancies between the cashbook and the general ledger.	This remains an ongoing issue in 2018/19
<b>FS level</b>	The financial statements were not presented in line with the requirements of IPSAS Cash Basis	This remains an ongoing issue in 2018/19
<b>C&amp;CE</b>	The Financial Statement was not prepared in such a way that the statements were internally consistent.	This remains an ongoing issue in 2018/19
<b>Imprest</b>	Unacquitted imprest was found to exist but was not included within the financial statements. There are inadequate records to support imprest.	There remains no imprest disclosed in 2018/19.
<b>Receipts</b>	There was a lack of receipt books to support the receipts issued. Registers of fees and charges were not complete.	This remains an ongoing issue in 2018/19
<b>Payments</b>	There was a lack of supporting documentation for payments including payroll transactions.	This remains an ongoing issue in 2018/19
<b>Ward Development Grants</b>	There is no disclosure in the financial statements for ward development	Ward Development Grants have been disclosed in 2018/19 and are consistent with the amounts in the client

<b>Account/ Transaction</b>	<b>Issue identified 2017/18</b>	<b>Applicability to 2018/19</b>
	grants, however audit found evidence of such payments in the cashbook.	WPs. However see the ongoing uncertainty relating to the cashbook, ledger and financial statements.
<b>Rennel Bellona Development Authority</b>	There was insufficient information to enable the audit of RBDA.	This remains an ongoing issue as the RBDA has not been consolidated or formally approved by the Minister.

### **Impact of COVID-19**

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 our operations and services.

We have therefore considered how this event affects the financial statements. We note that at present the Solomon Island Government has not finalised its budget for 2021. As a result the funding for the Provincial Government in 2021/2022 is uncertain.

As a result this poses a material uncertainty for the going concern basis of the financial statements. We have also reflected this in our opinion.

### **Conclusion**

The Office of the Auditor General (OAG) concludes that although the Provincial Government is making progress with implementing actions in response to matters raised in our reporting, these were not sufficiently effective to resolve the gap in requirements for 2018/19 financial statements. There remains during this period a lack of supporting documentation and ongoing non-compliance with IPSAS Cash accounting standards and Provincial Government Financial Management Orders.

Consistent with our 2017/18 audit, the Auditor General is unable to express an opinion on the IPSAS cash basis financial statements due to:

A lack of supporting documents for the financial statements and detailed transactions; and  
Not meeting the reporting requirements under IPSAS Cash Basis.

## CHAPTER 8: TEMOTU PROVINCE

### Audit opinion

Temotu Province financial statements for year ending 31 March 2019 received disclaimer audit opinion. The issues that led to the basis for the disclaimer of opinion are detailed below.

### Audit issues

The OAG found that the Province has improved in the compilation of its financial report however still has weak controls over the management of its resources. Also there was continuity of not effectively complying with relevant Acts, legislations, regulations, Instructions and Ordinances set for the province to follow in their daily operation.

The process to manage and monitor procurement and expenditures, revenue, assets, bank accounts and imprests was inadequate and fell short of the requirements of the Financial Management Ordinance 2018, Financial and Store Instructions 2018. The audit issues identified are summarised in the table below.

Table 14: TPG audit issues

No	Audit issue	Risk rating
1	Unreconciled balance in debt servicing	High
2	Lack of consolidation	High
3	Non receipt of direct deposits	Moderate
4	Lack of rental rate for commercial property	Moderate
5	Lack of sufficient documentation	High
6	Missing payment vouchers	High
7	Lack of proper classification for payments	Moderate
8	Budget overspent	High
9	Unbudgeted payments	Moderate
10	Incomplete imprest register	High
11	Lack of clearing account	High
	High	7
	Moderate	4
	Low	0
	Total audit issues	11

## 2. Audit findings and recommendations

### 2.1 Financial statements

#### 2.1.1 Unreconciled balance

Audit noted through its testing that the unclassified transfer payment of \$ 225,929.00 for PAYE posted under Debt Servicing is unreconciled. There was no record of the transfer payment neither in the various bank accounts nor in the various cashbooks or payment vouchers. Audit noted that the amount was a variance between the cashbooks and the general ledger. This is a material misstatement of the financial statements.

#### Implication

- The financial Information is misleading as it does not affirm the accuracy, fairness and reliability of the provincial financial data.
- Misrepresentation of the financial information of the province.

Recommendation	Risk Rating	Executive Response
<b>General ledger and Financial Statement figures need to be adjusted to reflect the cashbook balances.</b>  <b>Reconciliation of Cashbook transactions and General Ledger data needs to be done weekly or fortnightly to avoid such material variances.</b>	High	<p>This is not an unreconciled figure but an unclassified one. We have elaborated in detail on this to the team. The \$225,929 is an unclassified sum comprised of collective transactions which could not be itemised from the cash book to their respective classes or account codes in the general ledger. It is not a single sum paid with a single cheque which can be vouched in the cashbook or bank statements. As explained to the audit team, the balance is a variance that existed between our 4 main cashbooks and the general ledger.</p> <p>It is true, with the assignment of the \$225,929 to debt servicing overstated the debt servicing expense, in effect understated other relevant expense items in the report but the overall aggregate expenditure for the whole year is neither inflated nor tampered with.</p> <p>The Province performed monthly reconciliation of its 4 main cashbooks with bank statements, but it had not gone to the extent to do reconciliations of the cashbooks to the general ledger because of the complexity to do it manually, and this can be attested from previous reports that this matter continued to recur in various forms in large variances. The technical complexity of the manual system the province used in the period assessed was a draw back and had resulted in difficulties to produce a prudent, true, and fair view financial statements.</p>

		<p>This has substantially reduced in this reporting period as we try to get the province financial reporting to the level we all expect.</p> <p>You will also note in your audit tests that there are no traces to imply element(s) of material misappropriation of the provincial funds apart from the audit findings. The 9 missing Payment Vouchers referred to in 2.3.2 are separate issue to this matter as those missing PV/Cheques were posted individually to the General ledgers.</p> <p>The Province is keen in resolving this matter, and we are working toward achieving a turn around on such matters in our future financial reporting.</p>
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### 2.1.2 Lack of consolidation of Temotu Province business arm

Audit noted as per the financial statements that Temotu Province business arm was not consolidated into the Province financial report. The Manager of the development arm is yet to submit its audited report to the province for consolidation.

#### Implication

- Misstatement of the current financial statements.
- Mismanagement of TDA by management.
- Lack of information on the performance and operational status of the investment arm.

Recommendation	Risk Rating	Executive Response
<b>The Financial Statement of Temotu Development Arm is prepared and audited by reputable audit firm before consolidated in the Provincial Financial Statement.</b>	High	<p>This matter has been addressed by the Province by repealing the TDA Ordinance in December 2019 by Assembly Resolution. With that action, TDA assets are now fully control by the Province and proceeds from the assets are receipted centrally at the treasury division.</p> <p>This is a recurring matter from previous years and we have already settled this issue prior to 2018/19 FY field test, and the team is already aware of subsequent action taken.</p>

## 2.2 Revenue

### 2.2.1 Direct deposits not receipted

OAG identified that two direct deposits worth \$20,000 were not receipted with TPG official receipts. Those transactions were referenced to bank statement instead of receipt numbers. It is good practise that all direct deposits are issued with official receipt for completeness.

#### Implication

- Risk of revenue not being properly classified and not accounted for in the general ledger.

