



SOLOMON ISLANDS GOVERNMENT

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

Rennell & Bellona Provincial Government

1 October 2013 to 31 March 2014

Reported by:

**Office of the Auditor-General
P O Box G18
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EXECUTIVE OVERVIEW

Background

The Rennell and Bellona Provincial Government should have submitted its financial statements for the financial year ended 31st March 2014 to this Office after nine months of the year end as required under s.39(2) of the *Provincial Government Act 1997*. However, to date, there is no financial statements received by this Office. Rennell and Bellona 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 Rennell and Bellona Provincial Government accounts and records in order to form an opinion on the financial statement.

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 Rennell and Bellona 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 Rennell and Bellona Provincial Government for the period of 1 October 2013 to 31 March 2014.

Findings

The audit continuously identified that the Rennell and Bellona Provincial Government has not made significant improvements over its record keeping of revenue and expenditures for the 2013/14 financial year. Therefore, 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 from the recommendations. In addition, all investments and assets are encouraged to be taken up in the financial statements.

A summary of these audit issues identified are described below.

Risk ratings that have been assigned to each audit finding to help identify which audit observations should be given priority. The risk rating has been assigned as follows:

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 satisfactory 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 address promptly; and/or • Low risk matters which have been reported to management in the past but have not been satisfactory 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.

- **Financial statements not received**

Risk Rating – High

When the audit was conducted in November 2014, OAG is still to receive the 2013/14 financial statements as required in Part V, subsection 39 (2) of the Provincial Government Act 1997. In addition, OAG did not receive the 2012/13 financial statements. This has resulted in the Auditor General unable to examine the financial statements and provide his independent audit opinion.

- **Inadequate control over revenue**

Risk Rating – High

It has been noted and confirmed that Rennell & Bellona Provincial Government has inadequate control over revenue such as poor monitoring and collection of internal revenue, SIG grants not receipted, cashbook not available and banking not made on a timely basis for the audited period. These deficiencies increase the risk of theft, misappropriation and unauthorised collection of public funds. Also, there is likelihood of conflict of interest, embezzlement, revenue target not achieved and misstatement of the financial statements.

- **No executive minutes available**

Risk Rating – High

During the audit, OAG was not able to examine the executive minutes as the Provincial Government did not keep them in a secured location. Furthermore, OAG noted that meetings are called for by the former Premier whenever there is something to discuss. This increases the risk of executive decisions may not be implemented as agreed and unauthorised expenditure incurred.

- **No general ledger available**

Risk Rating – High

OAG was unable to obtain the general ledger to select and examine the transactions due to the fact that the MYOB accounting system is not working for the past 2 years. The MYOB accounting system has not been working as its license has expired and the consultant engaged by the MPGIS never went to fix the problem despite the Provincial Government has paid him. This has made it problematic to determine the existence, accuracy and completeness of the expenditure which can lead to the increase risk of unauthorised payments, conflict of interest, misappropriation of provincial funds and inability to produce the financial statements to comply with relevant legislations.

- **Payments done without the proper process**

Risk Rating – High

Audit continue to observe that proper payment process was not followed by Rennell & Bellona Provincial Government as the signatories of the bank accounts did the payments in Honiara without raising requisitions, attaching invoices or supporting documents and payment vouchers prior to the release of cheques. This deficiency increases the likelihood of unauthorised payments, payments are not legitimate, loss of provincial funds, conflict of interest, political expediency, misappropriation of provincial funds and misstatement of the financial statements.

- **Payment vouchers not available**

Risk Rating – High

OAG was unable to examine the payment vouchers for the audited period as they were not available when request was made so it is difficult to determine the accuracy, existence and completeness of the payment transactions. This increases the risk of misappropriation, fraud, payments made to ghost suppliers and may lead to exhaust of approved budget.

- **No cheque butts available for audit**

Risk Rating – High

There are no cheque butts available during the audit to review the numbering of cheques used for payments for the audited period. Also, it was noted that the cheque books were in the custody of the former Premier instead of the Provincial Treasurer who should be responsible for the administration of the provincial funds. This deficiency increases the possibility of misappropriation, fraud, conflict of interest, political expediency, budget over-run and misstatement of the financial statements.

- **No register for ward development grants**

Risk Rating – Moderate

OAG found that the Provincial Government does not maintain a register to show how the ward development grants were spent in each wards. Furthermore, there is no acquittals available to examine the accuracy and completeness of the payments made from the grants. Also, no proper guideline was in placed on how to administer and disburse the ward development grants. This deficiency increases the risk of overspending of approved budget for WDG, poor service delivery to wards, misappropriation, abuse, illegitimate payments and misstatement of the financial statements.

