



SOLOMON ISLANDS GOVERNMENT

REPORT ON MATTERS ARISING FROM FINANCIAL STATEMENT AUDIT

Malaita Provincial Government

1 October 2013 – 31 March 2014

Reported by:

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

23 March 2015

TABLE OF CONTENTS

EXECUTIVE OVERVIEW	3
<i>Background</i>	3
<i>Audit Objectives and Scope</i>	3
<i>Findings</i>	3
AUDIT FINDINGS AND RECOMMENDATIONS	4
<i>Table 1 - Risk Ratings</i>	4
1.0 FINANCIAL REPORTING.....	12
1.1 <i>Trading activities not disclosed in note 8</i>	12
1.1 <i>Responsible officers not available during the 2013/14 FS audit</i>	12
2.0 MINUTES	13
2.1 <i>Executive minutes not signed and dated</i>	13
2.2 <i>Executive minutes for October 2013 not sighted</i>	13
3.0 CASH AND CASH EQUIVALENTS	14
3.1 <i>Unpresented/outstanding cheques</i>	14
3.2 <i>Bank reconciliations not signed and dated</i>	15
3.3 <i>Cashbook not maintained</i>	15
4.0 REVENUE	16
4.1 <i>Revenue collected not banked in a timely manner</i>	16
4.2 <i>Tampering of carbon receipts</i>	17
4.3 <i>Dual copies of manual receipt books</i>	17
5.0 TRADE RECEIVABLES	18
5.1 <i>Trade receivables listing not updated</i>	18
6.0 TRADE PAYABLES	19
6.1 <i>Unaccounted creditors/trade payables (C/fwd from 2012/13)</i>	19
7.0 INVESTMENTS.....	19
7.1 <i>MCDAs financial position not consolidated (C/fwd from 2012/13)</i>	19
8.0 SPECIAL IMPRESTS & STAFF ADVANCES	20
8.1 <i>Weak control over imprests</i>	20
8.2 <i>Multiple imprests</i>	21
8.3 <i>Missing payment vouchers for imprest and advance</i>	21
8.4 <i>Un-acquitted imprests</i>	22
8.5 <i>No authorisation of imprests and advances</i>	23
8.6 <i>No staff advance register maintained</i>	24
9.0 MPA ALLOWANCES & WARD DEVELOPMENT GRANT (WDG)	24
9.1 <i>Lack of supporting documents for ward development grant disbursement</i>	24
9.2 <i>Discrepancy in the amounts paid for allowances & WDG</i>	25
9.3 <i>Missing payment vouchers</i>	25
9.4 <i>Unequal distribution of ward development grants to MPAs</i>	26
9.5 <i>Ward development grants not acquitted</i>	27
10.0 EXPENDITURE	28
10.1 <i>Missing Payment Vouchers for expenditure (C/fwd from 2012/13)</i>	28
10.2 <i>Lack of cost assessment</i>	29
10.3 <i>Not compliance with budget</i>	29
11.0 PROPERTY PLANT AND EQUIPMENT.....	30
11.1 <i>Asset register not updated</i>	30
11.2 <i>Poor control over assets</i>	31
12.0 APPENDICES	33
12.1 <i>Appendix 1 – Revenue not banked promptly</i>	33
12.2 <i>Appendix 2 – WDGs without adequate supporting documents</i>	34
12.3 <i>Appendix 3 – Details of the unequal distribution of WDG to MPAs</i>	35
13.0 AUDIT ACTION PLAN.....	36

EXECUTIVE OVERVIEW

Background

The Malaita Provincial Government has submitted its financial statements for the financial year ended 31st March 2014 to this Office on 23 June 2014 as required under s.39(2) of the Provincial Government Act 1997. OAG acknowledges the continued cooperation by the Malaita Provincial Government in providing the financial statement as required in a timely manner. Malaita 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 Malaita 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 Malaita 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 March 2014.

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

Findings

The audit disclosed that the Malaita Provincial Government has made slight improvements over its record keeping of revenue and expenditures for the 2013 financial year. However, 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. Furthermore, all investments and assets are encouraged to be taken up in the IPSAS cash basis financial statements.

AUDIT FINDINGS AND RECOMMENDATIONS

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.

- **Trading activities not disclosed in note 8**

Risk Rating – Moderate

OAG acknowledge the continuous improvement in the reporting of financial operation of the Province through the IPSAS cash format and the early submission of 2013/14 financial statements for audit. However, OAG noted a minor deficiency in the disclosure of trading activities where \$500 appeared in the statement of cash receipts and payments and trial balance but the figure was not disclosed in note 8. This increases the risk of misleading the stakeholders to make undesirable decisions and hiding the true status of the operation of the entity.

- **Responsible officers not available during the 2013/14 FS audit**

Risk Rating – Moderate

OAG was disappointed that during the audit of the 2013/14 financial statement, the responsible officers such as Provincial Secretary, Provincial Treasurer and Technical Advisor were not available to assist the audit team with their queries. OAG has informed the Provincial Government in advance on the duration of the audit so the officers should be available to provide assistance. The non-availability of the officers increases the risk of time and money wastage, wrong information gathered, incomplete documents

collected, misunderstanding not cleared early and possibility of officers intentionally avoiding the audit team to hide some fraudulent activities.

- **Executive minutes not signed and dated**

Risk Rating – High

OAG found that two executive minutes for the meetings that were held in the audited period were not signed and dated by Chairman and Secretary to indicate that those minutes are the true minutes. This increases the risk of resolutions not implemented or that assigned contracts, acquisition, disposal and leasing of provincial assets and properties may not in accordance with the ordinance and maybe be un-procedural.

- **Executive minute for October 2013 not sighted**

Risk Rating – High

It was discovered from the general ledger that allowance payout was made for the executive members in October 2013 however, the executive minute for that meeting was not sighted in the folder that was provided. OAG is unable to determine the accuracy and completeness of the allowance payout. The deficiency increases the risk of conflict of interest, significant resolutions not implemented and allowances can be paid to executive members who are absent from the meeting.

- **Unpresented/outstanding cheques**

Risk Rating – High

OAG noted from analysis of the bank reconciliations that nine cheques with a total value of \$41,908.00 were unpresented/outstanding for more than six months within the audited period. This implies that the suppliers have yet to present the cheques to the banks. The outstanding cheques increases the risk of misstatement, misuse of funds, money loss and directly overstate the actual cash balance on the bank statement. It also increases the risk of fraudulent activities happening.

- **Bank reconciliations not reviewed and signed**

Risk Rating – Moderate

Malaita Provincial Government has been performing monthly bank reconciliations, however the reconciliations were not signed and dated by the preparer and reviewer. The absence of sign off by responsible officers increases the risk of bank reconciliations not conducted in a timely manner and variance are detected late. In addition, the financial disclosure maybe misleading to the users.

- **Cashbook not maintained**

Risk Rating – Moderate

OAG has discovered that there is no manual cashbook maintained to record the cash inflow and outflow for the audited period. The Provincial Government has been using the MYOB general ledger as its cashbook when performing bank reconciliations. However, it is important to maintain a manual cashbook for reconciliation purpose with the general ledger. The lack of manual cashbook increases the risk of embezzlement, poor audit trail, errors not detected early, manipulation of figures and poor recording of cash inflow and outflow.

- **Revenue collected not banked in a timely manner**

Risk Rating – High

OAG noted that 13% of revenue collected were not banked in a timely manner as required in section 30 (2) of the Financial Management Ordinance 2008. Furthermore, OAG is unable to trace the receipts to the general ledger to determine their accuracy and completeness. This deficiency increases the risk of cash not being captured in the bank statements for proper cash management, misappropriation and political expediency.

- **Tampering of carbon receipts**

Risk Rating – High

It was discovered that three carbon receipts (receipt # 173, 174 and 177) were tampered with by the revenue collector or someone else as they were re-written without initialising the receipts. The manner of tampering of receipts increases the risk of embezzlement, fraud, misstatement and overcharging customers with inappropriate charge rates.

- **Dual copies of manual receipt books**

Risk Rating – High

It was identified that there are dual copies of manual receipt books used by the Provincial Government which is a serious concern to OAG. In addition, OAG was not able to get explanation from the responsible officers as they were not available during the audit. The manner in which dual copies are used increases the risk of theft, embezzlement, abuse and misappropriation of provincial monies.

- **Trade receivables listing not updated**

Risk Rating – High

OAG is pleased with the effort of the Provincial Government in establishing a trade receivable listing from the recommendation of past audits, however it was noted that the listing was not updated to capture all the businesses that are operating in the province. Furthermore, it was noted that no trade receivable balance as at 31 March 2014 was not disclosed in the IPSAS Cash financial statement under additional encouraged note. Failure to update the listing increases the risk of loss of revenue, unauthorised collection of revenue and misstatement of the financial statement.

