



SOLOMON ISLANDS GOVERNMENT

**REPORT ON MATTERS ARISING
FROM FINANCIAL STATEMENT
AUDIT**

Temotu Provincial Government

01.10.2013 – 31.03.2014

Reported by:

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EXECUTIVE OVERVIEW

Background

The Temotu Provincial Government has submitted its financial statements for the financial year ended 31st March 2014 to this Office on 26 September 2014 as required under s.39(2) of the Provincial Government Act 1997.

OAG acknowledges the continued cooperation by the Provincial Government in providing the Financial Statement as required in a timely manner.

Temotu Provincial Government is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the Provincial Government Act 1997 and the devolution order.

An audit pursuant to s.108(3) of the Constitution, s.35(1) of the Public Finance and Audit Act 1978 and s.39(3) of the Provincial Government Act 1997 was conducted on the Temotu Provincial Government accounts and records in order to form an opinion on the financial and accounting systems of the Provincial Government.

Audit Objectives and Scope

The principal audit objective was to review the adequacy of processes for the financial management, accounting and reporting controls managed by the Temotu Provincial Government in terms of compliance with the relevant statutes governing such processes, as well as in order to form an opinion on the reliability of the accounting information incorporated into the financial statement for the year ended 31 March 2014.

This report focuses on the findings arising from the review of financial management processes being practiced by the Temotu Provincial Government as at 1 October 2013 to 31 March 2014.

Findings

The audit identified that the Temotu Provincial Government has made slight improvement over its record keeping of expenditures and revenue for the 2013/14 financial year. However, there a major reforms over its financial management, accounting or reporting controls, particularly in relation to its revenue, assets and liabilities; as well as continued efforts to improve its expenditure controls, need to be implemented, In addition, all investments and assets are encourage to be taken up in the financial statements.
As for the financial reporting, the overall presentation of the financial statements is materially correct to IPSAS and OAG acknowledges the improvement in the financial statement presentation as required by the Provincial Government Act 1997.

A summary of these audit issues identified is described below.

Table 1 below lists the risk ratings that have been assigned to each audit finding to help identify which audit observations should be given priority:

Table 1 - Risk Ratings

Risk Rating	Description
High	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Matters of a procedural or administrative nature which could improve the efficiency or effectiveness of entity level, systemic or transactional processes.

- **Lack of appropriate policies and procedures**

Risk Rating: Moderate

It was noted during the audit that Temotu Provincial Government needs to establish some proper policies and procedures in the back up of MYOB data, appointment and termination of employees, receipting and banking of revenue, payment approval and asset management plan. This deficiency increases the risk of maladministration, unresolved disputes, low customer services and low performance.

- **Lack of independent review over general ledger reconciliations**

Risk Rating: Moderate

OAG found that internal control weakness in the review over general ledger reconciliation continue to exist for the 2013/14 financial year despite of the improvement in the filing system. Lack of proper review over the GL reconciliation increases the risk of unreliable reporting that could leads to undesirable decision being made by the users.

- **Unaccounted debtors/receivables**

Risk Rating: Low

It was discovered that no debtors listing was available to verify the outstanding balance as at the end of the financial year even though there is evidence that debtors do exist for the audited period. The failure

to properly maintain the debtors listing increases the risk of loss of revenue and misstatement of the financial statement.

- **Unconsolidated Temotu Development Authority (TDA) financial statement**

Risk Rating: High

OAG identified that Temotu Development Authority (TDA) is the investment arm of the Provincial Government that manages all investment activities. TDA has its own financial statement however, it was not consolidated into the Provincial Government's financial statement to truly reflect the investment of the province. The failure to consolidate TDA's financial statement increases the risk of unreliable reporting, understatement of the investment balance, mismanagement, loss of dividend payout and political expediency.

- **Poor control procedure over WDG**

Risk Rating: Moderate

It was found that there is weak control in place over the disbursement of ward development grants for the audited period. In addition, no proper guideline is in place for treasury staff to follow or a minimum requirement for accessing this fund by the MPAs. This deficiency increases the risk of loss or misuse of funds and high possibility of fraudulent activities occurring.