- **Poor control over payroll system**

Risk Rating – High

The Provincial Government have poor control over payroll system where OAG discovered deficiencies such as payroll ledger was not available, salary documentation not available, payroll deduction for PAYE tax and NPF not remitted on time and personal files not maintained or updated. Those deficiencies increases the risk of province not able to determine the accuracy and timely payment of payroll, ghost employees, fraud, misuse of provincial funds, budget over-run and high debt servicing in future.

- **Poor management over cash**

Risk Rating – High

As noted from previous report, OAG continue to identify poor management over cash where there is no general ledger to record cash, no bank reconciliation filed and revenue used for direct payment for the audited period. This lack of control over cash increases the likelihood of fraud, misappropriation of funds and cash not properly recorded in the cashbook, general ledger and financial statements.

- **Failure to maintain imprests and advances registers (C/fwd from 2012/13)**

Risk Rating – High

As noted from past audits, Rennell & Bellona Provincial Government continue to fail in maintaining registers for special imprests and advances which has made it difficult to determine how much monies are still outstanding from . In addition, it was noted that special imprests and advances were continue to be given to the officers of the Province. This increases the risk of fraud, misappropriation of provincial funds, loss of funds, conflict of interest, abuse of power, budget over-run and political expediency.

- **Poor management over property, plant and equipment (C/fwd from 2011/12)**

Risk Rating – High

OAG continue to identify that the Provincial Government has not being seriously addressing the issue of property, plant and equipment due to lack of proper asset register maintained. Furthermore, there is lack of asset management policy in place to ensure assets are properly procured, recorded, maintained and disposed off in order to sustain the operation of the Provincial Government. This deficiency increases the possibilities of theft, abuse of assets, loss of assets, unplanned

spending of assets that affects the budget and unrealistic disclosure in the financial statements.

- **RBDA yet to be fully operational (C/fwd from 2011/12)**

Risk Rating – High

OAG identified as from past audits that Rennell and Bellona Development Authority (RBDA) is not fully operational due to lack of support from the Provincial Government. Although a board has been appointed in 2012, they are still to make the investment arm of the Province fully operational as required in the relevant ordinances. Also, it was noted that the Provincial Government used to have a ship that was operated by a private firm but the ship is no longer in service and was wash ashore in Honiara so it is un-operational at present. This deficiency noted increases the likelihood of mismanagement, loss of revenue through dividends, theft of assets, wastage of funds and poor reporting to executive.

- **Account receivables listing is not available (C/fwd from 2011/12)**

Risk Rating – High

OAG still continue to note that Rennell & Bellona Provincial Government has not maintained any proper account receivables listing which should enable them to know who has not paid up their business licenses or fees for the audited period. As a result, this has made it difficult for OAG to determine the completeness, accuracy and existence of the account receivables. This deficiency increases the risk of mismanagement, loss of revenue and misstatement of the financial statements.

- **Account payables listing is not available (C/fwd from 2012/13)**

Risk Rating – High

As identified from past audits, there is no account payables listing available for OAG to examine and determine whether the Provincial Government will be able to service its debts in the current financial year or not. Also, the deductions made from the direct employees for PAYE tax and NFP were never remitted to those two authorities in full or partly remitted. This deficiency increases the risk of ghost claims, creditors ceased to provide goods and services, overspending of approved budget and listing being manipulated for personal or political interest.

Conclusion

The audit of Rennell & Bellona 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, investments and assets as highlighted in the 2012/13 audit report.

OAG is greatly concerned with the lack of initiative taken to address the recommendations from past audits which will significantly affect the Provincial Government ability to access the PCDF and other funding in the future that will leads to poor service delivery to the rural people. On the other hand, OAG recognizes the constraint in human resources capacity faced by the Provincial Government to effectively address the shortcomings noted in our audits. Rennell & Bellona Provincial Government needs to liaise with the

relevant ministries to tackle the human resources constraints especially for significant positions within the Province.

OAG has examined the accounts and records for the last six months of 2013/14 financial year and its findings are highlighted in this report. In addition, OAG is still awaiting the financial statements before the Auditor General can issue his independent audit opinion.