Recommendation	Risk Rating	Executive Response
<b>All direct deposit need to be receipt with the Province official receipt.</b>  <b>Provincial cashier need to receipt any direct deposit made through the Provincial Bank Account.</b>	Moderate	<p>There were several direct deposits receipts of similar treatment which existed or recorded in the general ledger with not receipt number but only reference to Bank Statements (BST). Even the FS Grants receipts and PCDF receipts were not receipted. Most of these direct debits were recorded with their details in the cashbooks. Like we have tried to explain previously that with the manual system, cashbooks and general ledgers are distinctive records held in separate workbooks, unlike with electronic systems once a transactions is coded and posted from the spend or receive money menu, it automatically updates all relevant ledgers in the system.</p> <p>The two direct deposits referred to in the report were receipts from GS Agencies for harbour fee (\$5,000) and James Shipping for Log ship fee for MV Maritec. Their respective details are recorded in the cash books.</p> <p>In manual financial systems, recordings in both the cashbooks and general ledgers would not always correspond or have exact narrative details as they are done manually and prone to bear mistakes or error.</p> <p>However, this is not an excuse to defend the weaknesses in the internal control system and the deficiencies in technical capabilities, but an issue that can be understood and improve on in the future, or from time to time.</p>

#### 2.2.2 Lack of rental rate for Commercial block in the Business License schedule

Audit review the Business Licence Schedule and noted that the rental rate for commercial blocks is not included in the business licence schedule. Business licence schedule outlines the charges that are within the legal mandate of the Provincial Government so collecting rental without including the charges in the Business licence schedule is charging rates which are not within the legal mandate of the provincial government.

#### Implication

- Risk of tenants not liable for the payments of the rental as there is absent of legal obligation.

Recommendation	Risk Rating	Executive Response
<b>Province needs to review all revenue sources and ensure all revenue collected is</b>	Moderate	This matter continues to exist in the subsequent year as it was an inherent issue which have been overlooked and even past

catered for under existing legal ordinances.		<p>audit results have not highlighted the importance and implication of the matter.</p> <p>This issue has been addressed, and the Business Service Committee of the Province has submitted a paper on the rent schedules and tenancy agreement templates to the Assembly and subsequently endorsed for implementation effective as of the new financial year 2020/2021</p> <p>This issue raised is of a procedural and administrative nature.</p>
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## 2.3 Procurement and expenditure

### 2.3.1 Payment vouchers lack sufficient supporting documentation

OAG noted that three (3) payments voucher worth \$116,414.33 for utilities payments lacked sufficient supporting documentation. Attach such documents to the PVs supports the obligation of the province to pay and avoid other unrelated expenses hidden under utilities.

#### Implication

- Mismanagement and misappropriation of provincial funds.
- Other unrelated expenses hidden under utilities.
- Budget overspending.

Recommendation	Risk Rating	Executive Response
<p><b>All relevant supporting documents are attached with Payment Voucher before approval is granted; and</b></p> <p><b>Provincial Treasurer to review the Payment Voucher for sufficient documents before approval.</b></p> <p><b>Properly file the payment vouchers in the folder and stored in a secure location.</b></p>	High	<p>There is sufficient and adequate information obtained from SIEA confirming that these payments were for genuine electricity bills of the Province as follows:-</p> <ul style="list-style-type: none"> <li>• The cheque of \$86,204.50 was for outstanding bills for the months of July - December 2018, and January 2019. The Province has to make the lump payments to avoid the threat/warning from SIEA Lata to disconnect power supply to the Province Head Office and its office buildings</li> <li>• The cheque of \$19,808.85 was for the months April and May 2018 and</li> <li>• Cheque of \$10,400.98 was for the electricity bill for the month of February 2019.</li> <li>• The SIEA Office Manager, Lata confirmed having signed off these payments on behalf of the company</li> </ul> <p>Usually invoices from SIEA were attached to payment requests for approval; however, those invoices were returned to SIEA when Cashier delivered payment to them. This is a usual practice here for some years and the matter has not be raised in previous audits. The team should have approached</p>

		<p>SIEA Lata Office for confirmation; and had they done so this should not be an issue.</p> <p>However, the points raised is considered and the Province is seriously acting to ensure this is adequately address and pledge to eliminate these from reoccurring in the future effective from 2020 onwards.</p>
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### 2.3.2 Missing payment vouchers

Audit was unable to locate nine (9) payment vouchers worth \$194,496. Audit submitted to the accounts staff the list for them to locate the missing payments. However, audit received a confirmation email that the payments still missing two weeks after the audit.

#### Implication

- OAG do not have assurance over the missing PVs.
- Unable to confirm the accuracy, completeness and validity of the expenditures.
- Lack of compliance to Financial Instructions.

Recommendation	Risk Rating	Executive Response
<p><b>Proper filing of payment Voucher need to be maintained and avoid last minute filing.</b></p> <p><b>Responsible officers need to perform their work diligently.</b></p> <p><b>Provincial Treasurer or Accounting Specialist need to proper monitor the work output of the staff.</b></p>	High	<p>As the officers has relayed to the audit team on site that, these payments were legitimate expenditures of the Province. The explanations given based on other relevant information on hand were as follows”-</p> <ol style="list-style-type: none"> <li>1. \$17,300 was for 5 drums (200L) of mix petrol for transportation of MPAs to attend Provincial Assembly meeting conducted in October.</li> <li>2. \$16,950 was for accommodation charges for 4 MPAs resided at the motel to attend Provincial Assembly meeting in October.</li> <li>3. \$15,246 was for airline tickets for Clerk To Assembly, Treasurer, and Minister of Finance to travel to Honiara with TPG revised budget to be accented by Minister of MPGIS.</li> <li>4. \$17,600 was annual leave expenses for two officers. These payments were paid directly to these two employees as imprests respectively.</li> <li>5. \$5,800 was for termite treatment and spray carried out at the provincial soccer stadium at Lata, and USP classrooms also in Lata.</li> <li>6. \$50,000 this is an imprest held to cater for disaster relief supplies to Tikopia and Anuta which was badly hit by cyclone Winston. The imprest was fully retired.</li> <li>7. \$47,000 was a imprest held by the Province Cashier for conduct of ward soccer tournament conducted in December</li> </ol>

		<p>2018 organised by the Provincial Sports Office and Temotu Football Association.</p> <p>The Province acknowledges the importance of security over financial records, and pledge to seriously improve on this in subsequent year.</p> <p>Although the PVs were missing there is no indication of misappropriation of funds as all payments were genuine and have passed through normal compliance checks.</p>
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### 2.3.3 Lack of proper classification for payments

Audit noted that there are various transactions that need to be re-classified. Some are already been addressed by the Accounting Specialist as reflected in their final working paper and the Financial Statements. However, audit still noted in their final working paper that the four (4) transactions are yet to be re-classified under their right coding. This is caused by miss posting during data entries and no timely review by responsible officer on the date recorded.

#### Implication

- Information presented on the transaction level is misstated.
- Misrepresentation of the true nature of the payment.

Recommendation	Risk Rating	Executive Response
<p><b>Payments are properly classified to their right account codes as per the Chart of Accounts.</b></p> <p><b>Provincial Treasurer or Responsible Officer needs to implement a control mechanism with the payments process to minimise the errors.</b></p>	Moderate	<p>With the use of the MYOB accounting software as of 2019/2020 financial year, the Province is optimistic that this issue will be eliminated as non-budget codes will be in-activated in the system and hence will not accept miscoded or posting errors into non-budgeted codes.</p> <p>Also with the implementation of MYOB, responsible officers at the Finance and Treasury Division will be able to carry general ledger reviews and corrections on regular basis. This was proven difficult when manual system were in use and difficulty associated with such tasks in a manual environment.</p> <p>The fact that 2018/19 FS was produced in just 2 weeks before due date, added pressure to the finance team, which have resulted in oversights as this.</p>

### 2.3.4 Overspending of budget.

Audit noted that various budget lines were overspent. The overspending was caused by 38 payments worth \$784,389.65 under various codes. Audit further noted that there was no evidence of prior assembly approval as required by the FMO.