- **Unaccounted creditors/trade payables (C/fwd from 2012/13)**

Risk Rating – High

As noted from previous audits, the Malaita Provincial Government continue to lack a proper trade payables listing or register for the financial year. As a result, it difficult for the Provincial Government to know how much is owed to the businesses for the procurement of goods and services for the 2013/14 financial year. Furthermore, it was noted that the Provincial Government does not deduct contract withholding tax and pay the deductions to Inland Revenue as required under the law. Also it is difficult to verify and confirm the liabilities of the Province in the financial statement that was provided for examination. There is risk of loss of public monies to ghost businesses, budget for next year focuses more on debt servicing rather than service delivery and misstatement of the financial statement.

- **MCDA financial position not consolidated (C/fwd from 2012/13)**

Risk Rating - High

As noted from past audits, all the investment activities of the Provincial Government were managed by the Malaita Chazon Development Authority (MCDA) however, it was noted that recently MCDA is not operating viably as anticipated so the assembly has proposed to suspend the management and move the administration of MCDA to Provincial Government. It was discovered that prior to assembly's decision, MCDA has been producing its own financial statement that was not consolidated with the Provincial Government's financial statement. There's need for MCDA's financial statement to be consolidated in the financial statement of the Province. Failure to consolidate MCDA's financial statement increases the risk of undermining the reporting requirements of IPSAS, showing false picture of its investments, understates its investment balances and lack of accuracy and completeness of revenue for the investment entity.

- **Weak control over imprests**

Risk Rating - High

OAG discovered that some of special imprests given to the provincial officers were not retired at all and no reminder letters were issued to them to retire their imprests as soon as possible as required in section 51 of the Financial Management Ordinance 2008. Also it was noted that no recovery measures were taken against the imprest holders with outstanding for more than 30 days. This deficiency increases the risk of loss of provincial monies, misappropriation, budget over-run, negligence of duty and lack of accountability.

- **Multiple imprests**

Risk Rating – High

Nine (9) officers were found to have been issued with multiple special imprests for the financial year when OAG reviewed the electronic imprest register. Financial Management Ordinance 2008 prohibits any officer to be issued with a new imprest if he/she still have un-retired imprest. This increases the risk of abuse, misappropriation, overspending of budget, lack of accountability by officers and incompetency.

- **Missing payment vouchers for imprest and advance**

Risk Rating – High

OAG noted that one payment for imprest issued to Peter Hauia on 28 October 2013 for \$8,560 and another payment of staff advance to Clera Rikimani on 30 October 2013 for \$1,700 were missing from the folder provide to OAG. This deficiency increases the risk of misappropriation, misuse and abuse of provincial funds, loss of provincial monies, conflict of interest and misstatement of the financial statements.

- **Un-acquitted imprests**

Risk Rating - High

OAG found that five (5) special imprests worth \$99,240 were un-acquitted even up to the date of audit which is a serious breach of Financial Management Ordinance 2008. As a consequence, OAG unable to determine whether the funds has been spent for its purpose or not. Furthermore, one special imprest was partially retired but the retired amount recorded in the register does not match with the actual receipts attached with the retirement form. This increases the risk of fraud, misappropriation, budget over-run and misstatement of the financial statements.

- **No authorisation of imprests and advances**

Risk Rating – Moderate

Three special imprest and one staff advance were found to be not properly authorised by the responsible officers before the payments were made or imprests are retired. As a result it is difficult for audit to determine the genuineness of the payments. Lack of authorisation increases the risk of conflict of interest, budget over-run, fraud and abuse of provincial funds.

- **No staff advance register maintained**

Risk Rating – High

It was noted during the audit that the Provincial Government did not maintain any staff advance register for the 2013/14 financial year. Instead the staff advance information are inputted into the MYOB system after the advance payments are made to the staff. OAG is unable to verify the transactions in the general ledger for their completeness and accuracy. This deficiency increases the risk of conflict of interest, loss of provincial monies, deliberate omission of staff that have taken advances in the MYOB system, inaccurate reporting and misstatement of the financial statements.

- **Lack of supporting documents for WDG disbursement**

Risk Rating – High

Forty percentage (40%) of the selected samples were without proper supporting documents such as request letters, proforma invoices and cost breakdown attached with the ward development grant forms when payments were made. Also, it was noted that most of the ward development grant forms just stated that the funds were for assistance to church groups, communities, youth groups etc which too general for reporting and verification purposes. This leads to the risk of misappropriation, abuse, loss of provincial funds, inaccurate reporting and poor development within the wards.

- **Discrepancy in the amounts paid for allowances & WDG**

Risk Rating – Moderate

OAG has discovered certain discrepancies in the payment of allowances and ward development grants to the MPAs for the audited period. Discrepancies such as overpayment of allowances and underpayment of WDGs were noted from the audit. Lack of control over allowance and WDG increases the risk of fraud, misappropriation, conflict of interest, budget over-run and loss of provincial funds.

- **Missing payment vouchers**

Risk Rating – High

Three payment vouchers with a total value of \$78,273.60 for allowances were missing during the audit even when requests were made to the treasury officers so OAG was not able to determine the completeness and accuracy of the payments. This could lead to fraudulent activities, abuse, misappropriation, political expediency and budget over-run.

- **Unequal distribution of WDG to MPAs**

Risk Rating – High

OAG discovered that there is unequal distribution of the ward development grants to each Member of Provincial Assembly (MPA) for the 2013/14 financial year whereby \$50,000 is allocated to each MPA. It was noted that seven (7) MPAs received less than \$50,000 while four (4) MPAs received more than \$50,000. No vital explanation was provided for the unequal distribution of WDG. This may leads to political expediency, conflict of interest, misappropriation, abuse of power, under spending of budget and lack of developments in the wards.

- **WDG not acquitted**

Risk Rating – High

It was found that 73% (11/15) of selected samples were not acquitted by the MPAs as required under the WDG guidelines. In addition, 13% (2/15) were partially acquitted for the audited period. Lack of acquittal increases the risk of poor accountability, no transparency, misappropriation, misuse and loss of provincial funds, political expediency and inaccurate reporting.

- **Missing payment vouchers for expenditure (C/fwd from 2012/13)**

Risk Rating – High

It was revealed that \$270,321.00 of selected samples were missing during the audit. OAG has made numerous requests for treasury officers to locate them but was unsuccessful. Also it was noted that there is lack of adequate supporting documents attached with the payment vouchers of \$204,032.00. As a result, OAG is unable to verify the accuracy and completeness of the payments.

- **Lack of cost assessment**

Risk Rating - High

OAG has reviewed the capital and recurrent expenditure in regards to repairs and maintenance and noted that \$628,215.00 was incurred for the audited period but there has been no assessment performed to ascertain the reasonable cost for the repairs, labour and contractor's contract. OAG is unable to determine the probity of the transactions for the repairs and maintenance. This could lead to overstated expenses, misused of provincial funds and wastage of provincial resources.

- **Not compliance with budget**

Risk Rating – High

OAG found that the Provincial Government have not complied with the approved budget for the 2013/14 financial year for some accounting heads such as security services and second appointed day celebration. Those two heads were overspent by \$241,538 and \$584,350 respectively. This deficiency increases the risk of unnecessary spending, political expediency, conflict of interest, incompetency and cashflow constraints.

- **Asset register not updated**

Risk Rating - High

The Provincial Government has established an asset register following recommendation from past audits however, it does not fully disclose the value of the assets, location, disposal value and date and the register was not updated to capture the assets procured in the 2013/14 financial year. In addition, there is no asset management policy in place to monitor and manage the assets. This increases the risk of ineffective budget planning, difficulty in determining market value of assets, theft and abuse of assets.

- **Poor control over assets**

Risk Rating – High

OAG noted from the interview with the asset officer that there is poor control over assets where there are instances of officers removing assets from their office or staff houses without the knowledge of the asset officer or his supervisor. In addition, payments were made for some assets but the suppliers did not deliver the assets as anticipated. This may leads to theft, loss of provincial funds, misuse, abuse and misstatement of the financial statements.

Conclusion

The audit of Malaita Provincial Government's accounts and records disclosed similar shortcomings in the procedures and practices in the management of revenue, expenditure, imprests, ward development grants, bank accounts trade payables and assets as highlighted in the 2012/13 audit reports.

OAG acknowledges that Malaita Provincial Government has been continually addressing the recommendations highlighted in the 2012/13 audit reports. Significant improvements were made on the management of payroll and trade receivables. Despite these improvements, the absence of significant information on line items such as investments and assets understates these line items on the financial statements. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources.