Overall Recommendations

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

- The Provincial Government must ensure to compile and present the 2012/13 and 2013/14 financial statements as soon as practical;
- The Provincial Government ensure responsible officers for revenue collection performed their duties diligently;
- To establish a proper cashbook to record the revenue transactions;
- To review the outstanding revenue of the Province and consider their collectability;
- Safeguard receipt books and filed in a secured location and ensure officers of the treasury appointed by the Provincial Treasurer collected the revenue and receipted in accordance to FMO 2008;
- The Provincial Government kept proper records of money collected and ensured money collected are used for the operation of the Province rather than personal use;
- The Executive ensure that there is a proper process in place for calling of executive meetings;
- All executive minutes must be signed and dated by the Secretary and Chairman before they are filed in a secured location from public access;
- The Provincial Government ensure to restore the MYOB accounting software as soon as possible through vigorous follow up with the MYOB consultant;
- Liaise with MPGIS for assistance in restoring the MYOB accounting system;
- The Provincial Government ensure that payments follow the process of approval by authorised personnel;
- Payments approval list be sent to Honiara for payments and copies filed in the provincial office;
- Provincial payments are paid according to the approved budget;
- The payment vouchers must be authorised before payments are made;
- The responsible personnel must properly complete the requirements of the payment voucher;
- The Provincial Government must maintain a good filing system for the payment vouchers and provide them for audit when request is made;
- The Provincial Government ensure to keep the cheque books in a secured location from public access;
- The cheque books must be in the custody of the Provincial Treasurer or Deputy Provincial Treasurer to properly administer the provincial funds.
- Make sure that salary documentation must be properly verified and authorised before payments are made and filed the copies in a secured location;
- Should ensure employees' personal files are updated and regularly maintained;

- Ensure NPF and PAYE remittance are processed on timely basis and copies are filed accordingly;
- Make sure that all revenue collected are properly recorded and reconciled in the cashbook, sufficiently supported and banked when applicable;
- Ensure that bank statements are collected on timely basis, bank reconciliation performed and filed accordingly;
- Should ensure that cashbooks are properly updated and maintained;
- Liaise with MPGIS to immediately recruit a qualified Provincial Treasurer and Deputy Provincial Treasurer;
- Ensure to immediately establish a proper imprest and advance registers;
- Make sure that outstanding imprests and advances are recovered through salaries;
- Ensure to immediately establish a proper asset register to record the costs (fair value), locations, specification and disposal date and;
- Make sure to liaise with the PGSP advisor (if any) for an asset management policy to be formulated;
- Ensure the board review the function of RBDA and re-establish a framework with related resources for the development of RBDA;
- Must provide support for the operation of RBDA;
- Ensure to immediately prepare the account receivables listing and update it regularly;
- Prepare the account payables listing and update it regularly and;
- Make sure to have back up of hard copies of the account receivables and payables listing and stored in a secured location from public access.

AUDIT FINDINGS AND RECOMMENDATIONS

1.0 General Observation

As noted from previous reports, OAG continue to observe during the audit that the Rennell & Bellona Provincial Government is going through a lot of difficulties. The difficulties are due to political interference which overrides the processes that are put in place for the smooth operation of the Provincial Government. In addition, significant positions within Provincial Office are been vacant due to staff leaving the Office and there is lack of proper handover. In addition, OAG noted that there is no control over the access to the head office where unauthorised persons are seen using the power and other equipments for personal use. Also, it was noted that recommendations from past audit reports were not seriously taken on board to improve the performance of the Provincial Government.

2.0 Financial Reporting

Risk Rating - High

2.1 Financial statements not received

OAG did not receive any 2013/14 financial statements when the audit was carried out in November 2014. Furthermore, 2012/13 financial statements were not compiled and presented in 2014. Part V (Finance) of the *Provincial Government Act 1997*, under section *Accounts and Audit* and subsection 39; clause (2) stipulates; the accounts shall be sent to the Auditor-General as soon as practicable after the end of the financial year to which they relate but, in any event, not later than nine months after the end of that year. However, it was noted that the Provincial Government is not adhering to the above legislation.

Implications

Lack of timely financial statements increases the risk of fraud, misappropriation, overspending of budget, loss of funding opportunities and decreases the reliability and relevance of the financial statements.

Recommendation 1

OAG recommends that:

- The Provincial Government must ensure to compile and present the 2012/13 and 2013/14 financial statements as soon as practical.

Executive Response

No executive response received by OAG within the given timeframe.