**Implication**

- Increases the risk of fraud may occur.
- Misappropriation of provincial fund.
- Going concern issue arises.

Recommendation	Risk Rating	Executive Response
<p><b>Payments raised are strictly paid from account codes which funds are available.</b></p> <p><b>Ensure PS or Executive approval for virement are attached with the payments for accountability and audit purposes.</b></p> <p><b>Ensure Provincial Treasurer closely monitor the cash flow to advice accountable officer and executive accordingly.</b></p>	High	<p>We acknowledge the existence of the issue of overspending to some budget codes. The Province were not able to control spending at the PV level as obviously noted that most PVs were not being able to be updated with budget running balances when they were processed through for payment.</p> <p>With use of the MYOB electronic system, the Province is confident that this issue will be controlled with the effective use of the budget update module from the MYOB.</p> <p>Like we have previously raised that dealing with large volume of transactions on a manual system is very cumbersome especially now that there are strict requirements and expectations for a prudent financial management of provincial finances, and producing a true and fair view financial report.</p> <p>The province is optimistic to improve this beyond expectation in subsequent financial years.</p>

**2.3.5 Payments made from unbudgeted account code**

Audit noted during its testing that six (6) payment vouchers worth \$ 59,450 were paid out from account code 6 -3185 which was not budgeted for in the 2018/ 2019 revised budget. .Audit was informed that this issue was already being adjusted; however as per the final financial statements and supporting working paper provided by the Accounting Specialist the issue was not addressed.

**Implication**

- Increases the risk of fraud may occur.
- Misappropriation of provincial fund.

Recommendation	Risk Rating	Executive Response
<p><b>Ensure payments raised are paid out from budgeted account codes.</b></p> <p><b>Ensure the Provincial Treasurer check the right</b></p>	Moderate	<p>The payments were made for legitimate and usual expenditures of the Province. However, it was unfortunate that those wrong codes were not sighted and corrected at the time when those payments were made. The GL as we all aware was manually fed with information from the cashbooks hence there is no warning or indicator message to warn when a transaction has an error of that sort. The challenges</p>

coding before payments are paid and released.		encountered with manual system as compared to electronic system are quite detrimental as the issue raised. The Province is expected to improve and eliminate this issue in the subsequent year now that MYOB is in place which greatly improves and enhances the role of review, reconciliation, monitoring, and reporting.
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## 2.4 Imprest

### 2.4.1 Incomplete imprest register

A manual imprest register was kept by Temotu Province however; audit noted that the register was incomplete. The following information were missing from the register: no imprest issue date, expected retirement date and the actual retirement date. An up to date imprest register will help responsible officer to monitor all imprests issued during the year.

#### Implication

- Overspending of budget.
- Inability to monitor the issue of imprests and issuing of multiple imprests.
- Imprest not retired within specified time.

Recommendation	Risk Rating	Executive Response
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### 2.4.2 Lack of temporary imprest control account in the general ledger

Audit noted that Temotu Province does not have an imprest control account code in the general ledger.

#### Implication

- Inability to monitor the issue of imprests and issuing of multiple imprests.
- Unable to enforce officers' accountability of their special Imprest.

Recommendation	Risk Rating	Executive Response
<b>Provincial Treasurer to open a temporary imprest control account in the general ledger.</b>  <b>Comply with the Financial Instruction 2018 section 2, subsection 9 (2) (1)</b>	High	<p>The Province acknowledges the issue raised. However, setting up of clearing account for such purpose could only competitive and effectively work well in an electronic system environment. The manual imprest book is being used to serve the purpose but has limitation.</p> <p>In addressing this matter, a clearing for all imprest payments have been created in the MYOB beginning in 2019/2020 when MYOB was re-introduced and implemented.</p>

## CHAPTER 9: WESTERN PROVINCE

### Audit opinion

The financial statements of the Western Province for the financial period ending 31 March 2019 received qualified audit opinion. The basis for the qualified audit opinion was based on the following issues of concern.

### Audit issues

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

The OAG found that the Provincial Government has adequate control over the management of its resources except for failing to consolidate its business arm's financial statements and retaining sufficient and appropriate evidence in relation to payroll. The Auditor General issued a qualified opinion in relation to these matters.

The process to manage and monitor procurement and payments, receipts, assets, bank accounts, payroll and imprests was adequate and complied with the requirements of the Financial Management Ordinance 2018 and Financial and Store Instructions 2018.

A summary of the main issues leading to the qualified opinion are disclosed in the table below.

Table 15: Western Province main audit issues

Audit issue category	Opinion impact	Audit issue
No consolidation financial statements	Qualified of opinion	Western Province Investment Corporation financial statements not consolidated
Insufficient supporting documentations	Qualified of opinion	No proper filing of employees' personal files
Prior year comparatives restated and inconsistent with notes	Qualified of opinion	Financial statements variances

The opinion also included a paragraph called Material Uncertainty Relating to Going Concern. This reflects the note in the financial statements regarding the uncertainties of the Provincial Government's funding from central government and other sources through 2021/22. As stated this paragraph does not alter the qualified opinion.

## 2.0 Audit findings and recommendations

### 2.1 Financial statements

#### 2.1.1 Western Province Investment Corporation (WPIC) FS not consolidated

Western Province Investment Corporation accounts has been audited but not consolidated into the Provincial Government Financial Statements. As such the Province continues to breach IPSAS 1.6.5 in its financial reporting.

As stipulated in the Accounting Reporting Standard, IPSAS 1.6.5; “A controlling entity should issue consolidated financial statements which consolidates all controlling entities, foreign and domestic.”

#### **Implication**

- Misstatement of the current financial statements.
- Mismanagement of WPIC by management.
- Lack of information on the performance and operational status of the investment arm.

Rating	Recommendation	Executive responses	OAG response
High	Ensure the financial statements of WPIC is audited and consolidated into the Provincial Financial Statements.	<ul style="list-style-type: none"><li>▪ Executive agrees with recommendation 1.</li><li>▪ Minister responsible explained that the matter is now being dealt with, with the recent audit of WPIC Financial Statements from 2011 to 2018.</li><li>▪ It has been forwarded to OAG for their perusal and appropriate categorization of opinion – clean, qualified, unqualified etc.</li><li>▪ Upon receipt of such opinion, consolidation of the Financial Statements will ensue with the appropriate advice of our technical people – PTR, Accounts Specialist etc.</li></ul>	OAG acknowledged response and will do follow-up audit during 2019/2020 Audit.

### 2.1.2 Financial statements variances

While tracing the General Ledger (GL) to Financial Statements for 2018/2019 financial year, audit noted the following variances. The following table details the variances noted.

Table 16: WP FS variances

No.	Description (FS items)	GL Amount	FS Amount	Variance
1	MWYCFA ( Receipts)	\$ 42,970	0	\$ 42,970
2	WPIC (Receipts)	\$ 77,650	0	\$ 77,650

These items even though not material lead to the misstatement of the financial statements. Management must therefore be aware of the impact to the bank account balances and opening balances for 2019/2020 financial statements.

