



**SOLOMON ISLANDS GOVERNMENT**

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

**Choiseul Provincial Government**

**01/10/2013 – 31/03/2014**

**Reported by:**

**Office of the Auditor-General  
P O Box G18  
Honiara**

**9 March 2015**

**Table of Contents**

EXECUTIVE OVERVIEW ..... 3  
     Background ..... 3  
     Audit Objectives and Scope ..... 3  
     Findings ..... 3  
     Conclusion ..... 5  
     Overall Recommendations ..... 5  
 AUDIT FINDINGS AND RECOMMENDATIONS ..... 6  
 1.0 RECEIPTS ..... 6  
     1.1 *Business register needs improvement* ..... 6  
     1.2 *Lack of supporting documentations to the Solomon Airlines commissions* ..... 7  
 2.0 BANK ACCOUNT ..... 7  
     2.1 *Variances between cashbook bank reconciliation balances and general ledger* ..... 7  
 3.0 INVESTMENT ..... 8  
     3.1 *No detailed supporting documentations to support dividend sharing from Lauru Shipping Ltd* ..... 8  
 4.0 IMPRESTS ..... 9  
     4.1 *Imprest account not closed off in its right account* ..... 9  
 5.0 EXPENDITURE ..... 10  
     5.1 *Expenditure controls need improvement* ..... 10  
 6.0 AUDIT ACTION PLAN ..... 11

## EXECUTIVE OVERVIEW

### Background

The Choiseul Provincial Government submitted its financial statement for the financial year ended 31<sup>st</sup> March 2014 to this Office on 6<sup>th</sup> September 2014 as required under s.39(2) of the Provincial Government Act 1997. Choiseul 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 Choiseul Provincial Government accounts and records in order to form an opinion on the financial statement.

### Audit Objectives and Scope

The principal objective of the audit was to review the adequacy of processes for the financial management, accounting and reporting controls managed by the Choiseul 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 statements for the year ended 31<sup>st</sup> March 2014.

This report focuses on the findings arising from the review of financial management processes currently being practised by the Choiseul Provincial Government as at the time of the audit and as tested in the accounts and records for the period of 1<sup>st</sup> October 2013 to 31<sup>st</sup> March 2014.

### Findings

***The audit disclosed that Choiseul Provincial Government has maintained good record keeping of revenue and expenditure for the audited period. However, there is need for improvements in the overall performance of the Provincial Government's 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.***

A summary of these audit issues identified are 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"> <li>• Matters which may pose a significant business or financial risk to the entity; and/or</li> <li>• 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</li> <li>• Moderate risk matters which have been reported to management in the past but have not been satisfactory resolved or addressed.</li> </ul>
Moderate	<ul style="list-style-type: none"> <li>• Matters of 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</li> <li>• Matters that may escalate to high risk if not addressed properly; and/or</li> <li>• Low risk matters which have been reported to management in the past but have not been satisfactory resolved or addressed.</li> </ul>
Low	<ul style="list-style-type: none"> <li>• Matters that are isolated, non-systemic or procedural in nature; and/or</li> <li>• Matters that reflect relatively minor administrative shortcomings and require action in order to improve the entity's overall control environment.</li> </ul>
Improvement Opportunity	<ul style="list-style-type: none"> <li>• Matters of a procedural or administrative nature which could improve the efficiency or effectiveness of entity level, systemic or transactional processes.</li> </ul>

• **Business register needs improvement**

**Risk Rating – High**

OAG has noted that the Provincial Government needs to improve its business register in order to fully capture the revenue that should be collected for the financial year. Lack of reconciling internal revenue increases the risk of overstatement or understatement of the internal revenue reported in the financial statements.

• **Lack of supporting documentations to the Solomon Airlines commissions**

**Risk Rating – Moderate**

It was discovered that the Provincial Government have entered into an agreement with Solomon Airlines as their agent thereby receiving commission from them from freighting, luggage handling and ticketing. However, OAG is unable to sight the current agreement to determine whether the rate for the commissions received by the Provincial Government is accurate or not. Non-availability of the current agreement increases the risk of loss of revenue.