3.0 Revenue

Risk Rating - High

3.1 Inadequate control over revenue

3.1.1 Poor monitoring and collection of internal revenue

OAG discovered that there was no proper control over the monitoring and collection of revenue for the audited period. It was noted that usually revenue were collected in advance and receipted later which does not comply with the Provincial Financial Management Ordinance 2008. Also no cashbook was maintained to determine which businesses have paid their licenses and fees and which have outstanding with the Provincial Government. Furthermore, it was noted that the two revenue collection points in the Province are not accountable as there is no records available from them to determine the completeness and accuracy of the revenue collected.

3.1.2 SIG grants are not receipted

It was noted that the quarterly SIG grants paid to the Provincial Government are not receipted accordingly as required in the Provincial Financial Management Ordinance 2008. This has made it difficult to determine whether the Provincial Government have received the grants or not for the audited period and this information will need to be reflected in the 2013/14 financial statements.

3.1.3 Cashbook not available

It was discovered that there is no cashbook available to verify the revenue collected for the audited period. Financial Management Ordinance 2008 requires that the Provincial Government to have cashbook to record all the revenue and expenditure transactions before they are inputted into the accounting system such as MYOB.

3.1.4 Banking not made on a timely basis

As noted from previous reports, OAG acknowledges the difficulty the Provincial Government encountered in the banking of the internal revenue due to no banking facilities available in the Province. However, there is a need to bank the internal revenue on a timely basis in order to properly manage the cash with the records such as bank statements and comply with the Financial Management Ordinance 2008 in the performance of monthly bank reconciliations.

Implications

Poor controls over revenue increase the risk of theft, misappropriation and unauthorized collection of public funds. Furthermore, there is risk of conflict of interest, embezzlement and revenue target not achieved as anticipated and misstatement of the financial statements.

Recommendation 2

OAG recommends that:

- The Provincial Government ensure responsible officers for revenue collection performed their duties diligently;
- To immediately establish an efficient system to rectify the banking situation affecting the Province;
- To establish a proper cashbook to record the revenue transactions;
- To review the outstanding revenue of the Province and consider their collectability;
- Safeguard receipt books and filed in a secured location and ensure officers of the treasury appointed by the Provincial Treasurer collected the revenue and receipted in accordance to FMO 2008 and;
- The Provincial Government kept proper records of money collected and ensured money collected are used for the operation of the Province rather than personal use.

Executive Response

No executive response received by OAG within the given timeframe.

4.0 Executive Minutes

Risk Rating - High

4.1 No executive minutes available

OAG continues to be unable to confirm and sight any executive minutes for the period of 1 October to 31 March 2014. It was revealed by the Deputy Provincial Secretary that the province do not have a proper process of calling executive meeting. The former Premier just calls a meeting where ever a need arise and whoever he appoints will be the secretary. Due to the non-availability of the executive minutes, audit is unable to determine any significant resolutions passed that might have impact on the financial statements of the Province.

Implications

Lack of compiled and signed minutes places the province at risk that executive decisions may not be implemented and unauthorised expenditure incurred.

Recommendation 3

OAG recommends that:

- The Executive ensure that there is a proper process in place for calling of executive meetings;
- Minutes must be taken by the Secretary during the meetings and;
- All executive minutes must be signed and dated by the Secretary and Chairman before they are filed in a secured location from public access.

Executive Response

No executive response received by OAG within the given timeframe.

5.0 Expenditure

Risk Rating - High

5.1 No general ledger available

Just like past audit reports, OAG is still unable to obtain the general ledger for the audited period because the MYOB accounting system was not working. The MYOB accounting system that was installed for the Province was no longer used by the Province for almost 2 years after its license had expired. OAG understands that the Province has paid the MYOB Consultant to install the MYOB accounting system however; the Consultant never provided the service to the Provincial Government. As such, it was noted that currently the Provincial Government does not have any accounting system to record their transactions. This has made it difficult to determine the existence, accuracy and completeness of the expenditure and extract information for the production of the 2013/14 financial statements.

Implications

The lack of general ledger increases the risk of unauthorised payments, conflict of interest, misappropriation of provincial funds and inability to produce the financial statements to comply with the relevant legislations.

In addition, it increases the risk of no accountability and transparency in the spending of provincial funds for the province.

Recommendation 4

OAG recommends that:

- The Provincial Government must ensure to restore the MYOB accounting software as soon as possible through vigorous follow up with the MYOB consultant;
- Failure from the Consultant to provide the paid service then legal action should be taken against him for recovery of the money and;
- Liaise with MPGIS for assistance in restoring the MYOB accounting system.