In addition, the comparative figures for other operating expenses do not align with the prior year audited figures. The figures have been restated to ensure the financial statement adds correctly however no explanation has been disclosed. The audited figure for 2017/2018 is \$9,742,518 and the current prior year figure disclosure for 2018/2019 is \$9,587,868, a variance of \$154,650. In addition, the Note 11 figure is \$ 9,827,096, which is a further difference of \$239,228. There is therefore an unexplained difference in other operating expenses.

These misstatements have not been amended and remain unadjusted.

#### Implication

- High risk of information provided to executive for decision-making not accurate.
- Risk of accumulative impact to the opening balance for 2019/2020 FS and might lead to material impact.

Rating	Recommendation	Executive responses	OAG response
High	Review the unadjusted items and ensure to correct them in the 2019/2020 FS.	<i>WPIC \$77,650 is a liability account. This can be proved on the Trial Balance. As such it does not form part of the receipts and was not disclosed as receipts in the FS.</i>	<i>OAG knowledge responses and accept response for WPIC amount. Non-</i>

	<p>Properly review the final draft FS before submitting to OAG for audit to avoid such problem in the future. Also provide FS mapping along with the FS.</p>	<p><i>MWYCFA \$42,970 on the other-hand is a receipt/revenue account used to record receipts received from MWYCFA (Ministry of Women, Youth, Children and Family Affairs) to support WPG programs. The issue here is with posting of transactions; that is, the corresponding transaction was not posted in MWYCFA receipt general ledger. Only payment transaction was recorded in the MWYCFA GL while the receipt transaction was posted in another receipt GL account when it should be posted in the same account to offset the payment transaction. Reporting it as receipt in the FS will be a double entry and will overstate receipts. Proposed adjustment to correct the transaction should be made upon your advice.</i></p>	<p><i>adjustment for MWYCFA results in a non-material unadjusted misstatements.</i></p>
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## 2.2 Receipts

### 2.2.1 Lack of official receipts issue for Direct Deposit

Our testing found a number of incidences when no official receipts were issued for direct deposits. We understand these receipts are issued monthly as part of the reconciliation process, but that insufficient information is available for some suppliers to enable the receipt to be issued appropriately.

Section 5 subsection 7(2) of the Western Provincial Government Financial instruction and stores instructions.

*All provincial employees who collect revenue on behalf of the provincial government will give a receipt in the prescribed form to everyone who pays money to them.*

#### **Implication**

- Misstatement of receipt figure.
- Risk of not fully collecting the potential revenue of the province.

Rating	Recommendation	Executive responses	OAG response
High	Ensure establishment of communication and monitoring of payments of dues must be efficient to help comply with Section 5 subsection 7 (2) WPG Financial Instruction & Stores instructions.	<ul style="list-style-type: none"> <li>Executive agrees with recommendation.</li> <li>Revenue Officer/division need to step up its performance to ensure relevant financial provisions are met.</li> <li>Executive to instigate appropriate disciplinary action against revenue officer for under-par performance and on the basis of the audit report.</li> <li>HoD to assume stricter control on staff to ensure they carry out their duties and responsibilities.</li> <li>JDs of treasury staff to be designed and distributed to them so that they are clear on their roles and responsibilities. This is to avoid confusion as to who is supposed to be doing what.</li> </ul>	OAG acknowledged response and will do follow-up audit during 2019/2020 Audit.

### 2.2.2 Lack of daily completion of the Reviewer Form for Cash and Receipts before banking

Audit testing found that the daily cash collected by the Province was not verified by the supervisors such as PTR or DPTR before banking. It was observed that after collecting the revenue each day by the revenue officer the cashier deposits any receipts into bank accounts at 3pm. Whilst this shows timely banking of receipts, good practice is to ensure that the Reviewer Form is completed by the supervisor prior to banking.

#### Implication

- Risk of misstatement of disclosed receipt figure is high.
- Risk of not fully collecting the potential revenue of the province is high.

Rating	Recommendation	Executive responses	OAG response
High	Ensure a supervisor (DPTR/PTR) to do the final review and	<ul style="list-style-type: none"> <li>Executive agrees with recommendation 4.</li> </ul>	OAG acknowledged response and will do follow-up audit

	sign off before banking is done.	<ul style="list-style-type: none"> <li>▪ <i>PTR/DPTR to be instructed and without fail provide relevant oversight by signing relevant reviewer form as and when deposits are done.</i></li> </ul>	<i>during 2019/2020 Audit.</i>
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## 2.3 Payment

### 2.3.1 No proper filing of employees' personal files

Within our sample testing of payroll costs, we were unable to find 5 employee contracts to support Officers' employment and their rate of pay. As a result we have been unable to verify their salary or confirm their employment.

#### **Implication**

- Chances of paying ghost employees are high.
- Manipulation of calculation of payroll is high.

Rating	Recommendation	Executive responses	OAG response
<b>High</b>	<p>Properly file the personal files for all the employees both the direct and seconded employees.</p> <p>Every three months, reconciliation should be performed between the staff list held by the Payroll division and the payroll data held on the system. Reconciliation perform should include staff members (per division, staff names, staff pay grades etc. The reconciliation should be printed off,</p>	<ul style="list-style-type: none"> <li>▪ <i>Executive agrees with recommendation 5.</i></li> <li>▪ <i>Administration (PS/DPS) to instruct Register Clerk to ensure all employees, both direct and seconded, have updated personal files and appropriately stored for administrative purposes.</i></li> <li>▪ <i>Administration to instruct Registry Clerk and Wages/Payroll Clerk to liaise and organize orderly movement of files as and when required for payroll and/or administrative purposes.</i></li> <li>▪ <i>Administration to instruct Registry Clerk and Wages/Payroll Clerk to liaise and organize an appropriate schedule of such required reconciliation/audits of P/F files and the records of such</i></li> </ul>	<i>OAG acknowledged response and will do follow-up audit during 2019/2020 Audit.</i>

	signed to evidence performance and retained for audit purposes.	<i>audits/reconciliation to be properly filed and stored for audit purposes.</i> <ul style="list-style-type: none"> <li>▪ <i>Administration to facilitate appropriate technical assistance to strengthen Registry Division to ensure there is a proper filing and storage system.</i></li> </ul>	
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## 2.4 Imprest and advances

### 2.4.1 Incomplete imprest register book

The imprest register lacks important information such as the date at which the imprest should be retired and the actual date of the retirement.

#### **Implication**

Poor control over special imprests and advances increases the risk of misappropriation of funds, abuse, conflict of interest, budget over-run and misstatement of the financial statements.

Rating	Recommendation	Executive responses	OAG response
<b>Mod</b>	<p>Must strongly control the special imprest with strict instruction for proper planning and budgeting of trips to Honiara or when carrying out the official duties;</p> <p>Must ensure that staff advance is given for genuine purpose and can be recovered within that financial year;</p> <p>Must strongly pursue with Ministry of Finance and Treasury (MoFT) through MPGIS to recover the</p>	<p><i>Executive agrees with recommendation 6.</i></p> <p><i>The required monthly financial reports will provide evidence as to the implementation of recommendation 6 and the Executive will issue appropriate directives if it is not adhered to, to ensure the issue is dealt with satisfactorily.</i></p> <p><i>WPG Treasury Division, through PTR to be instructed to liaise with MPGIS/MoFT and recover unretired imprests and advances by seconded staff.</i></p> <p><i>Strict controls now in place as per WP Staff Instructions where only advances for immediate family</i></p>	<p><i>OAG acknowledged response and will do follow-up audit during 2019/2020 Audit.</i></p>

	<p>outstanding staff advances for seconded officers and;</p> <p>Must ensure to recover the outstanding staff advances of direct employees promptly.</p>	<p><i>deaths and illness/medical is approved. Such salary advance approvals are also subject to recovery within the current financial year.</i></p> <p><i>Deductions to direct employees with long standing unretired imprests is ongoing since beginning of 2019.</i></p>	
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#### 2.4.2 Issuing of multiple imprests

Multiple imprests issued or occurred for quite a number of provincial employees and assembly members. This is not in line with section 55 of the Provincial Financial Management Ordinances which requires that “no imprest may be advanced to a provincial employee or members of assembly with un-acquitted imprest”.