OAG have examined the accounts and records for the last six months of 2013/14 and to be included with the first six months which the Auditor General will form and issue his independent audit opinion.

Overall Recommendations

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

- Ensure that the minutes were signed off by the relevant officers soon after the compilation of the minutes for as a true record of the meetings;
- Make sure the minutes includes the timing of the meetings and list of attendants;
- Ensure that every executive minutes are printed and signed before they are placed in the proper folder away from public access;
- Ensure that the un-presented cheques of more than six months be cancelled and the management consider re-issuing new cheques to the suppliers;
- Ensure to monitor the cheques that are issued so that they are presented to the bank within the required timeframe;
- Must comply with section 30(2) of the Financial Management Ordinance 2008 in the prompt banking of revenue;
- Ensure that receipts are properly recorded in the general ledger;
- Ensure that changes made to the receipts must be initialled by the person who made the changes for transparency and accountability purposes;
- Ensure that only one copy per receipt book is produced for the collection of revenue;
- Ensure to regularly update the trade receivables listing;
- Ensure to properly disclose the trade receivables balance in the financial statement for the purpose of accountability and transparency;
- Ensure that a proper trade payables register is established immediately and regularly updated;
- Must deduct the contract withholding tax and pay it to IRD on timely basis;
- Ensure to disclose the balance of trade payables in the financial statement under the additional encouraged note;
- Ensure that consolidation of the investment be made to make sure a true and fair view of the investment balance is reflected in the financial statement;
- Ensure to comply with section 51 of the Financial Management Ordinance 2008;
- Must regularly update the special imprest register;
- Ensure that the unretired imprests are monitored and recovery action implemented;
- Ensure that no new imprest should be given to officer with outstanding imprest;
- Must ensure to regularly update the imprest register and do follow up with imprest holders to retire their imprests as soon as practical;
- Ensure to properly file the payment vouchers in the folders after payments are made;
- Must remind the imprest holders with outstanding imprests to retire their imprests as soon as possible;
- Monitor the imprests regularly and implement recovery measure for imprests that are not retired for more than one month;
- Must establish a staff advance register immediately and regularly update it;
- Must ensure that the MPA clearly state the names of the beneficiaries of the grants in the WDG form;
- Must ensure all payment vouchers are properly file in the folders and stored in a secured location from public;
- Must ensure that each MPA are paid what is allocated to them for each financial year;
- Must make sure that the MPA acquit his ward development grant before he can receive the next tranche of his WDG;
- Remind the MPAs of their obligation to acquit the WDG on timely basis in order for proper reporting can be achieved and issued to stakeholders;

- Must make that sufficient documents are attached with the payment vouchers prior to payments are made;
- Ensure to properly file the payment vouchers in a secured location from public access;
- Must always comply with the Government Records Management Policy;
- Ensure to always provide the documents for audit when request is made;
- Ensure that capital and recurrent expenditure related to repairs and maintenance, there must be an assessment carried out before the funds are expended from the accounting head;
- Spend according to its approved budget for the financial year;
- Ensure to hold regular meeting with the head of the divisions to update them on the status of their budget;
- Ensure that the Provincial Treasurer continue to monitor the spending of each division and provide advice accordingly;
- Must ensure that a proper asset register is in place which indicates acquisition cost, charge of revaluation, disposal, depreciation, additional cost and market value of the asset;
- Should regularly update the asset register;
- Ensure to establish an asset management policy as soon as practical;
- Must ensure to advise the former provincial treasurer to return the assets owned by the provincial government or pay for them;
- Should immediately inform the bush-man furniture to deliver the food shelves or else legal action taken the firm;
- Ensure to store any assets for disposal in a secured location and;
- Must carry out stock take each year to determine the existence, accuracy, completeness and probity of the assets.

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

1.0 FINANCIAL REPORTING

1.1 Trading activities not disclosed in note 8

Risk Rating – Moderate

Office of the Auditor General (OAG) continues to note the improvement in the reporting of the financial operation of the Province in the IPSAS cash format as required by the Ministry of Provincial Government & Institutional Strengthening compared to previous years and the early submission of the 2013/14 financial statements for audit. However, OAG noted a minor deficiency in the disclosure of trading activities where \$500 appeared in the statement of cash receipts and payments and trial balance but the figure was not disclosed in note 8. Even though it is immaterial, it is still important when preparing the financial statements that the figures in the face of the statements are fully disclosed in the notes as required in the IPSAS cash basis accounting standards.

Implications

The absence of disclosing the figures in the financial statements to the notes increases the risk of misleading the stakeholders to make undesirable decisions and hiding the true status of the operation of the entity.

Recommendation 1

OAG recommends that the Provincial Government:

- Ensure to correct the deficiency noted in the audit and;
- Must always properly disclose the information on the face of the financial statements in the notes to comply with IPSAS cash basis accounting standards.

Executive Response

As the new Provincial Secretary, I have advised the Treasurer and the Financial Advisor to correct the deficiencies in the financial statements.

1.1 Responsible officers not available during the 2013/14 FS audit

Risk Rating – Moderate

OAG was disappointed in the absence of responsible officers such as Permanent Secretary, Provincial Treasurer and Technical Advisor during the audit as queries, questions and documents that needs to be cleared and collected were not possible. This has made it difficult for the audit team to wrap up their findings until they return to Honiara when the documents were submitted by the Technical Advisor. It is important for responsible officers in the Provincial Government to be available during the audit so that the audit can be smoothly conducted and completed within the timeframe allocated.

Implications

The non-availability of the responsible officers increases the risk of time and money wastage, wrong information gathered, incomplete documents collected, misunderstanding not cleared early and possibility of officers intentionally avoiding the audit officers to hide some fraudulent activities.

Recommendation 2

OAG recommends that the Provincial Government:

- Must ensure that all the responsible officers should be available to assist the audit team for the smooth and successful conduct of the audit.

Executive Response

As the new Provincial Secretary, I will make sure that all responsible officers to be available before the audit team arrives.

2.0 MINUTES**2.1 Executive minutes not signed and dated****Risk Rating – High**

OAG noted from the two executive minutes sighted and tested that they were not signed and dated by the relevant officers such as Chairman and Secretary. Furthermore, those minutes were without timing of the meetings and list of attendants.

Implications

There is a risk that decision made by the Provincial Executive may not be implemented or that assigned contracts, acquisition, disposal and leasing of provincial assets and properties may not in accordance with the provincial ordinance and maybe un-procedural.

Recommendation 3

OAG recommends that the Provincial Government:

- Ensure that the minutes were signed off by the relevant officers soon after the compilation of the minutes for as a true record of the meetings and;
- Make sure the minutes includes the timing of the meetings and list of attendants.

Executive Response

It is noted by new PS that meeting minutes must be signed off by relevant officers after compilation of minutes and the minutes should include timing and list of attendants.

2.2 Executive minutes for October 2013 not sighted**Risk Rating – High**

OAG discovered from the general ledger that allowance payout was made for executive members in October 2013 however, the executive minute for that meeting was not sighted in the folder provided by the Executive Personal Secretary. No reasons was given for not including the minute in the executive

meeting folder for 2013/14 financial year. This has made it difficult to determine the accuracy and completeness of the allowance payout.

Implications

The lack of providing every executive minutes increases the risk of conflict of interest, significant resolution not implemented as anticipated and allowances can be paid to executive members who are not present in the meetings.

Recommendation 4

OAG recommends that the Provincial Government:

- Ensure that every executive minutes are printed and signed before they are placed in the proper folder away from public access.

Executive Response

All executive minutes will be printed and signed.

3.0 CASH AND CASH EQUIVALENTS

3.1 Unpresented/outstanding cheques

Risk Rating - High

OAG conducted a reasonableness analysis on the bank reconciliation statements of the bank accounted maintained by the Provincial Government and noted unpresented cheques which are over six months old. This indicates that the suppliers has yet to present the cheques to the banks in order for the balances to reflect the movement of cash for the audited period. The table below outlines the unpresented cheques for the audited period.

Cheque number	Date	Description	Amount (\$)
10658	17/04/2013	S & Y Shop	1,806.00
10666	17/04/2013	JN & Sons Fuel Depo	195.00
10676	17/04/2013	Adam Kwaeria	3,720.00
10690	17/04/2013	S & Y Shop	312.00
10695	17/04/2013	S & Y Shop	818.00
127559	2/10/2013	EKD Hardware	8,557.00
127595	2/10/2013	Anolpha Enterprises	24,000.00
127573	2/10/2013	Etec Marketing	1,500.00
127598	17/10/2013	HQ Cashier	1,000.00
		Total	41,908.00

Implications

The long outstanding/unpresented cheques increase the risk of misstatement, misuse of funds, money loss and directly overstate the actual cash balance on the bank statement. It also increases the risk of fraudulent activities happening.