Executive Response

No executive response received by OAG within the given timeframe.

Risk Rating-High

5.2 Payments are done without the proper process

OAG continue to discover that payments are done in Honiara by the signatories of the bank accounts without following the proper payment process where requisition is raised with invoice or supporting documents and forwarded to the Provincial Secretary for approval before payment voucher is raised and payment is made upon the signature of

Provincial Secretary and/or Provincial Treasurer. This is a clear breach of the Provincial Financial Management Ordinance 2008.

Implications

Lack of compliance with proper payment process increases the risk of unauthorised payments, payments are not legitimate, loss of provincial funds, conflict of interest, political expediency, misappropriation of provincial funds and misstatement of the financial statements.

Recommendation 5

OAG recommends that:

- The Provincial Government ensure that payments follow the process of approval by authorised personnel;
- Payments approval list be sent to Honiara for payments and copies filed in the provincial office;
- Provincial payments are paid according to the approved budget and;
- The Provincial Government liaised with any commercial bank to have an agent in the Province to make it convenient for banking transactions.

Executive Response

No executive response received by OAG within the given timeframe.

Risk Rating - High

5.3 Payment vouchers not available

It was noted that payment vouchers were not available for audit when request was made and this has made it difficult to determine the accuracy, existence and completeness of the payment transactions for the audited period. The unavailability of payment vouchers is a clear indication of the Provincial Government not complying with the Financial Management Ordinance 2008 (FMO).

Implications

The lack of complying with FMO increases the risk of provincial funds may be misappropriated, fraud or drawn for personal use, payments made to ghost suppliers and may exhaust the approved budget.

Recommendation 6

OAG recommends that:

- The payment vouchers must be authorised before payments are made;
- The responsible personnel must properly complete the requirements of the payment voucher and;
- The Provincial Government must maintain a good filing system for the payment vouchers and provide them for audit when request is made.

Executive Response

No executive response received by OAG within the given timeframe.

Risk Rating - High

5.4 No cheque butts available for audit

OAG was not able to review the numbering sequence of cheques used to make payments because cheque butts were not available during the audit. It was revealed that the cheque books were in the custody of the former Provincial Premier in Honiara instead of the Provincial Treasurer who should be the responsible officer to administer the provincial funds.

Implication

The lack of cheque butts increases the risk of misappropriation, fraud, conflict of interest, political expediency, budget over-run and misstatement of the financial statements.

Recommendation 7

OAG recommends that:

- The Provincial Government must ensure to keep the cheque butts in a secured location from public access and;
- The cheque books must be in the custody of the Provincial Treasurer or Deputy Provincial Treasurer to properly administer the provincial funds.

Executive Response

No executive response received by OAG within the given timeframe.

6.0 Ward Development Grants

Risk Rating – Moderate

6.1 No register for ward development grants

OAG found that the Provincial Government does not have a register that show how the ward development grants were allocated to each MPA for the audited period. In addition, OAG was not able to confirm how the ward development grants were spent as there is no

record of acquittals from the MPAs. Also it was noted that there is no guideline in place on how to administer and disburse the ward development grants.

Implications

Lack of register increases the risk of overspending of approved budget for WDG, poor service delivery to wards, misappropriation, abuse, illegitimate payments and misstatement of the financial statements.

Recommendation 8

OAG recommends that:

- The Provincial Government should establish a proper register for WDG;
- The MPAs must acquit their WDG allocation before the next tranche is released and;
- The Provincial Government must ensure to establish a proper guideline on how to use the WDG effectively and efficiently for the betterment of the wards.

Executive Response

No executive response received by OAG within the given timeframe.

7.0 Payroll

Risk Rating - High

7.1 Poor control over payroll system

7.1.1 Payroll ledger was not available

OAG discovered that payroll ledger for the audited period from October 2013 to March 2014 was not available. Furthermore, no salary records were submitted to OAG for testing to ascertain its existence, completeness and accuracy.

7.1.2 Salary documentation not available

When the audit was conducted, it was found that the salary documents for the audited period was not available. There is no salary spread sheet, salary authority form that is used for rising of salary and deduction or advances were available or filed for the audited period. As a result, this has made it difficult to determine the existence, completeness and accuracy of the salaries.

7.1.3 Payroll deduction for PAYE tax and NPF not remitted on timely basis

As noted from past audits, the deduction made from employees to meet PAYE tax and employees NPF had never been remitted to the relevant authorities on timely basis. Also there is lack of NPF & PAYE documentation to verify the existence of the Province's liabilities during the time of audit.