- **Imprest not retired on timely basis**

Risk Rating: Moderate

It was noted that unretired imprests as at 31 March 2014 is \$382,075.00 which indicates that the imprest holders are not retiring their imprests in a timely basis. Furthermore, the Provincial Government is not effectively applying section 56 (2) and (5) to recovery the outstanding imprests through salary deductions. Failure to retire the imprests on timely basis increases the risk of loss of funds, inability to monitor the imprests and unaccountability by the imprest holders.

- **PPE not recorded correctly**

Risk Rating: High

OAG noted that asset reporting is limited to cash and bank account balances only. It was found that the Provincial Government does not maintain an asset register or have any asset management policy in place to decide how and when to procure, maintain and dispose of assets. In addition, properties like buildings and land are not recorded or valued under its current accounting procedures. Lack of proper recording of assets increases the risk of misuse, loss and theft of assets, less assurance on the existence of assets and depreciation maybe materially misstated.

Conclusion

The audit of the Temotu Provincial Government's accounts and records disclosed similar shortcomings in the procedures and practices as well as deficiencies in internal controls in the management of receivables, ward development grants, imprest, bank accounts, investment and assets as highlighted in the 2012 audit report. However, it was pleasing to note that improvements were made in the filing system for payments.

OAG acknowledges that Temotu Provincial Government has been continually addressing the recommendations highlighted in the 2012/13 audit reports. Some improvements were made on the maintenance of proper filing system for payment voucher records. Despite these improvements, the absence of significant information on line items such as investments and assets understates these line items on the financial statements which can leads to misstatement in financial reports used for decision making over the allocation of limited financial resources.

Overall Recommendations

OAG's key recommendations for Temotu Provincial Government are as follows:

- Make sure that consolidation of the investment be made to ensure that a true and fair view of the investment balance is depicted in the financial statement. Consultations must be made to ensure correct advice are taken and adopted;
- Ensure all unit costs for assets to be updated to reflect the correct purchase price;
- Established an asset register of all assets owned by the Provincial Government including details such as the asset name, number, a brief description, date of purchase, location and depreciation rate;
- Must ensure a regular asset stock take to be performed over all assets of the Provincial Government to ensure existence, condition and value of value recorded;
- Established procedures for capturing all assets including the acquisition or construction of buildings and other structures in its accounts and asset register and;
- Ensure the asset register be reconciled to the general ledger account balances on at least a monthly basis. There should be segregation of duties in place over the preparation and review of the reconciliation.

OAG has made a number of other important recommendations and it is imperative that these are considered and implemented by management.

AUDIT FINDINGS AND RECOMMENDATIONS

1.0 GENERAL GOVERNANCE ISSUES

1.1 Lack of appropriate policies and procedures

Risk Rating: Moderate

OAG noted that Temotu Provincial Government (TPG) needs to put in place some policies and procedures for, backing up of MYOB data and its risks, appointment and termination of employees, cash receipting and banking, payment approvals (e.g. financial delegation policy) and asset management plan including asset recognition threshold, purchase and disposals.

Implications

Policies and procedures to be in place to ensure that duties and services are performed in a consistent manner. If there is no policy and procedures in place;

- TPG Employees may not understand what is expected of them.
- Disputes may not be resolved by determining whether or not policies and procedures have been followed.
- Province may not receive a consistent level of service that may increase customer satisfaction.
- There is no proof that TPG has strict performance requirements for employees.

Recommendation 1

OAG recommended that the Province Government:

- Ensure that there are policies and procedures in place to safeguard its operations and protect the image of the organisation.

Executive Response

The management has taken note of the OAG's concern on this issue. The same issue has also been raised in the previous reports and the action taken in response to that concern, that management have work on some policies and procedures to be in place.

- 1. We will ensure through policies that all MYOB data is back up*
- 2. We ensure that assessment management plan and asset registerer is formulate*

Currently we have the following policies might not been access by the audit team during the audit period:

- 1. We already have in place terms and condition of employment that is in force since 2010*
- 2. We also have a Financial Management Ordinance (FMO) 2008 we follow when it comes into receipting and banking of revenue.*
- 3. Also specified in the FMO(2008) that accountable officers are the Provincial Secretary/Deputy Provincial Secretary in the absence of the Provincial Secretary and Provincial Treasurer and in the absence the deputy provincial Treasurer;*

We will ensure these documents are provided to them the next round they come.