Recommendation 5

OAG recommends that the Provincial Government:

- Ensure that the un-presented cheques of more than six months be cancelled and the management consider re-issuing new cheques to the suppliers and;
- Ensure to monitor the cheques that are issued so that they are presented to the bank within the required timeframe.

Executive Response

As the new PS, we will cancel the cheques that are above six months and we will re-issue new cheques. These cheques will also be monitored.

3.2 Bank reconciliations not signed and dated**Risk Rating - Moderate**

OAG noted that Malaita Provincial Government has been performing bank reconciliations, however bank reconciliations were not signed and dated by the preparer and reviewer. There is a lack of accountability by the preparer and lack of evidence of checking or reviewing. This process of check/review is an important internal control and needs to be performed and evidenced by signature of the reviewer and date that the task was conducted.

Implications

The absence of this important internal control increases the risk that bank reconciliations are not conducted in a timely manner and therefore variances are detected late. In addition, the financial disclosures maybe misleading to the users.

Recommendation 6

OAG recommends that the Provincial Government:

- Ensure all bank reconciliations are signed and dated by the officers who prepare and review them and;
- Ensure the officer that extracted the bank reconciliations from the MYOB to be the preparer of the bank reconciliations.

Executive Response

As the new PS, these bank reconciliations must be signed accordingly.

3.3 Cashbook not maintained**Risk Rating – Moderate**

It was discovered that the Provincial Government does not maintain a proper manual cashbook to record the cash inflow and out flow for the audited period. The Provincial Government was using the MYOB

general ledger as its cashbook when performing bank reconciliations. However, having a manual cashbook is one of the internal control for the cash where a different person should be looking after the manual cashbook and another person should be inputting the information from the cashbook into the MYOB system. The manual cashbook will enable early detection of any errors that might occurs in the general ledger and correction made accordingly.

Implications

Lack of manual cashbook increases the risk of embezzlement, poor audit trail, errors not detected early, manipulation of figures and poor recording of cash inflow and outflow.

Recommendation 7

OAG recommends that the Provincial Government:

- Ensure to establish a proper manual cashbook and;
- Make sure to regularly maintain the cashbook.

Executive Response

Yes, there will be proper manual cashbook and regularly maintained.

4.0 REVENUE

4.1 Revenue collected not banked in a timely manner

Risk Rating - High

OAG identified 13% (8/60) of revenue selected sample that has been collected but was not banked in a timely manner. Financial Management Ordinance 2008 section 30 (2) states "All monies of the Provincial Fund and of Provincial Special funds and monies held in accordance with Section 60 shall be deposited promptly in the Provincial Government bank accounts, provided that money surplus to current requirements may be invested in accordance with Section 31". Furthermore, OAG was unable to trace the receipts to the general ledger as required in the Financial Management Ordinance 2008. The deficiencies notes has made it difficult to determine the accuracy and completeness of the transactions. Appendix 1 shows the detail of the revenue not banked promptly and not able to trace to the general ledger.

Implications

The lack of daily banking increases the risk of cash not being captured in the bank statement for proper cash management, misappropriation and political expediency.

Recommendation 8

OAG recommends that the Provincial Government:

- Must comply with section 30(2) of the Financial Management Ordinance 2008 in the prompt banking of revenue and;
- Ensure that receipts are properly recorded in the general ledger.

Executive Response

As the new PS, we must ensure that section 30(2) of the Financial Management 2008 is in complied with.

4.2 Tampering of carbon receipts

Risk Rating - High

It was noted that three Malaita Province receipts (receipts # 173, 174 and 177) were tampered with by the revenue collector or someone else as they were re-written without initialising the receipts. Normally any changes made to the receipts must be initialled by the person who made the changes for transparency and accountability. Table below shows the details of tampered receipts.

Receipt #	Date of Receipt	Received from	Description	Amount (\$)
173	6/10/2013	G.S	Retail shop licence	300.00
174	7/10/2013	S Misikim	Ring cake fee	100.00
177	8/10/2013	Mathew Dodola	Ring cake fee	100.00
			Total	500.00

Implications

Tampering of receipts increases the risk of misappropriation, fraud, misstatement and overcharging customers with inappropriate charge rates.

Recommendation 9

OAG recommends that the Provincial Government:

- Ensure that changes made to the receipts must be initialled by the person who made the changes for transparency and accountability purposes.

Executive Response

As the new PS, tampering of carbon receipts must stop.

4.3 Dual copies of manual receipt books

Risk Rating – High

OAG identified that there are dual copies of manual receipt books used by the Malaita Provincial Government. OAG is unable to get vital explanations from the responsible officers as they were absent during the audit. Normally each manual receipt book should only have one copy for recording the revenue collected by the Provincial Government.

Implications

The manner in which dual copies are used increases the risk of theft, embezzlement, abuse and misappropriation of provincial monies.

Recommendation 10

OAG recommends that the Provincial Government:

- Ensure that only one copy per receipt book is produced for the collection of revenue.

Executive Response

Yes, dual copies of receipts must stop and only one copy is allowed.

5.0 TRADE RECEIVABLES**5.1 Trade receivables listing not updated****Risk Rating - High**

OAG acknowledged the effort of the Provincial Government in establishing a trade receivables listing to monitor the revenue collection for the financial year, however it was noted that the listing was not updated to capture all the businesses that are operating in the Province. Furthermore, it was noted that the trade receivables balance as at 31 March 2014 was not disclosed in the IPSAS Cash Basis financial statements under the additional encouraged note so that stakeholders know how much money is still to be collected from the businesses.

Implications

Failure to update the trade receivables listing increases the risk of loss of revenue, unauthorised collection of revenue and misstatement of the financial statement.

Recommendation 11

OAG recommends that the Provincial Government:

- Ensure to regularly update the trade receivables listing and;
- Ensure to properly disclose the trade receivables balance in the financial statement for the purpose of accountability and transparency.

Executive Response

Yes, the trade receivable need to be updated.

6.0 TRADE PAYABLES

6.1 Unaccounted creditors/trade payables (C/fwd from 2012/13)

Risk Rating – High

As noted from previous audits, the Malaita Provincial Government continue to lack a proper trade payables listing or register for the financial year. This has made it difficult for the Malaita Provincial Government to know how much is owed to the businesses for the procurement of goods and services for the 2013/14 financial year. In addition, it was noted that Malaita Provincial Government does not deduct contract withholding tax and pay the deductions to Inland Revenue. Audit also is unable to verify and confirm the liabilities of the Province in the financial statement that was provided for examination.

Implications

Failure to maintain a proper trade payables listing increases the risk of loss of public monies to ghost businesses, budget for next financial year has to increase for debt servicing rather than service delivery to rural people and misstatement of the financial statement.

Recommendation 12

OAG recommends that the Provincial Government:

- Ensure that a proper trade payables register is established immediately and regularly updated;
- Must deduct the contract withholding tax and pay it to IRD on timely basis and;
- Ensure to disclose the balance of trade payables in the financial statement under the additional encouraged note.

Executive Response

Yes as the new PS, we will ensure that trade payables is established with the newly recruited finance staffs.

7.0 INVESTMENTS

7.1 MCDA financial position not consolidated (C/fwd from 2012/13)

Risk Rating - High

OAG continue to note that all the investment activities of the Provincial Government were managed by the Malaita Chazon Development Authority (MCDA). However, it was noted that recently MCDA is not operating viably as anticipated therefore the assembly has decided to suspend the management and move the administration of MCDA to Provincial Government. OAG discovered that prior to assembly's decision, MCDA has produce its own financial statement that was not consolidated with the Provincial Government's financial statement. There is need for MCDA's financial statement to be consolidated in the financial statement of the Province.

Implications

Non consolidation of the investments of the province in its financial statement undermines the reporting requirements of IPSAS. It also shows untrue picture of investment activities because none were disclosed in the financial statement when in fact there are investment activities being operated under the MCDA and was reported in their financial statement. The non-disclosure in the financial statement understates the investments balance. As a result of the lack of record keeping over revenue for this controlled entity, this will lead to a qualification within the independent audit opinion because OAG is unable to verify the completeness and accuracy of this investment in the consolidated financial statements of the Provincial Government.

Recommendation 13

OAG recommends that the Provincial Government:

- Ensure that consolidation of the investment be made to make sure a true and fair view of the investment balance is reflected in the financial statement.