##### ***Implications***

The lack of proper management of imprests increases the risk of misappropriation of provincial funds, wastage of funds, conflict of interest, and potential loss of revenue through interest charges and misstatement of the financial statement.

Rating	Recommendation	Executive responses	OAG response
<b>High</b>	Ensure to comply with section 36 of PFMO 2018 and stop issuing of multiple imprests to officers and elected members with outstanding imprests.	<p><i>Executive agrees with recommendation 7. Responsible Treasury staff to be instructed to update imprest register regularly so that such information is readily available for appropriate decision making by administration.</i></p> <p><i>Executive to ensure elected members do not use political influence to pressure staff to facilitate additional imprests when they have unretired or standing imprests.</i></p>	<p><i>OAG acknowledged response and will do follow-up audit during 2019/2020 Audit.</i></p>

## 2.5 Accounts receivable

### 2.5.1 No accounts receivable register

No accounts receivable register was kept by the Revenue Officer or Provincial Treasurer and this is a breach of section 3 subsection 4(1-2)) of the Financial Instruction and Stores Instruction 2018. When no accounts receivable register is available, the Provincial Treasurer will be unable to update the Executive on the uncollected revenues.

#### ***Implication***

Potential revenue for the province is over looked, which could be used for the betterment of the province.

Rating	Recommendation	Executive responses	OAG response
High	Ensure that accounts receivable register be kept by the province to monitor or track uncollected revenue and;  Ensure to comply with section 3 subsection 4(1-2)) of the Financial Instruction & Stores Instruction 2018.	<i>Executive agrees with recommendation 8.</i>  <i>Revenue staff, through PTR to be instructed to keep a register of accounts receivable.</i>  <i>The recruitment of additional revenue staff for this year 2020/2020 should capacitate revenue division to undertake the task.</i>  <i>Administration to liaise with PTR and design JDs of treasury staff so that each officer understands his/her roles and responsibilities and be held accountable for non-performance.</i>	<i>OAG acknowledged response and will do follow-up audit during 2019/2020 Audit.</i>

## 2.6 Investment/ Business Arm (Western Provincial Investment Corporation)

### 2.6.1 WPIC operation is a potential breach of PFM Act 2013 and FMO 2018

OAG reviewed the business arm of the province (WPIC) and noted that the operation of WPIC by Western Provincial Government has not been approved by the Minister under the requirements of section 42 (2) of the Public Finance and Management Act 2013 and section

22 of the Financial Management Ordinance 2018. We understand that the Provincial Government's lawyers however do not share this interpretation and are of the view that WPIC was already in existence and are not covered by this requirement.

As a result we will seek the advice of the Attorney General to resolve the interpretation which should be applied in this situation and provide an update to the Provincial Government in the future.

## CHAPTER 10: HONIARA CITY COUNCIL

### **Audit opinion**

Disclaimer audit opinions were issued on the financial statements of the Honiara City Council (HCC) for the financial years ending 31 December 2015. The disclaimer audit opinion is attributed to the continued failure in the system of recording and controlling accounting transactions and insufficient audit evidence to support the financial transactions and accounts.

The Council did not comply with HCC Act 1999 which requires that audited financial statements were to be submitted to the Auditor-General no later than 3 months after the end of the financial year. The signed statements for the year 2015 were presented to the Auditor-General on 12 September 2018.

### **Audit issues**

The details of significant issues identified during the HCC audits are summarised below.

#### **Overall Conclusion**

Office of the Auditor General (OAG) concludes that there are a number of fundamental internal control failures that hinder the efficient operation of the Council, restrict its ability to safeguard its assets (including public monies) and undermine the reliability of financial and accounting information that should form the basis of preparation of the Council financial statements.

Key control failures include:

- a lack of controls to ensure that all revenues due to the Council are identified and collected;
- a lack of site visits and inspections by revenue field officers to ensure that payers for Council services have paid the full and correct amounts due;
- a failure to perform basic accounting controls such as bank reconciliations and MYOB system reconciliations on a timely basis;
- failures of authorisation controls, i.e. where senior officers are required to check and authorise transactions, but where the transaction has been authorised even though

the check has not been performed in accordance with HCC policy (imprest, advances, allowances);

- inadequate physical safeguards on Council property including valuable and desirable Council assets including cash, receipt books, fuel, vehicles and IT equipment;
- a lack of segregation of duties to reduce the risk of errors or misappropriation of assets;
- a general lack of documentation to evidence the operation of controls and frequent failure for senior officers to sign on standard HCC forms to show they have supervised, reviewed, checked or approved a transaction or process; and
- Compliance failures including non-compliance to financial ordinances and procurement regulations.

These control failures lead us to conclude that overall HCC management's internal controls used in the operations of the Council, its safeguarding of Council assets and the preparation of financial information that underlie the production of financial statements are **INEFFECTIVE** and require improvement.

Although numerous control failures have been identified and many are serious, we consider that HCC can improve its systems and controls in these areas with limited additional effort or resources, and as a result we have included what we consider to be practical and realistic recommendations in the following sections that address the system and control weaknesses that we have observed and documented.

### **Summary of audit issues**

The HCC has inadequate control over the management of its resources. The main issues identified leading to this conclusion are summarised in the table below.

**Table 17: HCC audit issues**

<u>No.</u>	<u>Summary of issues identified</u>	<u>Issue Type</u>	<u>Risk Rating</u>
1	Segregation of duties <ul style="list-style-type: none"> <li>receiving, receipting and recording collections and counter payments;</li> <li>performing the daily cash count;</li> <li>preparing a summary of daily receipts, and reconciling total receipts to the cash counted at the end of the day</li> <li>Deposits cash at the bank;</li> <li>Posting receipts to MYOB.</li> </ul>	Financial Statements impact	High
2	Audit review the bank confirmation and bank statement and noted that bank confirmation and bank statement not reconcile there is a variance of \$ 7,857.96 ( <i>Account balance on bank confirmation is \$40,313.50 and bank statement \$32,455.54</i> ).	Financial Statements impact	High
3	No regular (and prompt) bank reconciliation between bank statement and general ledger for all HCC bank accounts however audit noted that bank reconciliation was only performed annually.	Financial Statements impact	High
4	Seven (7) ANZ accounts were confirmed by the ANZ Bank that belongs to Honiara City Council but were not presented in the financial statements.	Financial Statement impact	High
5	The increase of debtors cannot be verified due to no proper filing therefore disclosed amount cannot be verified. The figure had been increasing by 14% from the prior year mostly from the staff debtors.	Financial Statement impact	High
6	The amount of \$1,021,524 disclosed maybe overstated by \$55,457.64 since the payment voucher sighted was on the 19/02/2015 to IRD for pay period February. However records and documentation of this particular line item cannot be accessed due to filing problem. Therefore disclosed amount is highly likely to be misstated as at 31 <sup>st</sup> December 2015.	Financial Statement impact	High
7	Due to no proper archiving of the payment files the total payments line items of \$28.6m could not be verified.	Financial Statement impact	High
8	Due to no proper archiving of the payment files the total capital expenditure of \$1.4m could not be verified.	Financial Statement impact	High