2.0 GENERAL LEDGER RECONCILIATION**2.1 Lack of independent review over general ledger reconciliations****Risk Rating: Moderate**

OAG acknowledges that Temotu Provincial Government did put in place a filing system, however internal control deficiencies noted during the 2013/14 audit was that general ledger account reconciliations had not been prepared on a monthly basis.

Implications

Over or understatement of balances in the general ledger and the financial statements. By not reviewing general ledger reconciliations on a monthly basis management has less assurance that the reported balances in the finance report are reliable and cannot be used to make informed business decisions.

Recommendation 2

OAG recommended that the Province Government:

- Ensure that monthly account reconciliations should be signed off as reviewed by a person independent of the preparer and;
- Must ensure a checklist should be prepared and signed off by the management each month to ensure that each balance sheet general ledger account has been reconciled and reconciliation have appropriate supporting documentation attached and that all balance sheets are reconciled.

Executive Response

The management took note of the OAG's concern and has taken measures to rectify the situation.

- 1. That monthly reconciliation of general ledgers and subsidiary ledgers to be done by MYOB officer.*
- 2. The Provincial Treasurer and MYOB Officer have to be they signed the reconciliation.*

3.0 ACCOUNTS RECEIVABLES

3.1 Unaccounted debtors/receivables

Risk Rating: Low

The audit discovered that trade debtors/receivables for the audited period has an outstanding balance that needs to be monitored. The Provincial Government needs to have proper listing of its debtors/receivables. No listing was actually maintained and updated and given to audit for audit verification purposes when called for. OAG acknowledges the new treasurer's supervision on the uncounted debtor's listings for next financial year.

Implications

Failure to maintain a proper debtors listing increases the risk of loss and the 2013/14 financial statement may be misleading.

Recommendation 3

OAG recommended that the Province Government:

- Management to ensure that all debtors' listing is updated to show the total outstanding figure on a periodic basis for reporting and for financial disclosure.

Executive Response

The management agreed with the findings of OAG.

- 1. The Revenue officer through the Provincial Treasurer take note of that, he will be update the revenue register and the debtors listing purposely for reporting and financial disclosed.*
- 2. The officer in fact from the previous audit been notified of the issue but seems not been taken note of the advice, the final advice will be given along with proper coaching and refresh training*
- 3. If the propose remedy is not work well for the interest of the financial management requirement and reporting we might end up with reshuffled of officer within Treasury divisions.*

4.0 INVESTMENTS

4.1 Unconsolidated Temotu Development Authority (TDA) financial statement

Risk Rating: High

It was noted that all the investment activities of the provincial government were managed by the Temotu Development Authority (TDA). TDA has its own financial statement that was not consolidated with the provincial government financial statement. Audit identified that it needs to be consolidated in the financial statement.

Implications

Non consolidation of the investments of the province in the financial statement undermines the reporting requirements of IPSAS. It also shows untrue picture of no investments because none were disclosed in the financial statement when there are investments being operated under the TDA and reported in their financial statement. Its non-disclosure in the financial statement understates the investments balance. As a result of the lack of record keeping over revenue and receipts for this controlled entity, this will result in a qualification within the independent audit opinion because Audit is unable to verify the completeness and accuracy of this investment in the consolidated financial statements of the Provincial Government.

Recommendation 4

OAG highly recommended that the Province Government:

- Make sure that consolidation of the investment be made to ensure that a true and fair view of the investment balance is depicted in the financial statement. Consultations must be made to ensure correct advice are taken and adopted.

Executive Response

The Management took note of the concern by OAG. The Management is addressing the issue since in the last executive meeting by firstly;

- 1. To recruit one Accountant Officer and One General Manager that will help to address the issued face with the investment entities. These officers will help to prepare their financial statements for amalgamation and disclosure in the province's financial statements.*
- 2. A new Board of Management will be appointed by the executive to oversee the operation of the Authority.*
- 3. The executive government is also looking at review the current TDA ordinance to effectively address the current issue at hand.*

5.0 WARD DEVELOPMENT GRANT

5.1 Poor control procedure over WDG

Risk Rating: Moderate

OAG noted that, there was no control in place over payment of ward development grants (WDG). OAG further noted that there is no guide line in place for treasury team to follow or a minimum requirement for accessing this fund.

Payments	Total FS Balance	Total sample selected	Total amount not supported
Ward Development Grant	\$255,000-00	\$125,000-00	\$125,000-00
Total	\$255,000-00	\$125,000-00	\$125,000-00

The tested samples were without approval or minimum conditions to guide the disbursement of the fund. There were no proper approvals in place, and without supporting documents to substantiate the payments.