7.1.3 Personal files not maintained or updated

As noted from the first six months of 2013/14 financial year, OAG confirmed that the employee personal files had never being updated or maintained to reflect pay scale of officers currently employed by the province. This has made it difficult for OAG to determine whether the pay rise are authorised or not and whether promotion or redundancy have followed the legal process as required in the Labour/Employment Act of Solomon Islands.

Implications

Poor control over payroll expose the province to the risk that the province cannot determine the accuracy and timely payment of payroll. Also lack of salary documentation increases the risk that payments may include ghost employees in the payroll. Furthermore, it may expose the province to the high risk of fraud or misuse of provincial funds and budget over-run. Lack of remittance increases the risk of high debt servicing in the future and less service delivery to rural people.

Recommendation 9

OAG recommends that the Provincial Government:

- Ensure that the responsible officer for payroll conduct his/her duties diligently;
- Make sure that salary documentation must be properly verified and authorised before payments are made and filed the copies in a secured location;
- Ensure to establish a proper register for deductions or advances;
- Should ensure employees' personal files are updated and regularly maintained and;
- Ensure NPF and PAYE remittance are processed on timely basis and copies are filed accordingly.

Executive Response

No executive response received by OAG within the given timeframe.

8.0 Cash and Cash Equivalents

Risk Rating - High

8.1 Poor management over cash

8.1.1 No general ledger to record cash

OAG found that no general ledger or other documents regarding cash was available during the time of audit. Rennell & Bellona Provincial Government has never record any cash transactions in the MYOB accounting system as it was not functioning since 2012.

8.1.2 No bank reconciliation filed

There is no physical sign of bank reconciliations been performed and filed for the period of 1 October to 31 March 2014. OAG was informed that the Provincial Treasurer is the person responsible for collecting of bank statements but since he already left the Province this cannot be confirmed. In addition, there is no Deputy Provincial Treasurer during the time of audit which made it difficult for the Province to request bank statements and perform bank reconciliations.

8.1.3 Revenue used for direct payment

OAG noted that revenue collected was used directly for payments but OAG cannot verify which payments were used from revenue since there is lack of documentation. The manner in which revenue collected was not banked but directly used for payment is a serious breach of the Financial Management Ordinance 2008.

Implications

Poor internal control over cash management increases the risk of fraud and misappropriation of provincial fund. Furthermore, this leads to risk of cash not properly or accurately recorded in the cashbook, general ledger and financial statements.

Recommendation 10

OAG recommends that the Provincial Government:

- Ensure that the responsible officer for cash management conduct his/her duties diligently;
- Make sure that all revenue collected are properly recorded and reconciled in the cashbook, sufficiently supported and banked when applicable;
- Ensure that bank statements are collected on timely basis, bank reconciliation performed and filed accordingly;
- Should ensure that cashbooks are properly updated and maintained and;
- Liaise with MPGIS to immediately recruit a qualified Provincial Treasurer and Deputy Provincial Treasurer.

Executive Response

No executive response received by OAG within the given timeframe.

9.0 Special Imprests and Advances

Risk Rating – High

9.1 Failure to maintain imprests and advances registers (C/fwd from 2012/13)

As highlighted in the past audit reports, OAG continue to discover that no register for imprests and advances were kept by the responsible officer which has made it difficult to determine how much monies are still outstanding from imprests and to be repaid from staff advances. Furthermore, it was revealed that the Provincial Government continue to

issue special imprests and advances to the officers. This is a serious concern to OAG as there is lack of compliance with Financial Management Ordinance 2008.

Implications

The lack of maintaining proper registers increase the risk of fraud, misappropriation of provincial funds, loss of funds, conflict of interest, abuse of power, budget over-run and political expediency.

Recommendation 11

OAG recommends that the Provincial Government:

- Ensure to immediately establish a proper imprest and advance registers;
- Make sure that outstanding imprests and advances are recovered through salaries and;
- Continue to regularly update and maintain the registers.

Executive Response

No executive response received by OAG within the given timeframe.

10.0 Property, Plant and Equipment

Risk Rating – High

10.1 Poor management of property, plant and equipment (C/fwd from 2011/12)

OAG still continue to note that the Provincial Government has not seriously address the issue of property, plant and equipment as there is no asset register maintained since 2011/12 financial year. Furthermore, OAG understand that no asset management policy was in place to ensure assets are properly procured, recorded, maintained and disposed off in order to sustain the operation of the Provincial Government.