- **Variances between cashbook bank reconciliation balances and general ledger**

**Risk Rating – Moderate**

It was identified that there is variance between the cashbook balances of the bank reconciliation to the balance in the general ledger of the main account. The unreconciled balances increase the risk of understatement of the main account.

- **No detailed supporting documentations to support dividend sharing from Lauru Shipping Ltd**

**Risk Rating – Low**

It was revealed that Lauru Shipping Ltd paid \$40,000 to the Provincial Government as dividend for its 2011 financial year. However, OAG was not able to sight the supporting documents such as audited financial statement to verify the accuracy and completeness of the dividend received. Lack of supporting documents increases the risk of loss of revenue and fraud.

- **Imprest account is not close off in its right account**

**Risk Rating – High**

It was noted that two special imprests that were paid to two officers were retired but were not properly closed off in the right account. This deficiency increases the risk of misstatement of the financial statements and undesirable decision making by the users of the financial statements.

- **Expenditure controls needs improvement**

**Risk Rating – High**

OAG noted that there is still need for improvement in the disbursement and monitoring of micro grants and ward grants to the recipients. There is inadequate control in place to verify whether the grants are used for its intended purpose or not. The lack of monitoring of these grants increases the risk of fraud, misappropriation and loss of provincial funds.

## **Conclusion**

The audit of the Provincial Government's accounts and records continue to disclose significant shortcomings in the procedure and practices in the management of revenue, expenditure, imprests, bank accounts and investment.

OAG has acknowledged the effort of the Provincial Government in trying to address the recommendations highlighted in the previous audit reports.

## **Overall Recommendations**

OAG's key recommendations are that the Provincial Government:

- The Provincial Government to update the provincial business register;
- The Provincial Government regularly monitor and update the business register;
- The Provincial Treasurer should properly check and close off the imprests from the affected accounts and;

- Must established monitoring controls to enable the funds that are disbursed are used accordingly to its purpose.

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 RECEIPTS

#### 1.1 Business register needs improvement

**Risk Rating – High**

The issue of improving the Provincial business register was raised in the first six months audit. OAG raised gain the same issue in this audit as there is inadequate information in the register to determine how much is still owed from the businesses that are operating in the Province for the financial year. However, discussion with Province Treasurer and Provincial Secretary revealed that the Provincial Government is currently working on to responses on the recommendations of the first six months audit and work to improve their business register.

#### **Implications**

Lack of reconciliation of internal revenue and maintenance of a comprehensive register of businesses operating in the province increases the risk of over or understatement of internal revenue reported in the financial statement of the province.

#### **Recommendation 1**

OAG recommended that:

- The Provincial Government to update the provincial business register and;
- The Provincial Government regularly monitor and update the business register.

#### **Executive Response**

Management acknowledges the need to improve business license register and regular monitoring for updating. Treasury has been noted and will work to improve the issue in the upcoming financial year. Management however wish to highlight that the business license register is not used prepare the financial statement. Under the cash basis only receipted licenses are recorded.

**1.2 Lack of supporting documentations to the Solomon Airlines commissions****Risk Rating – Moderate**

The Choiseul Provincial Government had entered into a ground handling agreement with the Solomon Airlines. It was noted from an interviewed with the Provincial Secretary that the agreement provided revenue to the province on the freighting, luggage handling and ticketing from air fare. OAG however, was unable to sight the current agreement during the audit as the one sighted was expired in 2011. Consequently, it is difficult to verify the rate of revenue from the current agreement.

**Implications**

Unavailability of agreement will bring doubts to the province on what revenue to be remitted back to the province by Solomon Airlines.

**Recommendation 2**

OAG recommended that the Provincial Government to retrieve the current agreement from the Solomon Airlines for future audit.