Executive Response

As the new PS, this needs to be discussed with the MCDA Board in the coming board meeting.

8.0 SPECIAL IMPRESTS & STAFF ADVANCES

8.1 Weak control over imprests

Risk Rating – High

OAG found that some of special imprests given to the provincial officers were not retired at all and no reminder letters were issued to them to retire their imprests as soon as possible as required in section 51 of the Financial Management Ordinance 2008. Furthermore, it was noted that no recovery measures were taken against the imprest holders with outstanding for more than 30 days.

Implications

Lack of control over imprests increases the risk of loss of provincial monies, misappropriation, budget over-run, negligence of duty and lack of accountability by officers.

Recommendation 14

OAG recommends that the Provincial Government:

- Ensure to comply with section 51 of the Financial Management Ordinance 2008;
- Must regularly update the special imprest register and;
- Ensure that the unretired imprests are monitored and recovery action implemented.

Executive Response

As the new PS, we will ensure that all unretired imprests will be monitored and recovered.

8.2 Multiple imprests

Risk Rating – High

OAG has reviewed the electronic imprest register that was provided during the audit and discovered that nine (9) officers were issued with multiple special imprests for the financial year which is a serious breach of Financial Management Ordinance 2008. Financial Management Ordinance 2008 prohibits any officer to be issued with a new imprest if he or she still have un-retired imprest. OAG was not able to get explanation for giving those officers imprests when they still have un-retired imprests.

Implications

The manner in which officers were given multiple imprests increases the risk of abuse, misappropriation, overspending of budget, lack of accountability by officers and incompetency.

Recommendation 15

OAG recommends that the Provincial Government:

- Ensure that no new imprest should be given to officer with outstanding imprest and;
- Must ensure to regularly update the imprest register and do follow up with imprest holders to retire their imprests as soon as practical.

Executive Response

As the new PS, we will ensure that imprests will not be given to the officers with outstanding imprests.

8.3 Missing payment vouchers for imprest and advance

Risk Rating – High

It was noted during the audit that one payment voucher for special imprest that was issued to Peter Hauia on 28 October 2013 for \$8,560 and one payment voucher for staff advance to Clera Rikimani on 30 October 2013 for \$1,700 were missing from the folders provided to OAG. Section 108 of the Solomon Islands Constitution mandated the Auditor General or his officers to have access to the accounts, records and documents of the Ministries, Provincial Governments and Agencies to audit them and report back to the National Parliament every year. As a result of the non-availability of the payment vouchers, OAG is unable to determine the completeness and accuracy of the special imprest and staff advance.

Implications

Lack of payment vouchers for special imprest and advance increases the risk of misappropriation, misuse and abuse of provincial funds, loss of provincial monies, conflict of interest and misstatement of the financial statements.

Recommendation 16

OAG recommends that the Provincial Government:

- Ensure to properly file the payment vouchers in the folders after payments are made.

Executive Response

As the new PS, we are to ensure that the payment vouchers are properly filed.

8.4 Un-acquitted imprests**Risk Rating – High**

OAG discovered that five (5) special imprests with a total value of \$99,240 were not acquitted even up to the date of audit. Financial Management Ordinance 2008 requires every imprests issued to the officers must be retired after the completion of the purpose of the imprest. The un-acquitted imprests has made it difficult for OAG to determine whether the funds has been spent for its purpose or not. Table below details the un-acquitted imprests for the audited period.

Date issued	Name of imprest holder	Cheque number	Division	Amount
20-Jan-14	Francis Irofimae	0977229	Finance	\$47,900
14-Feb-14	Christopher Totorea	0977366	Planning	\$16,800
5-Mar-14	Mathew Maefai	0977379	Provincial Assembly	\$15,000
12-Dec-13	Hicksly Fafale	1488789	Admin	\$4,540
			Total	\$84,240

Furthermore, OAG noted that one special imprest given to Christopher Totorea on 12 November 2013 for \$15,000 was partially retired with the amount of \$3,600 on 14 May 2014 rather than \$6,000 as stated in the retirement form.

Implications

The manner of un-acquitted imprests increases the risk of fraud, misappropriation, budget over-run and misstatement of the financial statements.

Recommendation 17

OAG recommends that the Provincial Government:

- Must remind the imprest holders with outstanding imprests to retire their imprests as soon as possible and;
- Monitor the imprests regularly and implement recovery measure for imprests that are not retired for more than one month.

Executive Response

As the new PS, the imprests holders with the outstanding imprests must retire their imprests.

8.5 No authorisation of imprests and advances**Risk Rating – Moderate**

OAG found that three special imprests and one staff advance were not properly authorised by the responsible officers such as Provincial Secretary and Provincial Treasurer before the payments were made or when imprests are retired. Generally for special imprest and staff advance when there is a need for them, the supervisor of that officer will sign the requisition before it is forwarded to the Finance division for Provincial Treasurer and Provincial Secretary to endorse and approve it before the payment voucher is raised and signed by them. However, this was not the case for the four samples mentioned above and this has made it difficult for audit to determine the genuineness of the payments.

Date issued	Name	Chq #	Division	Amount	Remarks
20-Jan-14	Francis Irofimae	0977229	Finance	\$47,900	No signature of PS on imprest warrant
14-Feb-14	Christopher Totorea	0977366	Planning	\$16,800	No signature of PS on imprest warrant
12-Nov-13	Christopher Totorea	124006	Planning	\$15,000	No signature of PS for retirement form
5-Feb-14	Nelson Kwai	0977338	Works	\$5,000	Requisition not signed by PS and PTR
			Total	\$84,700	

Implications

Lack of authorisation increases the risk of conflict of interest, budget over-run, fraud and abuse of provincial funds.

Recommendation 18

OAG recommends that the Provincial Government:

- Must ensure that all requisitions, payment vouchers and imprest warrants are properly authorised by responsible officer before the next process is implemented.

Executive Response

As the new PS, there were memos and instructions that no unbudgeted items will be authorised.

8.6 No staff advance register maintained**Risk Rating – High**

During the audit, it was noted that the Provincial Government did not maintain any staff advance register for the 2013/14 financial year. Instead the staff advance information are inputted into the MYOB system after the advance payments are made to the staff. It is important to have a staff advance register to record the advances that are given to the provincial staffs in order to monitor their recovery from salary and to reconcile with the general ledger. OAG is unable to verify the transactions in the general ledger for their completeness and accuracy.

Implications

Lack of staff advance register increases the risk of conflict of interest, loss of provincial monies, deliberate omission of staff that have taken advances in the MYOB system, inaccurate reporting and misstatement of the financial statements.

Recommendation 19

OAG recommends that the Provincial Government:

- Must establish a staff advance register immediately and regularly update it.

Executive Response

As the new PS, the staff advance register must be updated.

9.0 MPA ALLOWANCES & WARD DEVELOPMENT GRANT (WDG)**9.1 Lack of supporting documents for ward development grant disbursement****Risk Rating - High**

OAG noted that 40% (10/25) of the selected samples were without proper supporting documents such as request letters, proforma invoices and cost breakdown attached with the ward development grant forms when payments were made for the audited period. In addition, it was noted that most of the ward development grant forms just stated that the funds were for assistance to church groups, communities, youth groups etc which is too general for reporting and verification purposes. The MPAs needs to clearly state the names of the beneficiaries when completing the WDG forms. Appendix 2 shows the detail of sample without adequate supporting documents.

Implications

The poor control over the disbursement of WDG increases the risk of misappropriation, abuse, loss of provincial funds, inaccurate reporting and poor development within the wards.

Recommendation 20

OAG recommends that the Provincial Government:

- Must ensure that the MPA clearly state the names of the beneficiaries of the grants in the WDG form.

Executive Response

Yes as the new PS, MPA allowances and WDG will be controlled.

9.2 Discrepancy in the amounts paid for allowances & WDG**Risk Rating – Moderate**

It was discovered that there are certain discrepancies found in the payment for allowances to the MPAs. On one payment voucher, OAG noted that \$37,200 was paid for executive allowances but the Provincial Government should only paid \$36,290 as one MPA was not present for the meeting. Furthermore, two MPAs did not sign for the allowance so OAG was unable to verify whether they have received the allowances or not.

Also OAG found from two payment vouchers that the MPA requested a certain amount but was paid a different amount from the WDG. No reason was provided to OAG for the discrepancy noted from the two payment vouchers as the responsible officers were not available during the audit.

Implications

Lack of control over the payment of allowance and WDG increases the risk of fraud, misappropriation, conflict of interest, budget over-run and loss of provincial funds.

Recommendation 21

OAG recommends that the Provincial Government:

- Should ensure that correct amounts are paid to the MPAs as allowances and WDG.