Implications

The lack of asset register and asset management policy increases the risk of theft, abuse of assets, loss of assets, unplanned spending on assets that affects the budget and unrealistic disclosure in the financial statements.

Recommendation 12

OAG recommends that the Provincial Government:

- Ensure to immediately establish a proper asset register to record the costs (fair value), locations, specification and disposal date and;
- Make sure to liaise with the PGSP advisor (if any) for an asset management policy to be formulated.

Executive Response

No executive response received by OAG within the given timeframe.

11.0 Investments**Risk Rating – High****11.1 RBDA yet to be fully operational (C/fwd from 2011/12)**

It was revealed that Rennell and Bellona Development Authority (RBDA) have appointed a new board in 2012 to oversee the operation of the investment for the Provincial Government. However, it was noted during the audit that the operation of RBDA is not yet in full swing due to lack of support from Rennell & Bellona Provincial Government. Also, the Provincial Government used to operate a ship that is managed by a private firm but the ship was out of service and got wash ashore in Honiara so it is un-operational at this stage. In additional, OAG is not able to confirm other entities of the Provincial Government due to lack of financial documentation or records by the executive.

Implications

The failure to fully establish the operation of RBDA increases the risk of mismanagement of the province's business entities, loss of revenue through dividends, theft of assets, abuse of power, wastage of funds and poor reporting to Executive for proper decision making.

Recommendation 13

OAG recommends that the Provincial Government:

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

Executive Response

No executive response received by OAG within the given timeframe.

12.0 Account Receivables**Risk Rating – High****12.1 Account receivables listing is not available (C/fwd from 2011/12)**

As highlighted from past audits, Rennell & Bellona Provincial Government continue to fail to produce and provide the account receivable listing and database of revenue arrears for the period of October 2013 to March 2014. As a consequence, OAG is not able to determine the completeness, accuracy and existence of the account receivables. Also, OAG is very much concerned with the lack of seriousness in addressing the deficiency stated above as

this will greatly impact on the revenue collection for the Province and delivery of services to its people.

Implications

Lack of account receivables listing increases the risk of mismanagement, and loss of revenue for the Provincial Government. Also, the financial statement can be misstated that leads to undesirable decisions been made by the Executive and stakeholders.

Recommendation 14

OAG recommends that the Provincial Government:

- Ensure to immediately prepare the account receivables listing and update it regularly and;
- Make sure to have back up of hard copies of account receivables listing and stored in a secured location from public access.

Executive Response

No executive response received by OAG within the given timeframe.

13.0 Account Payables

Risk Rating - High

13.1 Account payables listing is not available (C/fwd from 2012/13)

During the audit, OAG was not able to obtain and examine the trade payable listing for the audited period and this has made it difficult to establish the debts of the Provincial Government in order to ascertain whether the Provincial Government is able to settle its debts in the financial year or not. In addition, it was noted that deductions made from the direct employees for relevant authorities such as IRD and SINPF had never been remitted to them or partly remitted. OAG is very much concerned that if the debts are massive and cannot be settled in current financial year then it will have significant impact on the next financial year's budget through debt servicing.

Implications

The non-availability of account payables listing increases the risk of ghost claims, creditors ceased to provided goods and services, overspending of approved budget and listing being manipulated for personal or political interest.

Recommendation 15

OAG recommends that the Provincial Government:

- Prepare the account payables listing and update it regularly;
- Ensure to remit the deductions for IRD and SINPF on timely basis and;
- Make sure to have back up of hard copies of the account payables listing and stored in a secured location from public access.

Executive Response

No executive response received by OAG within the given timeframe.

14.0 AUDIT ACTION PLAN

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
1	<p>OAG recommends that:</p> <ul style="list-style-type: none"> The Provincial Government must ensure to compile and present the 2012/13 and 2013/14 financial statements as soon as practical. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	<p>Nil</p>	<p>Nil</p>
2	<p>OAG recommends that:</p> <ul style="list-style-type: none"> The Provincial Government ensure responsible officers for revenue collection performed their duties diligently; To immediately establish an efficient system to rectify the banking situation affecting the Province; To establish a proper cashbook to record the revenue transactions; To review the outstanding revenue of the Province and consider their collectability; Safeguard receipt books and filed in a secured location and ensure officers of the treasury appointed by the Provincial Treasurer collected the revenue and receipted in accordance to PFMO 2008 and; The Provincial Government kept proper records of money collected and ensured money collected are used for the operation of the Province rather than personal use. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	<p>Nil</p>	<p>Nil</p>
3	<p>OAG recommends that:</p> <ul style="list-style-type: none"> The Executive ensure that there is a proper process in place for calling of executive meetings; Minutes must be taken by the Secretary during the meetings and; All executive minutes must be signed and dated by the Secretary and Chairman before they are filed in a secured location from public access. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	<p>Nil</p>	<p>Nil</p>
4	<p>OAG recommends that:</p> <ul style="list-style-type: none"> The Provincial Government ensure to restore the MYOB accounting software as soon as possible through vigorous follow up with the MYOB consultant; Failure from the Consultant to provide the paid service then legal action should be taken against him for recovery of the money and; Liaise with MPGIS for assistance in restoring the MYOB accounting system. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	<p>Nil</p>	<p>Nil</p>