**Executive Response**

Management acknowledges that unavailability of these important documents. Solomon Airlines after the first six months audit undertaken has been consulted for the Agreement and the issue settled. Documents relating to the commission have also been requested when Treasury submitted application for 2013 commission.

**2.0 BANK ACCOUNT****2.1 Variances between cashbook bank reconciliation balances and general ledger****Risk Rating - Moderate**

OAG noted that the cashbook balances on the bank reconciliation were not reconciled to the balance of the main account code on the general ledgers for the main account. The differences were not material however, with the nature of cash, OAG wants to bring it to the attention of the provincial executives to have it address in the future. Table below shows the differences between the cashbook balances on the bank reconciliations and the general ledgers.

Reconciliation Period	Cashbook balance from bank rec - (a)	GL balances	Variances
31 December 2013	236,709.85	236459.85	250.00
31 March 2014	56,485.82	55751.82	734.00
			<b>\$984.00</b>

## Implications

Unreconciled balances between the bank reconciliation and the general ledgers may leads to the overstatement or understatement of the main account.

### Recommendation 3

OAG recommended that the Provincial Government to have all the bank accounts properly reconciled.

## Executive Response

Management acknowledges variances between cash book and general ledger. Variances now have been rectified. Treasury will ensure that such errors should not happen that would result in misstatements of reports.

## 3.0 INVESTMENT

### 3.1 No detailed supporting documentations to support dividend sharing from Luru Shipping Ltd

#### Risk Rating - Low

Section 19 of the new Provincial Enterprise Ordinance 2011(PEO) states that “*where a Provincial Enterprise makes a net profit in any financial year a minimum 10% of the net profit after tax shall be paid as a Dividend to the Province*”.

Audit noted that Laura Shipping Ltd paid a sum of \$40,000 to the Province in a form of dividend for its financial year 2011. However, OAG was unable to sight detail calculation of the dividend sharing between the Province and its stakeholders. This has made it difficult to determine the accuracy and completeness of the transaction.

## Implications

The lack of disclosed detail documents of the profit sharing may prevents the Provincial Government of earning correct dividend and the expected revenues provided under PEO.

### Recommendation 4

OAG recommended that the Provincial Government:

- Immediately implement section 9 of the Choiseul Provincial Enterprises Ordinance 2011 and;
- Must have access to the audited reports of the Provincial Enterprises in order to verify the dividend sharing calculation.

## Executive Response

Executive acknowledges the lack of implementing Section 9 of the Provincial Enterprises Ordinance. Formal requests will be made to the company's Board of Directors to ensure that all necessary documents pertaining to the section are supplied. The Executive Secretary position of the *Provincial Enterprise Secretariat* office to be recruited shortly will fully be responsible for the implementation of the ordinance as a full time staff.

## 4.0 IMPRESTS

### 4.1 Imprest account not closed off in its right account

**Risk Rating - High**

OAG acknowledges the fact that special imprests were in orderly manner, because these imprests are applied and retired accordingly. However, it was found that two imprests applied from the Choiseul Bay Township Account was not properly closed off from the account, which resulted in the understatement of the imprest in the General Account as shown in the Financial Statement. OAG noted that the special imprests of \$10,100 were paid from the Choiseul Bay Township Account and were to be reimbursed later however; they were fully retired but were wrongly closed off from the Main Account. However, the Provincial Treasurer confirmed that they are regarded as expense. It was thought that they will reimburse them later from the main account to the township account, but it was not done until audit discovered these deficiencies and the Provincial Treasurer admitted it and promised to rectify them. Table below shows the details of deficiencies noted during the audit.

Imprest #	Imprest Holder	Payment Date	Purpose of Imprest/advance	Amount Paid
101/14	H. Deva	17/01/2014	Education Board Expense	\$5,000.00
102/14	A.S. Kutukana	17/01/2014	Annual Leave Expense	\$5,100.00

### Implications

Lack of proper closing off of account increases the risk of misstatement of the financial statements and undesirable decision making by the users of the financial statements.