<b>9</b>	<ul style="list-style-type: none"> <li>• There was significant/material increase of the payment line items compared to the prior year. No explanation provided as to what caused the increase</li> <li>• The actual spending exceeded the budgeted amount total of \$2m, no supporting/approval document provided to support the over spending.</li> <li>• Question arises of where the revenue might come from to meet the over expenditure.</li> </ul>	Financial Statement impact	High
<b>10</b>	Once Requisition Forms have been approved by the City Clerk, they were then passed to the Expenditure Officer in the Finance Section who should check the amount of the payment with the available funds in the budget. However auditors noted that forms did not have any stamp or signature to prove that they had been checked against the funds available.	Recurring issue	High
<b>11</b>	No policy in place to control the number of hours an employee can work overtime. The 2015 overtime cost was \$2.5m while the prior year was \$1m. The significant increase by \$969,821 indicated lax control over the overtime work.	Recurring issue	High
<b>12</b>	Employees' files and records were missing therefore the payroll could not be verified. The post of human resource manager was removed.	Financial Statement impact	High
<b>13</b>	There was no regular reconciliation between the staff list and grades held by HR and the payroll system in MYOB. Reconciliation will provide assurance that the payroll accurately reflects the up to date staffing levels and details.	Financial statement impact	High
<b>14</b>	Reconciliation of the GL and the bank statement noted \$684,000 SIG grant in the GL on the 13/10/2015 but was not in the bank statement for the year 2015. No further explanation provided as to why it was not recorded in the bank statement.	Financial Statement impact	High
<b>15</b>	There were no supporting receipt documents for property and basic rates. The total actual misstatement noted on the selected sample was \$43,000. This is equivalent to a projected misstatement of \$2m for the entire population. 83% of the misstatement is due to missing receipts documents and 17% is due to variances between amounts in the receipts and the amounts in the general ledger.	Financial Statement impact	High
<b>16</b>	The total amount of misstatement noted on the selected sample for business and liquor license was \$84,000. This is equivalent to 47% of projected misstatement of \$3m of the	Financial Statement impact	High

	entire population of \$8.4m. There were no supporting documents for business and liquor license.		
<b>17</b>	The asset register did not reconcile with the general ledger balance. The necessary information was missing from the register: reference number, asset condition and custodian. There was an additional detailed asset registry document, but this was not consistent with the asset register. HCC has no asset management policy to address how and when to purchase, maintenance and disposal of assets.	Recurring issue	High
<b>18</b>	There are four (4) standalone MYOB systems. For each of the system they have their own users that had access to it. From observation there is a low level of literacy using the MYOB accounting. Therefore staff found it difficult to extract information from the MYOB Accounting and the posting errors will most likely to occur.	Financial Statement impact	High
<b>19</b>	No Fraud Policy has been established for HCC. City Clerk indicated that HCC officers are expected to inform him of frauds, but no written policy is in place or disseminated across HCC to all members and staff.	Recurring issue	High
<b>20</b>	No proper filing of minutes of executive meetings held during the 2015 financial year. Minutes were either had gone missing or not recorded at all, due to poor record keeping and weak control.	Financial Statement impact	moderate
		<b>High</b>	<b>19</b>
		<b>Moderate</b>	<b>1</b>
		<b>Low</b>	<b>0</b>
		<b>Total Issues</b>	<b>20</b>

## 2.0 Audit findings and recommendations

### 2.1 Cash

#### 2.1.1 Lack of segregation of duties

**Risk rating: High**

The following duties were performed by only one person.

- receiving, receipting and recording collections and counter payments;
- performing the daily cash count;
- preparing a summary of daily receipts, and reconciling total receipts to the cash counted at the end of the day ;

- Deposits cash at the bank;
- Posting receipts to MYOB.

#### **Implication**

- The lack of segregation of duties increases the risk of fraud and errors occurring.
- The lack of segregation of duties could lead to misappropriation of HCC funds and misstatement of the financial statements.

#### **Recommendation 1**

##### **HCC to:**

- Re-assign duties so that different HCC officers are responsible for different duties in the receipts cycle, including receiving, recording, reconciling and banking of receipts.

#### **Executive response**

*No Response done by Honiara City Council executives*

#### **2.1.2 Bank statement not reconcile with the bank confirmation**

**Risk rating: High**

Audit reviewed the bank confirmation and bank statement and noted that bank confirmation and bank statement did not reconcile as there was a variance of \$7,857.96 (*Account balance on bank confirmation is \$40,313.50 and bank statement \$32,455.54*).

#### **Implication**

- The lack of performing bank reconciliation on monthly basis and review of the bank reconciliation by a second officer increases the risk of fraud and errors occurring and not being detected within a timely basis.
- The lack of review of the bank reconciliation could increase the likelihood of misappropriation of HCC funds and material misstatement of the financial statements.
- Significant risk of budget overrun.
- Management unable to manage cash effectively.
- High risk of cash not available when needed.

#### **Recommendation 2**

##### **HCC ensure:**

- Bank reconciliations should be performed within a week of month end, and any reconciling items explained to the satisfaction of a supervisory reviewer who evidences their review of the reconciliation.
- Bank reconciliations must become a management report monitoring item to ensure this task continues to be prioritised and is continuously monitored by senior management.

#### **Executive response**

*No response done by Honiara City Council executive.*

#### **2.1.3 No monthly reconciliation**

**Risk rating: High**

No regular (and prompt) bank reconciliation was performed between bank statement and general ledger for all HCC bank accounts. Audit noted that bank reconciliation was only performed annually.

#### **Implication**

There is high risk that the cash balance is materially misstated which will result in receipt of a disclaimer or qualified audit opinion being issued. There were high chances of theft and misappropriation of the organization cash. Furthermore, the non-preparation of the bank reconciliation is a breach of the SIG Financial Instructions/Grant Agreement.

#### **Recommendation 3**

##### **HCC ensure:**

- Perform monthly bank reconciliation.
- Ensure bank reconciliations are signed off by the preparer and reviewer. With supporting document attached such as original bank statement, general ledger account balance, list of unpresented cheques, list of outstanding deposits and any other adjusting items.
- Adequate training to be provided to existing finance officer on bank reconciliation.
- Ensure instructions are available to officers as it is the requirement to perform bank reconciliation.

#### **Executive response**

*No response done by Honiara City Council executive.*

#### **2.1.4 ANZ bank accounts not disclosed in the financial statement**

**Risk rating: High**

The ANZ Bank confirmed holding seven (7) ANZ bank accounts for the Honiara City Council. The HCC failed to include the balances of these bank accounts in the financial statements of the council. The total value of these accounts was \$1,557,784.03.

### Implication

- Increases the risk of misleading information to users.
- Misappropriation of HCC funds.
- Fraud and loss of funds.
- Cash and bank balances are not under the ownership and control of the entity.
- Misstatement of the financial statements.

### Recommendation 4

#### HCC

Cash and bank balances represent actual assets for the entity therefore it should be disclosed accordingly at the year end. However if it is not the rights and obligations of the entity regarding the accounts confirmed by the bank then management should plainly communicate with the bank that it is not entity's responsibility over the accounts but other authorities.

### Executive response

*No response done by Honiara City Council executive.*

## 2.2 Accounts receivable

### 2.2.1 Accumulation of advances and unrecovered debts

**Risk rating: High**

The increase of debtors as disclosed could not be verified due to poor filing. The total debt presented in the financial statement increased by 14% from \$2.6 million in 2014 to \$2.9 million in 2015. The debt was mostly councillors and staff advances.