Implications

There is an increased risk of loss or misuse of moneys where ward development grants did not have sufficient supporting documents to justify the payments made, thus, exposing the Provincial Government for fraudulent activities.

Recommendation 5

OAG recommended that the Province Government:

- Put in place a minimum requirement for WDG;
- Ensure that provincial management is to comply with payment procedures and regulations;
- Ensure WDG plans are attached to applications;
- Ensure the Premier and Provincial Secretary to monitor the movements of the WDG when disbursed and when accounted for and;
- Make sure ward committees to give reports on the usage of this fund to accounts department on timely basis.

Executive Response

The management agrees with OAG's findings and have taking into account

1. *That the Management have already put in place a ward development committee and the Ward Development Grant policy.*

2. *As a requirement under the Ministry of Provincial Government last year 2014, this year 2015/2016 all application form will be attached with Annual Development Plan (can be verify with the office of the chief Planning officer).*
3. *The office the Speaker, Provincial Secretary Treasurer and the ward committee were responsible and report to the Executive through Ward Development Grant committee reports.*
4. *The issue of ward development committee is still yet to sort out as we have a lot of committees. We have RDP ward committee, MP ward Committee and MPA ward committee these institutional set still experience difficulties when it comes into final implementation. This issue will take time and we are still looking for an avenue how these stakeholders (MP, RDP and MPA) can work together to reduce cost.*

6.0 SPECIAL IMPREST

6.1 Imprest not retired on timely basis

Risk Rating: Moderate

The Financial Ordinance 2008 (FMO) 53(1) stipulates special imprests to be retired when the purpose for the imprest has finished. It provides FMO 56 (1) for purpose of recovery of the outstanding imprest if the imprest is not retired within the required period. FMO 56(2) and (5) describes the necessary action to recover the moneys from the imprest holder. However, OAG noted from note 19 of the financial statement that a total of \$382,075.00 was unretired as at 31 March 2014 and OAG is unable to verify whether recovery action has been taken against the imprest holders.

Implications

Lack of proper consultation with imprest holders leads to an inability to monitor the issue of imprests and to enforce officers' accountability of imprests that can leads to loss of provincial funds.

Recommendation 6

OAG recommended that the Province Government:

- To take necessary actions to recover the overdue unretired imprests from imprest holders and;
- Ensure to regularly monitor the special imprests for unretired imprests.

Executive Response

The management agrees with OAG's findings on the break-down in the procedures in issuing and retirement of imprests:

1. *All imprest holders have been reminded that imprests not retired will be recovered from their salary/wages.*
2. *The management will ensure that the procedure for the issue and retirement of imprests are complied with.*
3. *The imprest issue has been a pressing one and all along we have tried to put a stop to that if officer have outstanding imprest they will not allowed to take any more imprest unless retirement are made.*
4. *Also salary deductions have been made from the officers and the Honourable members to recover the outstanding imprest.*

7.0 PROPERTY, PLANT & EQUIPMENT

7.1 PPE not recorded correctly

Risk Rating: High

Asset reporting has been limited to cash and bank account balances. The Provincial Government does not maintain an asset register or have in place an asset policy and management threshold to decide how and when to purchase, maintain and dispose of assets. Audit noted that the Provincial Government asset listing does not have the details of all the assets, neither the current asset-values. These factors understate the assets and prevent the Provincial Government from making appropriate management decisions in monitoring, maintenance and disposal of assets in line with relevant regulations and guidelines.

The Provincial Government also owns major assets in the form of properties which are not being recorded nor valued under its current accounting procedures.

Implications

Lack of an asset register, asset policy and asset management procedures will increase the risk of misuse, loss and theft of assets.

An incomplete asset register means that management will have less assurance as to the existence, condition and value of assets owned by the Temotu Provincial Government. Furthermore, the calculation of depreciation may be materially misstated. Consequently, a qualified audit opinion will need to be issued as OAG was unable to obtain sufficient appropriate audit evidence.