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
5	<p>OAG recommends that:</p> <ul style="list-style-type: none"> • The Provincial Government ensure that payments follow the process of approval by authorised personnel; • Payments approval list be sent to Honiara for payments and copies filed in the provincial office; • Provincial payments are paid according to the approved budget and; • The Provincial Government liaised with any commercial bank to have an agent in the Province to make it convenient for banking transactions. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	Nil	Nil
6	<p>OAG recommends that:</p> <ul style="list-style-type: none"> • The payment vouchers must be authorised before payments are made; • The responsible personnel must properly complete the requirements of the payment voucher and; • The Provincial Government must maintain a good filing system for the payment vouchers and provide them for audit when request is made. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	Nil	Nil
7	<p>OAG recommends that:</p> <ul style="list-style-type: none"> • The Provincial Government must ensure to keep the cheque butts in a secured location from public access and; • The cheque books must be in the custody of the Provincial Treasurer or Deputy Provincial Treasurer to properly administer the provincial funds. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	Nil	Nil
8	<p>OAG recommends that:</p> <ul style="list-style-type: none"> • The Provincial Government establish a proper register for WDG; • The MPAs must acquit their WDG allocation before the next tranche is released and; • The Provincial Government must ensure to establish a proper guideline on how to use the WDG effectively and efficiently for the betterment of the wards. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	Nil	Nil
9	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure that the responsible officer for payroll conduct his/her duties diligently; • Make sure that salary documentation must be properly authorised and verified before payments are made and filed the copies in a secured location; • Ensure to establish a proper register for deductions or advances; • Should ensure employees' personal files are updated and regularly maintained and; • Ensure NPF and PAYE remittance are processed on timely basis and copies are filed accordingly. 	<p><i>No executive response received by OAG within the given timeframe.</i></p>	Nil	Nil

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
10	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure that the responsible officer for cash management conduct his/her duties diligently; • Make sure that all revenue collected are properly recorded and reconciled in the cashbook, sufficiently supported and banked when applicable; • Ensure that bank statements are collected on timely basis and filed accordingly; • Should ensure that cashbooks are properly updated and maintained and; • Liaise with MPGIS to immediately recruit a qualified Provincial Treasurer and Deputy Provincial Treasurer. 	<i>No executive response received by OAG within the given timeframe.</i>	Nil	Nil
11	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure to immediately establish a proper imprest and advance registers; • Make sure that outstanding imprests and advances are recovered through salaries and; • Continue to regularly update and maintain the registers. 	<i>No executive response received by OAG within the given timeframe.</i>	Nil	Nil
12	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure to immediately establish a proper asset register to record the costs (fair value), locations, specification and disposal date and; • Make sure to liaise with the PGSP advisor (if any) for an asset management policy to be formulated. 	<i>No executive response received by OAG within the given timeframe.</i>	Nil	Nil
13	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure the board review the function of RBDA and re-establish a framework with related resources for the development of RBDA; • Must provide support for the operation of RBDA and; • Make sure that management always ensure RBDA is operating under the relevant ordinances. 	<i>No executive response received by OAG within the given timeframe.</i>	Nil	Nil
14	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure to immediate prepare the account receivables listing and update it regularly and; • Make sure to have back up of hard copies of the account receivables listing and stored in a secured location from public access. 	<i>No executive response received by OAG within the given timeframe.</i>	Nil	Nil
15	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Prepare the account payables listing and update it regularly; • Ensure to remit the deductions for IRD and SINPF on timely basis and; 	<i>No executive response received by OAG within the given timeframe.</i>	Nil	Nil

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none">Make sure to have back up of hard copies of the account payables listing and stored in a secured location from public access.			