### Implication

- Increases the risk of misleading information to users.
- Misappropriation of HCC funds, conflict of interest, fraud, loss of funds.
- Unrecovered amount accumulating to uncontrollable level.
- Misstatement of the financial statements.

### Recommendation 5

#### HCC ensure

- Perform regular reconciliation to determine outstanding balances that require follow up;
- Reminders or demand notes are sent to debtors on a regular (at least monthly) basis;

- Enforces its policy not to approve further staff loans to members of staff until existing loans are fully recovered;
- Establish reasonable limits to staff loans based upon their salary levels; and
- Establish standing deduction data with HR and Payroll to ensure that all recoveries are applied.

#### **Executive response**

*No Response done by Honiara City Council executive.*

## **2.3 ACCOUNTS PAYABLE**

### **2.3.1 Discrepancies in the PAYE tax control account disclosed figures**

**Risk rating: High**

The amount of \$1,021,524 disclosed could be overstated by \$55,457.64 since the payment voucher for this amount was already paid to IRD for pay period February. However the original records and documentation of this particular line item was not available for verification due to filing problem. The disclosed payable amount was highly likely to be misstated as at 31<sup>st</sup> December 2015.

#### **Implication**

Increases the risk of obligations not met, payments made to ghost suppliers, loss of HCC funds, budget over-run and misleading information for critical management decisions.

#### **Recommendation 6**

##### **HCC**

- Must always comply with the Government Records Management Policy;
- Ensure to maintain a payable register and perform reconciliation with the GL on monthly basis;
- Ensure that the responsible officer must understand his/her duties under Part X of PFMO 2008, and
- Register to be made available at all times for audit purposes.

#### **Executive response**

*No response done by Honiara City Council executive.*

## **2.4 Payments**

### **2.4.1 Recurrent expenditure – no proper filing**

**Risk rating: High**

Due to no proper filing and storage of the payment voucher arch-files, most of the PV's were not in order or sequence. Therefore vouching could not be done as per the audit procedure. Total payments value at \$28.6 million could not be verified due to missing payment vouchers.

#### **Implication**

- Lack of accountability and transparency.
- Risk of misappropriation and fraudulent activities.
- OAG is unable to have reasonable assurance over the payments.
- Misstatement of financial statements.

#### **Recommendation 7**

##### **HCC**

- Ensure to properly file the payment vouchers in sequence in the folders and store in a secure location;
- Must always comply with the Government Records Management Policy; and
- Ensure to always provide the documents for audit when request is made.

#### **Executive response**

***No response done by Honiara City Council executive.***

#### **2.4.2 Capital expenditure – lack supporting documentation**

**Risk rating: High**

Payment vouchers could not be found for the payment of the vehicles due to no proper archiving of the payment files. Therefore the total capital expenditure \$1,418,693 could not be verified.

#### **Implication**

- The legitimacy of expenditure is unsubstantiated as there are insufficient documents such as requisition vouchers.
- Unable to form an opinion on the accuracy, completeness and validity of the expenditures.
- Misstatement of the financial statements.

#### **Recommendation 8**

##### **HCC**

- Ensure to properly file the payment vouchers in the folder and store in a secure location;

- To create a register for PVs so that PVs which were removed by other authorities are easily located.
- Must always comply with the Government Records Management Policy; and
- Ensure to always provide the documents for audit when request is made.

#### **Executive response**

*No response done by Honiara City Council executive.*

#### **2.4.3 Recurrent expenditures – discrepancies on the comparisons on current actual, budget and prior year figures.**

**Risk rating: High**

By analysing and performing comparison on the figures disclosed on the financial statements these are the following issues noted;

- There was significant increase of the payment line items compared to the prior year. No explanation was provided as to what caused the increase.
- The actual spending exceeded the budgeted amount by \$2 million, no supporting documents were provided to support payments.
- The revenue source to meet the overspending could not be ascertained.

Audit could not verify the payments due to the poor state of filing system in the HCC treasury section.

#### **Implication**

- Uncontrollable spending and non-compliance to payment process increases the risk of fraud, misconduct, abuse, misappropriation of provincial funds and conflict of interest.
- Auditor General will not be able to express an audit opinion on the Statement of Receipts and Payments.

#### **Recommendation 9**

##### **HCC**

- Comply with the payment policy and check adequacy of remaining budget before payments are approved, and that this check is clearly evidenced.
- Take into account the historical records (prior year figures) of payments and also the actual figure while drawing up budget for the expenditure budget heads.
- HCC need to manage revenue (including a cash flow) which is derived from the strategic plan and budget and linked to the institution's service delivery objectives.

**Executive response**

*No response done by Honiara City Council executive.*

**2.4.4 Inadequate checking of budgetary capacity in expenditure process**

**Risk rating: High**

Once Requisition Forms have been approved by the City Clerk, they are then passed to the Expenditure Officer in the Finance Section who should check the amount of the payment with the available funds in the budget. However auditors noted that forms did not have any stamp or signature to confirm that they had been checked against the balance available on the Budget.

**Implication**

If payments are made without sufficient budget then HCC could overspend its budget. Such overspends were noted to have occurred repeatedly in previous year figures published in the budget estimates provided to auditors.

**Recommendation 10**

HCC must comply with its payment policy and confirm adequacy of remaining budget before payments are approved, and that this check is clearly evidenced.

**Executive response**

*No Response done by Honiara City Council executive.*

**2.5 Salary and wages****2.5.1 Excess overtime payments**

**Risk rating: High**

During an interview with the Payroll officer audit noted that there was no policy in place to regulate the number of hours an employee could work overtime. The prior year overtime cost was \$1 million while the current year amount was \$2.5 million, an increase of \$968,821.

**Implication**

Errors in overtime processes are undetected and are not investigated and corrected on a timely basis. Payroll payments may be inaccurate or overstated since the control over overtime is weak.

## Recommendation 11

### HCC:

- All overtime claims are subject to preapproval by the Heads of Division, and the City Clerk checks the claims against HCC policy and limits, and that the justification for overtime is valid before approving
- Develop detailed overtime budgets for each division based upon their typical operational hours.

### Executive response

*No response done by Honiara City Council executive.*

## 2.5.2 Employees files/ record missing

**Risk rating: High**

Employees' files and records were not available for audit verification. The human resource manager was removed which seemed to contribute to the missing files for most employees.

### Implication

Errors in payroll/staff list can go undetected and are not investigated and corrected on a timely basis. Payroll payments may be inaccurate if recent changes in the HR records are not communicated to the payroll officer.

## Recommendation 12

### HCC

- Develop detailed overtime budgets for each division based upon their typical operational hours.
- Rebuild personal files for all officers of the council.

### Executive response

*No response done by Honiara City Council executive.*

## 2.5.3 Lack of reconciliation between HR and payroll records

**Risk rating: High**

There is no regular reconciliation performed between the staff list and grades held by HR and the payroll system reflected in MYOB. Such a reconciliation exercise will provide HCC with assurance that the payroll run accurately reflects the up to date staffing levels and details.

### Implication

Errors in payroll/staff list can go undetected and are not investigated and corrected on a timely basis. Payroll payments may be inaccurate if recent changes in the HR records are not communicated to the payroll officer.

#### **Recommendation 13**

##### **HCC**

Reconciliation should be performed between the staff list held by the Human resources division and the payroll data held on MYOB at least every three months. Reconciliation should include staff members (per division, staff names, staff pay grades etc.). The reconciliation should be retained for audit purposes.