Executive Response

As the new PS, we will ensure that correct and equal amounts are paid to MPA for fairness.

9.3 Missing payment vouchers**Risk Rating – High**

It was noted that three payment vouchers for meeting allowances were missing during the audit so OAG was not able to determine its completeness and accuracy of the payments. Request was made to the treasury officers to locate them but still they could not find those payment vouchers. Table below shows the detail of missing payment vouchers.

Date issued	Cheque #	Names	Amount paid (\$)
09/12/13	1488783	Sundry persons – allowances	57,228.60
06/12/13	0995658	Sundry persons – allowances	14,445.00
09/12/13	1488781	Sundry persons – allowances	6,600.00
		Total	78,273.60

Implications

The unavailability of the payment vouchers increases the risk of fraudulent activities, abuse, misappropriation, political expediency and budget over-run.

Recommendation 22

OAG recommends that the Provincial Government:

- Must ensure all payment vouchers are properly file in the folders and stored in a secured location from public.

Executive Response

As new PS, all missing PV should be monitored and stored securely.

9.4 Unequal distribution of ward development grants to MPAs

Risk Rating – High

During the audit, it was discovered that there is unequal distribution of the ward development grants to each Member of Provincial Assembly (MPA) for the 2013/14 financial year. Each MPA is allocated \$50,000 for the financial year but it was noted that seven (7) MPAs received less than \$50,000 while four (4) MPAs received more than \$50,000. OAG did not received any vital explanation as to why there is unequal disbursement of WDG for the financial year. Appendix 3 shows the unequal distribution of WDG to MPAs.

Implications

The manner in which the WDG is not equally distributed amongst the MPAs increases the risk of political expediency, conflict of interest, misappropriation, abuse of power, under spending of budget and lack of developments in the wards.

Recommendation 23

OAG recommends that the Provincial Government:

- Must ensure that each MPA are paid what is allocated to them for each financial year.

Executive Response

As new PS, all MPA should receive equal amounts of ward development grants according to acquitting reports.

9.5 Ward development grants not acquitted**Risk Rating – High**

From the 15 sample of ward development grants selected and tested, it was found that 73% (11/15) were not acquitted by the MPAs as required under the WDG guidelines. Furthermore, 13% (2/15) were partially acquitted for the audited period. Acquittal of WDG would enable the Provincial Government to know what sort of activities are funded through the grants in the wards and for reporting purpose to the MPGIS and stakeholders. Table below details the WDG that were not acquitted and those that were partially acquitted.

Date issued	Cheque number	Name of MPA	Amount	Remarks
11/03/14	1487202	Hon. Peila Peter	\$30,000.00	Not retired
13/01/14	124119	Hon. Messach Liufania	\$25,000.00	Not retired
13/01/14	124120	Hon. Martin Fingi	\$19,000.00	Partially retired. Only \$7,100 retired
15/01/14	124171	Hon. Stanley Kitofu	\$17,200.00	Not retired
01/10/13	127550	Hon. Erickson Otia	\$12,500.00	Not retired
02/10/13	127575	Hon. Richard Irosaea	\$12,500.00	Not retired
01/10/13	127546	Hon. Andrew Rofeta	\$12,500.00	Not retired
13/01/14	124109	Hon. Andrew Rofeta	\$12,500.00	Partially retired. Only \$11,500 retired
28/03/14	1487232	Hon. Teusa Ezekiel	\$30,000.00	Not retired
02/10/13	127576	Hon. Paul Ruuka	\$12,500.00	Not retired
13/01/14	124111	Hon. Cornelius Keteau	\$25,000.00	Not retired
01/10/13	127550	Hon. Alick Maeaba	\$13,700.00	Not retired
14/01/14	124139	Hon. Japhlet Sau	\$13,485.00	Not retired
		Total	\$235,885.00	

Implications

Lack of acquittal of WDG increases the risk of poor accountability, no transparency, misappropriation, misuse and loss of provincial funds, political expediency and inaccurate reporting.

Recommendation 24

OAG recommends that the Provincial Government:

- Must make sure that the MPA acquit his ward development grant before he can receive the next tranche of his WDG and;
- Remind the MPAs of their obligation to acquit the WDG on timely basis in order for proper reporting can be achieved and issued to stakeholders.

Executive Response

All ward development grant reports must be received before next trench is paid.

10.0 EXPENDITURE**10.1 Missing Payment Vouchers for expenditure (C/fwd from 2012/13)****Risk Rating – High**

As noted from previous audits, OAG still identifies weaknesses in the keeping of records as there is a total of \$270,321.00 of sample selected that were missing during the audit. Requests have been made to the treasury officers to locate them but was unsuccessful. In addition, OAG noted lack of sufficient supporting documents for payments which was worth \$204,032.00. Section 108 of the Solomon Islands Constitution Mandates the Auditor General or his officers to have access to the records, accounts and documents of the National Government, Provincial Governments and Agencies and report to the National Parliament each year. OAG is unable to verify the accuracy and completeness of the payments due to the deficiency noted above. Table below outlined the findings during the audit.

Cheque #	Date	Description	Amount	Remarks
124042	23/12/13	Low Price Enterprises	\$70,000.00	Missing payment voucher
124043	23/12/13	Solomon Quan Store	\$120,000.00	Missing payment voucher
124047	31/12/13	S & P Shop	\$36,000.00	Missing payment voucher
124045	31/12/13	Sundry Persons	\$44,321.18	Missing payment voucher
124105	13/01/14	Robert Ete	\$111,000.00	No contract agreement sighted
124085	10/01/14	Moses Akotee	\$21,958.54	No contract agreement sighted
124191	16/01/14	Moses Akotee	\$21,240.00	No contract agreement sighted
1488727	12/11/13	Moses Akotee	\$20,000.00	No contract agreement sighted
977337	05/02/14	Brats Security	\$19,833.52	No contract agreement sighted
1488607	08/10/13	Restoration Security Services	\$10,000.00	No contract agreement sighted
		Total	\$474,353.24	

Implications

The legitimacy of expenditure is unsubstantiated as there are no or insufficient documents such as requisition, payment vouchers and invoices to confirm verification, approval and authorisation by delegated officers to substantiate the payments on a specific head allocated on the approved budget. Furthermore, OAG is unable to form an opinion on the accuracy, completeness and validity of the expenditures.

Recommendation 25

OAG recommends that the Provincial Government:

- Must make that sufficient documents are attached with the payment vouchers prior to payments are made;
- Ensure to properly file the payment vouchers in a secured location from public access;
- Must always comply with the Government Records Management Policy and;
- Ensure to always provide the documents for audit when request is made.

Executive Response

All payment vouchers need to be attached with proper documents and items and activities must be budgeted for before being approved.

10.2 Lack of cost assessment**Risk Rating – High**

During the review of the capital and recurrent expenditures in relation to repairs and maintenance, it was noted that the total value for the audited period was \$628,215.00 and there has been no assessment performed on the likelihood of its cost for the reasonable value of repairs, labour and the contractor's contract. OAG is unable to determine the probity of the transactions for the capital and recurrent expenditures.

Implications

Without proper assessment of the damage and its cost, Malaita Provincial Government could have incur expenses that are overstated and provincial funds could have been misused. This is simply a wastage of provincial resources that could be used in other areas for improvements.

Recommendation 26

OAG recommends that the Provincial Government:

- Ensure that capital and recurrent expenditure related to repairs and maintenance, there must be an assessment carried out before the funds are expended from the accounting head.

Executive Response

Upon completion of jobs and tasks these must be physically assessed before approval for payment.

10.3 Not compliance with budget**Risk Rating – High**

It was discovered during the audit that the Malaita Provincial Government has not complied with the approved budget for the 2013/14 financial year. OAG noted that expenditure for security services and second appointed day celebration are overspent from the approved budget which indicated that there is lack of serious abuse of financial

management within the Provincial Government. Table below shows the finding of overspending of budget for the audited period.

Accounting head	Expenditure type	Original budget	Virement	Revised budget	Actual in FS	Difference (Overspending)
6-3173	Security services	\$200,270	\$146,114	\$346,384	\$441,808	\$241,538
6-3162	Second appointed day celebration	\$290,000	\$490,000	\$780,000	\$874,350	\$584,350
	Total	\$490,270	\$636,114	\$1,126,384	\$1,316,158	\$825,888

Implications

Non-compliance with budget increases the risk of unnecessary spending, political expediency, conflict of interest, incompetency and cashflow constraints.

Recommendation 27

OAG recommends that the Provincial Government:

- Spend according to its approved budget for the financial year;
- Ensure to hold regular meeting with the head of the divisions to update them on the status of their budget and;
- Ensure that the Provincial Treasurer continue to monitor the spending of each division and provide advice accordingly.