Recommendation 7

OAG recommended that the Provincial Government:

- Ensure all unit costs for assets to be updated to reflect the correct purchase price;
- Established an asset register of all assets owned by the Provincial Government including details such as the asset name, number, a brief description, date of purchase, location and depreciation rate;
- Must ensure a regular asset stock take to be performed over all assets of the Provincial Government to ensure existence, condition and value of value recorded;
- Established procedures for capturing all assets including the acquisition or construction of buildings and other structures in its accounts and asset register and;
- Ensure the asset register be reconciled to the general ledger account balances on at least a monthly basis. There should be segregation of duties in place over the preparation and review of the reconciliation.

Executive Response

The management has taken note that one of management's priorities is

1. *To employ Asset and Inventory officer and currently we have create this post for our new staff establishment for 2015/2016 manpower budget.*

2. *The officer will be responsible to work on the asset register and try to record all assets of the province.*
3. *Then the valuation of some assets especially land, buildings however, the management will try and see that assets are valued and that their values are recorded in the asset register.*
4. *We will also looking at all possible means to established an assets Management Policy*

8.0 AUDIT ACTION PLAN

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
1	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Ensure that there are policies and procedures in place to safeguard its operations and protect the image of the organisation. 	- Respective and needed Policies will be formulate - Others areas were well covered under the FMO.2008- Temotu Province	Provincial Treasurer Provincial Secretary Provincial Executive	2017
2	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Ensure that monthly account reconciliations should be signed off as reviewed by a person independent of the preparer and; Must ensure a checklist should be prepared and signed off by the management each month to ensure that each balance sheet general ledger account has been reconciled and reconciliation have appropriate supporting documentation attached and that all balance sheets are reconciled. 	- -Responsible MYOB officer was assigned to carry -- monthly reconciliation of general ledgers and subsidiary ledgers - Treasurer and the MYOB officer will signed off the Ledgers	MYOB Officer Treasurer	2017
3	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Management to ensure that all debtors' listing is updated to show the total outstanding figure on a periodic basis for reporting and for financial disclosure. 	- Officer been informing of this repeated issue, there will be refresh training on procedures and requirement to adhere while performing duties.	-Provincial Treasurer -Revenue Officer -	2017
4	OAG highly recommended that the Provincial Government: <ul style="list-style-type: none"> Make sure that consolidation of the investment be made to ensure that a true and fair view of the investment balance is depicted in the financial statement. Consultations must be made to ensure correct advice are taken and adopted. 	- Through the Board and the Provincial executive the New Management will keep inform on how to perform in terms of financial reporting of this government business arm.	- Executive -New Management -New Board	2017
5	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> Put in place a minimum requirement for WDG; Ensure that provincial management is to comply with payment procedures and regulations; Ensure WDG plans are attached to applications; Ensure the Premier and Provincial Secretary to monitor the movements of the WDG when disbursed and when accounted for and; Make sure ward committees to give reports on the usage of this fund to accounts department on timely basis. 	- New WDG committee will be approved by the executive -Application form will be attached to the application The Treasurer, Provincial Secretary and Premier and Speaker will be responsible -We are looking at strengthening the committees at the ward level.	Treasurer Provincial Secretary Premier Speaker	2017
6	OAG recommended that the Provincial Government: <ul style="list-style-type: none"> To take necessary actions to recover the overdue unretired imprests from imprest holders and; Ensure to regularly monitor the special imprests for unretired imprests. 	- Those that have unretired imprest were deducted from their salaries - Those who have outstanding imprest are not allowed to hold onto any public funds	-Provincial Treasurer- -Cashier	2017

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
7	<p>OAG recommended that the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure all unit costs for assets to be updated to reflect the correct purchase price; • Established an asset register of all assets owned by the Provincial Government including details such as the asset name, number, a brief description, date of purchase, location and depreciation rate; • Must ensure a regular asset stock take to be performed over all assets of the Provincial Government to ensure existence, condition and value of value recorded; • Established procedures for capturing all assets including the acquisition or construction of buildings and other structures in its accounts and asset register and; • Ensure the asset register be reconciled to the general ledger account balances on at least a monthly basis. There should be segregation of duties in place over the preparation and review of the reconciliation. 	<p>- An Officer been recruited to work as an asset registerer -established a data and details of each asset</p>	<p>Asset register Provincial secretary Treasurer</p>	<p>2018</p>

Note: This action Plan will actually reflected in the financial year start April 2015 -March 2016 and onwards .Any upcoming audit to cover the past undertaking of the Provincial Government of Temotu,