### Recommendation 5

OAG recommended that the Provincial Treasurer should properly check and close off the imprests from the affected accounts.

### Executive Response

Management acknowledges funds from Choiseul Bay Township account were issued as imprests for recurrent items. The imprests however were retired as required (within the financial year) and postings made to relevant ledgers for reporting. Not reimbursing the Township fund within the financial year was the issue though the intention was to do so (reimburse) during the year. Township funds were however reimbursed in the new financial year.

## 5.0 EXPENDITURE

### **5.1 Expenditure controls need improvement**

**Risk Rating - High**

OAG noted that there is continuous poor monitoring of the micro grants and ward grants, despite the applications were made in line with the application proceedings. The issue arise is whether the grants are intend for its purpose or not. The Provincial Treasurer confirmed that the ward grant or micro grants were not monitored when they were disbursed to the MPAs and the recipients. Consequently, OAG is unable to determine the accuracy, completeness and probity of the transactions.

#### **Implications**

Lack of monitoring of these ward grants and micro grants hinders the Provincial Government from effectively manage those funds in accordance with the intended purposes of the funds.

#### **Recommendation 6**

OAG recommended that the Provincial Government:

- Must established monitoring controls to enable the funds that are disbursed are used accordingly to its purpose.

#### **Executive Response**

Management wish to acknowledge that there has never been a monitoring and evaluation mechanism (apart from reports filed to each MPA) in place for both grants. The newly established ward based committee, Provincial Planning Development Committee (PPDC) will be involved in planning, implementing and monitoring of these grants. The involvement of this committee will ensure a proper usage of the funds.

Further to this provisions for monitoring and evaluation of are included in the 2015/16 budget.

## 6.0 AUDIT ACTION PLAN

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
1	<p><b>OAG recommended that:</b></p> <ul style="list-style-type: none"> <li>The Provincial Government to update the provincial business register and;</li> <li>The Provincial Government regularly monitor and update the business register.</li> </ul>	<ul style="list-style-type: none"> <li>Business license register to be improved. Required columns for updating to be inserted.</li> <li>A monitoring mechanism to be put in place.</li> </ul>	Revenue Collector/Treasurer	June 2015
2	<p><b>OAG recommended that:</b></p> <ul style="list-style-type: none"> <li>The Provincial Government to retrieve the current agreement from the Solomon Airlines for future audit.</li> </ul>	<ul style="list-style-type: none"> <li>Current agreement received.</li> </ul>	Provincial Treasurer	November 2014
3	<p><b>OAG recommended that:</b></p> <ul style="list-style-type: none"> <li>The Provincial Government to have all the bank accounts properly reconciled.</li> </ul>	<ul style="list-style-type: none"> <li>Bank accounts reconciled.</li> </ul>	Provincial Treasurer	November 2014
4	<p><b>OAG recommended that:</b></p> <ul style="list-style-type: none"> <li>Immediately implement section 9 of the Choiseul Provincial Enterprises Ordinance 2011 and;</li> <li>Must have access to the audited reports of the Provincial Enterprises in order to verify the dividend sharing calculation.</li> </ul>	<ul style="list-style-type: none"> <li>Board of Directors and management to be consulted to ensure receipt of documents for upcoming dividends</li> </ul>	Finance Minister/Provincial Secretary	June 2015
5	<p><b>OAG recommended that:</b></p> <ul style="list-style-type: none"> <li>The Provincial Treasurer should properly check and close off the imprests from the affected accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Imprests closed off.</li> </ul>	Provincial Treasurer	November 2014
6	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>Must established monitoring controls to enable the funds that are disbursed are used accordingly to its purpose.</li> </ul>	<ul style="list-style-type: none"> <li>Establish ward based committees</li> <li>Provision for monitoring in 2015/16 budget</li> </ul>	Chief Planning Officer/Clerk to Assembly	Start off April 2015