Executive Response

There must be regular HOD meetings so that they are reminded of in compliance with the budget and the Treasurer need to monitor the funds allocated for each division.

11.0 PROPERTY PLANT AND EQUIPMENT

11.1 Asset register not updated

Risk Rating - High

OAG acknowledges that the Provincial Government has maintained an asset register however, it does not fully disclose the value of the assets, location, disposal value, disposal date and the register was not updated to capture the assets that were procured in the 2013/14 financial year. Furthermore, the Provincial Government does not have in place an asset policy and management mechanism to decide how and when to purchase, maintain and dispose of assets. 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.

In addition, 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 monitoring the provincial government's assets may lead to ineffective budget planning. In addition, management's task of determining the market value of its assets is more difficult. By not updating and reconciling the asset register with the GL there is a lack of accountability for assets which increases the risk of theft and abuse of Provincial Government assets.

Recommendation 28

OAG recommends that the Provincial Government:

- Must ensure that a proper asset register is in place which indicates acquisition cost, charge of revaluation, disposal, depreciation, additional cost and market value of the asset;
- Should regularly update the asset register and;
- Ensure to establish an asset management policy as soon as practical.

Executive Response

As the new PS, a proper asset register must be in place.

11.2 Poor control over assets

Risk Rating – High

OAG identified that there is poor control over assets where it was discovered through the interview with the asset officer that the following situation occurs in the audited period:

- The former deputy treasurer removed certain assets such as computer and chairs from his office without the knowledge of the asset officer or Permanent Secretary.
- The Provincial Government received invoice # 69 on 04/02/14 from Bush-Man Furniture for food selves for \$3,300 and payment was made on 07/04/14 from cheque # 124918 but as at the date of the audit, the food selves were not delivered to the provincial staff houses.
- Some assets were proposed for disposal and were transported and stored in the works building but some people removed them without the asset officer's knowledge as the building does not have any locks to secure the assets.
- Not stock take was performed for the 2013/14 financial year to determine the accurate number and value of assets.

Implications

Lack of control over assets increases the risk of theft, loss of provincial funds, misuse, abuse and misstatement of the financial statements.

Recommendation 29

OAG recommends that the Provincial Government:

- Must ensure to advise the former provincial treasurer to return the assets owned by the provincial government or pay for them;
- Should immediately inform the bush-man furniture to deliver the food shelves or else legal action taken the firm;
- Ensure to store any assets for disposal in a secured location and
- Must carry out stock take each year to determine the existence, accuracy, completeness and probity of the assets.

Executive Response

As the new PS, we will follow up on the food safe from the Bush Man furniture or advice Legal Officer to take legal action.

12.0 APPENDICES**12.1 Appendix 1 – Revenue not banked promptly**

Receipt #	Date	Description	Amount
0671	25/02/14	Peter Hauia – PS – Advance for 2 nd fortnight salary – February 2014	\$140,000.00
0631	31/12/13	L.W Chan Store – Cash advance for Dec 2 salary	\$50,000.00
0632	31/12/13	S.P Store – Cash advance for Dec salary	\$30,000.00
0633	31/12/13	Low Price – Cash advance for Dec salary	\$80,000.00
0634	31/12/13	Guohen Store – Cash advance for Dec salary	\$20,000.00
0635	31/12/13	Douglas Arui – Cash advance Malaita Province	\$100,000.00
0614	23/12/13	Low Price – Cash advance for Dec salary	\$50,000.00
0617	23/12/13	Solomon Quan Store – Cash advance for Dec 2 salary	\$100,000.00
		Total	\$570,000.00

12.2 Appendix 2 – WDGs without adequate supporting documents

Date Issues	Cheque #	MPA's Name	Amount	Remarks
11/03/14	1487202	Hon. Peila Peter	\$30,000.00	No proforma invoice, request letters or supporting documents attached to WDG form
13/01/14	124119	Hon. Messach Liufania	\$25,000.00	No proforma invoice, request letters or supporting documents attached to WDG form
13/01/14	124120	Hon. Martin Fingi	\$19,000.00	No proforma invoice, request letters or supporting documents attached to WDG form
15/01/14	124171	Hon. Stanley Kitofu	\$17,200.00	No proper invoices from schools attached to WDG form
01/10/13	127550	Hon. Erickson Otia	\$12,500.00	No proper request letter attached with cost breakdown
01/10/13	127550	Hon. Daniel Riimana	\$12,500.00	No proper request letter from Rate Primary School attached to WDG form
01/10/13	127546	Hon. Andrew Rofeta	\$12,500.00	No proforma invoice, request letters or supporting documents attached to WDG form
13/01/14	124109	Hon. Andrew Rofeta	\$12,500.00	No proforma invoice, request letters or supporting documents attached to WDG form
02/10/13	127578	Hon. Everesto Edgar	\$12,500.00	No proforma invoice, request letters or supporting documents attached to WDG form
02/10/13	127576	Hon. Paul Ruuka	\$12,500.00	No request letter from farmers attached to WDG form
		Total	\$166,200.00	

12.3 Appendix 3 – Details of the unequal distribution of WDG to MPAs

Ward No.	MPA's Name	WDG Allocation	WDG paid	Percentage
1	HON JOSEPH AU	\$ 50,000.00	\$ 50,000.00	3.11
2	HON RICHARD IROSAEA	\$ 50,000.00	\$ 50,000.00	3.11
3	HON MARTIN FINGI	\$ 50,000.00	\$ 52,800.00	3.30
4	HON ERICKSON OTIA	\$ 50,000.00	\$ 50,000.00	3.11
5	HON RENSLY UGUNI	\$ 50,000.00	\$ 50,000.00	3.11
6	HON STANLEY KITOFU	\$ 50,000.00	\$ 50,000.00	3.11
7	HON DANIEL RIIMANA	\$ 50,000.00	\$ 50,000.00	3.11
8	HON EDWIN SUIBAEA	\$ 50,000.00	\$ 50,000.00	3.11
9	HON LIUFAINIA MESSACH	\$ 50,000.00	\$ 50,000.00	3.11
10	HON ANDREW ROFETA	\$ 50,000.00	\$ 56,800.00	3.54
11	HON CORNELIUS KETEAU	\$ 50,000.00	\$ 50,000.00	3.11
12	HON EGAR K EVERESTO	\$ 50,000.00	\$ 50,000.00	3.11
13	HON SAM BOBBY	\$ 50,000.00	\$ 51,500.00	3.21
14	HON JOEL MAMALI	\$ 50,000.00	\$ 50,000.00	3.11
15	HON HADRICK DANGINA	\$ 50,000.00	\$ 52,800.00	3.30
16	HON BILLY FAROBO	\$ 50,000.00	\$ 50,000.00	3.11
17	HON PAUL RUUKA	\$ 50,000.00	\$ 50,000.00	3.11
18	HON WILLIAMSON MITI	\$ 50,000.00	\$ 50,000.00	3.11
19	HON SLADE A PATSON	\$ 50,000.00	\$ 50,000.00	3.11
20	HON JIMMY REREHE	\$ 50,000.00	\$ 37,500.00	2.33
21	HON JOB SALAN POLAIEPU	\$ 50,000.00	\$ 48,800.00	3.04
22	HON LESLIE SARU	\$ 50,000.00	\$ 25,000.00	1.57
23	HON FRANCIS WATELIU	\$ 50,000.00	\$ 50,000.00	3.11
24	HON BEATO APANIA	\$ 50,000.00	\$ 49,300.00	3.07
25	HON JIMMY NAMORIU	\$ 50,000.00	\$ 50,000.00	3.11
26	HON ABRAHAM FANAMAEA	\$ 50,000.00	\$ 50,000.00	3.11
27	HON STEPHEN SIULAMO	\$ 50,000.00	\$ 44,300.00	2.77
28	HON JAPHLET SAU	\$ 50,000.00	\$ 46,285.00	2.89
29	HON ALICK MAEABA	\$ 50,000.00	\$ 50,000.00	3.11
30	HON RANDALL SIFONI	\$ 50,000.00	\$ 40,916.00	2.56
31	HON EDWIN KOUOLISI	\$ 50,000.00	\$ 50,000.00	3.11
32	HON PETER PEILA	\$ 50,000.00	\$ 50,000.00	3.11
33	HON TEUSA EZEKIEL	\$ 50,000.00	\$ 50,000.00	3.11
		\$ 1,650,000.00	\$ 1,606,001.00	100