##### **Executive response**

*No response done by Honiara City Council executive.*

## **2.6 Receipts**

### **2.6.1 Grants and aid – \$684,000 not in the bank account**

**Risk rating: High**

Reconciliation performed between the GL and the bank statement detected an amount of \$684,000 appeared as SIG grant in the GL on the 13/10/2015 but did not appear in the bank statement for the year 2015. No further explanation was provided as to why it was not recorded deposited in the bank account of HCC.

##### **Implication**

Increases the risk that the HCC could lose huge amount of revenue due to not depositing or transferring of fund through bank account and has no record available to prove that funds been transferred by SIG.

#### **Recommendation 14**

##### **HCC**

Perform monthly review by management on finance reports and revenue collections and unexplained significant figures.

##### **Executive response**

*No response done by Honiara City Council executive.*

### **2.6.2 Misstatement in property and basic rates revenue**

**Risk rating: High**

There were no supporting documents for property and basic rates revenue. The total actual misstatement noted on the selected sample was \$43,229.39. This is equivalent to a projected misstatement of \$2,096,389.85 for the entire population. 83% of the misstatement was due to missing receipts and 17% was due to mismatch between amounts in the receipts and the amounts in the general ledger.

**Implication**

- Loss of revenue by the HCC.
- Auditor General will not be able to express an audit opinion on the Statement of Receipts and Payments.

**Recommendation 15**

**HCC:**

Properly filing of all vouchers should be done by respective divisions or department.  
All source documents should be provided to auditor upon request for verification.

**Executive response**

*No response done by Honiara City Council executive.*

**2.6.3 Misstatements of business and liquor licences receipts**

**Risk rating: High**

The total amount of misstatement noted on the selected sample was \$84,597.59. This is equivalent to 47% of projected misstatement of \$3 million of the entire population of \$8,421,165.07. Basically because of there were no supporting documents for business and liquor licence revenue.

**Implication**

- High risk of misstatement of amount of licenses in FS
- OAG place no reliance on the amount presented in FS for licenses.

**Recommendation 16**

**HCC**

Properly filing of all vouchers should be done by respective divisions or department.  
All source documents should be provided to auditor upon request for verification.

**Executive response**

*No response done by Honiara City Council executive.*

## **2.7 Property, plant and equipment**

### **2.7.1 Incomplete asset register**

**Risk rating: High**

The asset register did not reconcile with the general ledger balance. It also did not include description of each asset such as: asset ID, asset condition and the custodian of the asset. There was an additional detailed asset registry document, but this was not consistent with the asset register. HCC also could not provide auditors with an asset management policy relating to decisions on how and when to purchase, maintain and dispose of assets.

#### **Implication**

- The lack of such a register and asset management procedures prevents HCC from making appropriate management decisions in monitoring, maintaining and disposal of assets in line with relevant regulations and guidelines, and makes tracing of HCC assets difficult.
- The lack of an asset register also increases the risk of misuse, loss and theft of assets. It also increases the risk that assets are not well maintained and not contributing effectively to HCC activities.

Without effective monitoring, HCC cannot be certain that Divisions have established asset registers as instructed. These Divisions are at the risk of asset loss, misuse or theft.

#### **Recommendation 17**

##### **HCC**

- Establishes an up to date asset register of all assets owned by HCC including details such as the asset name, number, and brief description, date of purchase, cost, location, condition and the officer responsible for safeguarding the asset.
- The register is reviewed and updated regularly to ensure it reflects all HCC asset additions and disposals. A regular physical verification exercise should be carried out to ensure the register is up to date.
- Assets should be tagged so they can be individually traced to and from the register.
- All significant assets should be assigned to specific HCC officers who are made responsible for maintaining them and ensuring their safety.
- HCC Administration led by example in establishing an asset register and disseminate the structure of the register to asset-holding divisions to encourage them to adopt asset

registers. HCC should also establish a monitoring regime with periodic visits to divisions to confirm that they are maintaining their asset registers properly.

**Executive response**

*No response done by Honiara City Council executive.*

**2.8 Financial information system**

**2.8.1 No integration of various MYOB software modules**

**Risk rating: High**

According to the discussion with the accountant (DTR) and the payroll officer, the four (4) databases: payroll, property rate, business license and basic rate were managed separately on four (4) standalone MYOB systems. For each of the system they have their own users that had access to it. From observation there was low level of staff literacy regarding the usage of the MYOB accounting software. The staff found it difficult to extract information from the MYOB Accounting system and the posting errors were most likely to occur on a daily basis.

**Implication**

There is a high risk that wrong posting and manipulation of information that a single individual having unique access without supervision and obscure inappropriate activities.

**Recommendation 18**

**HCC ensure:"**

- The treasurer should have the access to the MYOB system and to all the modules to ensure that whenever the Deputy Treasurer or another user is away he can have access to the data without the need to get the specific user to access the system.
- Monitor and review accounting entries and postings at supervisory level.

**Executive response**

*No response done by Honiara City Council executive.*

**2.9 HCC executive**

**2.9.1 No fraud policy**

**Risk rating: High**

No Fraud Policy has been established for HCC. City Clerk indicated that HCC officers are expected to inform him of frauds, but no written policy is in place or disseminated across HCC to all members and staff.

**Implication**

Lack of awareness of fraud issues, indicators of fraud and procedures to be taken in the event of fraud across HCC. This is particularly relevant to HCC given that fraudulent incidents have occurred recently, committed by HCC officers.

**Recommendation 19**

HCC develop a fraud policy based upon international best practice and that this policy is approved by council, signed by HCC management and disseminated to HCC officers at all HCC sites. This policy should also be made publicly available.

**Executive response**

*No response done by Honiara City Council executive.*

**2.9.2 Not all executive minutes available**

**Risk rating: Moderate**

There was no proper filing of minutes of executive meetings held during the 2015 financial year. Minutes were either missing or not recorded at all, due to poor record keeping and weak control.

**Implication**

The level of transparency over executive decisions made is reduced. Risk that executive decisions may not be implemented, or in accordance with the HCC ordinance.

**Recommendation 20****HCC**

- Must ensure minutes are taken during meetings;
- Ensure all executive minutes and all supporting agenda papers are filed in a secure location.
- Ensure chairman and secretary sign all minutes of the meetings so that they are true and correct records of such meetings.

**Executive response**

*No response done by Honiara City Council executive.*

## 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 statements certified by 31 March as prescribed by the HCC 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

CP	Central Province
CHP	Choiseul Province
GDA	Guadalcanal Development Authority
GL	General Ledger
GP	Guadalcanal Province
HCC	Honiara City Council
IIC	Isabel Investment Corporation
IP	Isabel Province
IPG	Isabel Provincial Government
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards for Supreme Audit Institutions
IT	Information Technology
MUP	Makira Ulawa Province
MP	Malaita Province
MPA	Member(s) of Provincial Assembly
MUPIC	Makira Ulawa Province Investment Corporation
MUPICO	Makira Ulawa Province Investment Corporation Ordinance
OAG	Office of the Auditor-General
PCDF	Provincial Capacity Development Fund
PEO	Provincial Enterprise Ordinance
PFMO	Provincial Financial Management Ordinance
PGA	Provincial Government Assembly
PV	Payment Voucher(s)
RBDA	Rennell Bellona Development Authority
RBP	Rennell Bellona Province
TDA	Temotu Development Authority
TP	Temotu Province
WDG	Ward Development Grant
WP	Western Province
WPG	Western Provincial Government
WPIC	Western Province Investment Corporation