13.0 AUDIT ACTION PLAN

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
1	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Ensure to correct the deficiency noted in the audit and; • Must always properly disclose the information on the face of the financial statements in the notes to comply with IPSAS cash basis accounting standards. 	<i>As the new Provincial Secretary, I have advised the Treasurer and the Financial Advisor to correct the deficiencies in the financial statements.</i>	<i>Provincial Treasurer & Financial Advisor</i>	<i>March 2015</i>
2	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must ensure that all the responsible officers should be available to assist the audit team for the smooth and successful conduct of the audit. 	<i>As the new Provincial Secretary, I will make sure that all responsible officers to be available before the audit team arrives.</i>	<i>PS, PTR & Financial Advisor</i>	<i>July 2015</i>
3	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Ensure that the minutes were signed off by the relevant officers soon after the compilation of the minutes for as a true record of the meetings and; • Make sure the minutes includes the timing of the meetings and list of attendants. 	<i>It is noted by new PS that meeting minutes must be signed off by relevant officers after compilation of minutes and the minutes should include timing and list of attendants.</i>	<i>PS</i>	<i>April 2015</i>
4	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Ensure that every executive minutes are printed and signed before they are placed in the proper folder away from public access. 	<i>All executive minutes will be printed and signed.</i>	<i>Premier & PS</i>	<i>April 2015</i>
5	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Ensure that the unrepresented cheques of more than six months be cancelled and the management consider re-issuing new cheques to the suppliers and; • Ensure to monitor the cheques that are issued so that they are presented to the bank within the required timeframe. 	<i>As the new PS, we will cancel the cheques that are above six months and we will re-issue new cheques. These cheques will also be monitored.</i>	<i>PTR & Financial Advisor</i>	<i>April 2015</i>
6	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Ensure all bank reconciliations are signed and dated by the officers who prepare and review them and; • Ensure the officer that extracted the bank reconciliations from the MYOB to be the preparer of the bank reconciliations. 	<i>As the new PS, these bank reconciliations must be signed accordingly.</i>	<i>PTR & Financial Advisor</i>	<i>April 2015</i>
7	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Ensure to establish a proper manual cashbook and; • Make sure to regularly maintain the cashbook. 	<i>Yes, there will be proper manual cashbook and regularly maintained.</i>	<i>PTR & Financial Advisor</i>	<i>April 2015</i>
8	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must comply with section 30(2) of the Financial Management Ordinance 2008 in the prompt banking of revenue and; 	<i>As the new PS, we must ensure that section 30(2) of the Financial Management 2008 is in complied with.</i>	<i>PTR & Financial Advisor</i>	<i>April 2015</i>

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> Ensure that receipts are properly recorded in the general ledger. 			
9	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure that changes made to the receipts must be initialled by the person who made the changes for transparency and accountability purposes. 	<i>As the new PS, tampering of carbon receipts must stop.</i>	PTR, Financial Advisor & Revenue Officers	April 2015
10	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure that only one copy per receipt book is produced for the collection of revenue. 	<i>Yes, dual copies of receipts must stop and only one copy is allowed.</i>	PTR, Financial Advisor & Revenue Officers	April 2015
11	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure to regularly update the trade receivables listing and; Ensure to properly disclose the trade receivables balance in the financial statement for the purpose of accountability and transparency. 	<i>Yes, the trade receivable need to be updated.</i>	PTR & Financial Advisor	April 2015
12	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure that a proper trade payables register is established immediately and regularly updated; Must deduct the contract withholding tax and pay it to IRD on timely basis and; Ensure to disclose the balance of trade payables in the financial statement under the additional encouraged note. 	<i>Yes as the new PS, we will ensure that trade payables is established with the newly recruited finance staffs.</i>	PTR & Financial Advisor	April 2015
13	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure that consolidation of the investment be made to make sure a true and fair view of the investment balance is reflected in the financial statement. 	<i>As the new PS, this needs to be discussed with the MCDA Board in the coming board meeting.</i>	PS, PTR & Financial Advisor	June 2015
14	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure to comply with section 51 of the Financial Management Ordinance 2008; Must regularly update the special imprest register and; Ensure that the unretired imprests are monitored and recovery action implemented. 	<i>As the new PS, we will ensure that all unretired imprests will be monitored and recovered.</i>	PS, PTR & Financial Advisor	April 2015
15	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure that no new imprest should be given to officer with outstanding imprest and; Must ensure to regularly update the imprest register and do follow up with imprest holders to retire their imprests as soon as practical. 	<i>As the new PS, we will ensure that imprests will not be given to the officers with outstanding imprests.</i>	PS, PTR & Financial Advisor	April 2015
16	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure to properly file the payment vouchers in the folders after payments are made. 	<i>As the new PS, we are to ensure that the payment vouchers are properly filed.</i>	PTR & Financial Advisor	April 2015

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
17	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must remind the imprest holders with outstanding imprests to retire their imprests as soon as possible and; • Monitor the imprests regularly and implement recovery measure for imprests that are not retired for more than one month. 	<i>As the new PS, the imprests holders with the outstanding imprests must retire their imprests.</i>	PTR & Financial Advisor	April 2015
18	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must ensure that all requisitions, payment vouchers and imprest warrants are properly authorised by responsible officer before the next process is implemented. 	<i>As the new PS, there were memos and instructions that no unbudgeted items will be authorised.</i>	PS, PTR & Financial Advisor	April 2015
19	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must establish a staff advance register immediately and regularly update it. 	<i>As the new PS, the staff advance register must be updated.</i>	PTR & Financial Advisor	April 2015
20	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must ensure that the MPA clearly state the names of the beneficiaries of the grants in the WDG form. 	<i>Yes as the new PS, MPA allowances and WDG will be controlled.</i>	PTR & Financial Advisor	April 2015
21	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Should ensure that correct amounts are paid to the MPAs as allowances and WDG. 	<i>As the new PS, we will ensure that correct and equal amounts are paid to MPA for fairness.</i>	PTR & Financial Advisor	April 2015
22	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must ensure all payment vouchers are properly file in the folders and stored in a secured location from public. 	<i>As new PS, all missing PV should be monitored and stored securely.</i>	PTR & Financial Advisor	April 2015
23	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must ensure that each MPA are paid what is allocated to them for each financial year. 	<i>As new PS, all MPA should receive equal amounts of ward development grants according to acquitting reports.</i>	PS, PTR & Financial Advisor	April 2015
24	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must make sure that the MPA acquit his ward development grant before he can receive the next tranche of his WDG and; • Remind the MPAs of their obligation to acquit the WDG on timely basis in order for proper reporting can be achieved and issued to stakeholders. 	<i>All ward development grant reports must be received before next trench is paid.</i>	PS, PTR & Financial Advisor	April 2015
25	OAG recommends that the Provincial Government: <ul style="list-style-type: none"> • Must make that sufficient documents are attached with the payment vouchers prior to payments are made; • Ensure to properly file the payment vouchers in a secured location from public access; • Must always comply with the Government Records Management Policy and; 	<i>All payment vouchers need to be attached with proper documents and items and activities must be budgeted for before being approved.</i>	PS, PTR & Financial Advisor	April 2015

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> Ensure to always provide the documents for audit when request is made. 			
26	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Ensure that capital and recurrent expenditure related to repairs and maintenance, there must be an assessment carried out before the funds are expended from the accounting head. 	<i>Upon completion of jobs and tasks these must be physically assessed before approval for payment.</i>	PS, PTR & Financial Advisor	April 2015
27	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Spend according to its approved budget for the financial year; Ensure to hold regular meeting with the head of the divisions to update them on the status of their budget and; Ensure that the Provincial Treasurer continue to monitor the spending of each division and provide advice accordingly. 	<i>There must be regular HOD meetings so that they are reminded of in compliance with the budget and the Treasurer need to monitor the funds allocated for each division.</i>	PS, PTR & Financial Advisor	April 2015
28	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Must ensure that a proper asset register is in place which indicates acquisition cost, charge of revaluation, disposal, depreciation, additional cost and market value of the asset; Should regularly update the asset register and; Ensure to establish an asset management policy as soon as practical. 	<i>As the new PS, a proper asset register must be in place.</i>	PTR & Financial Advisor	June 2015
29	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> Must ensure to advise the former provincial treasurer to return the assets owned by the provincial government or pay for them; Should immediately inform the bush-man furniture to deliver the food shelves or else legal action taken the firm; Ensure to store any assets for disposal in a secured location and Must carry out stock take each year to determine the existence, accuracy, completeness and probity of the assets. 	<i>As the new PS, we will follow up on the food safe from the Bush Man furniture or advice Legal Officer to take legal action.</i>	PTR & Financial Advisor	April 2015