



SOLOMON ISLANDS GOVERNMENT

REPORT ON MATTERS ARISING FROM FINANCIAL STATEMENT AUDIT

Western Provincial Government
1 October 2013 – 31 March 2014

Reported by:

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8 June 2015

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EXECUTIVE OVERVIEW

Background

The Western Provincial Government submitted its financial statements for the financial year ended 31st March 2014 to this Office as required under s.39(2) of the *Provincial Government Act 1997*. OAG acknowledges the continued cooperation by the Provincial Government in providing the financial statement as required in a timely manner. Western 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 Western Provincial Government accounts and records in order to form an opinion on the financial statement.

Audit Objectives and Scope

The principal objective of the audit was to review the adequacy of processes for the financial management, accounting and reporting controls managed by the Western 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 currently being practised by the Western Provincial Government as at the time of the audit and as tested in the accounts and records for 2014.

Findings

The audit identified that the Western Provincial Government has continued to make improvements over its record keeping of revenue and expenditures for the 2013/14 financial year. The overall presentation of the financial statements is materially correct according to IPSAS and OAG acknowledges the improvement in the Financial Statement presentation as required by the Provincial Government Act 1997.

A summary of these audit issues identified is described below.

Risk ratings have been assigned to each audit finding to help identify which audit observations should be given priority. The risk ratings have 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

	<ul style="list-style-type: none"> 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 addressed 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.

- Bank reconciliation not signed for WPIC account**

Risk Rating – Moderate

It was identified that the Provincial Government performed monthly bank reconciliations for most of its bank accounts. However, it was noted that the bank reconciliations for WPIC account were not signed off and dated by the preparer and reviewer. This increases the risk of errors not detected early, genuineness of the bank reconciliation could be questionable and bank reconciliation can be performed without supervision.

- Unaccounted debtors/receivables**

Risk Rating – Low

OAG noted that the Provincial Government needs to have a proper listing of its debtors/receivables so that they can determine how to collect outstanding revenue. It was further noted that no debtors listing was provided to OAG for examination. Failure to maintain a proper debtors listing increases the risk of loss of revenue and the 2013/14 financial statement may be misleading.

- Unconsolidated Western Province Investment Corporation (C/fwd from 2011/12)**

Risk Rating – High

It was revealed that all the investment activities of the province were managed by the WPIC and WPIC has its own financial statements but it was not consolidated into the province's financial statements to show a true and fair view of the financial position of the Provincial Government. Lack of consolidation of investment increases the risk of inaccurate reporting to stakeholders, understatement of investment and qualification of audit opinion.

- Imprest not retired on timely basis**

Risk Rating – Moderate

OAG acknowledges improvement in the recovery of outstanding imprests for the audited period, however, it was noted that there continue to be late retirement of imprests from the imprest holders without reasons given. This increases the risk of loss of provincial funds.

- **Incomplete asset register (C/fwd from 2012/13)**

Risk Rating – High

It was discovered that the Provincial Government does not have a complete asset register to record full details of the asset procured for the audited period. Furthermore, there is no asset policy and management threshold to decide how and when to purchase, maintain and dispose of assets. Lack of complete asset register increases the risk of misuse, loss, theft of assets, less assurance to the existence of the assets and misleading information.

Conclusion

The audit of the Provincial Government's accounts and records disclosed similar shortcomings in the procedures and practices in the management of expenditure, cash, imprests and assets as highlighted in the 2012/13 audit report.

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

As a result of these deficiencies the Auditor-General issued a qualified opinion over the financial statements issued by the Provincial Government for the financial year 2013/14.

Overall Recommendations

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

- Must consolidate WPIC's financial accounts to ensure that a true and fair view of the investment balance is depicted in the financial statements. Consultations must be made to ensure correct advice are taken and adopted;
- All unit costs for assets to be updated to reflect the correct purchase price;
- WPG established an asset register of all assets owned by the Provincial Government including details such as asset name, number, brief description, date of purchase, asset condition and date of disposal;
- An annual asset stocktake to be performed over all assets by the Provincial Government to ensure existence, condition and value of assets recorded and;
- Established procedures for capturing all assets including the acquisition or construction of buildings and other structure in its accounts and asset register.

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

AUDIT FINDINGS AND RECOMMENDATIONS

1.0 BANK ACCOUNTS

1.1 Bank reconciliation not signed for WPIC account

Risk Rating – Moderate

OAG acknowledged that the Western Provincial Government performed monthly bank reconciliations for most of the bank accounts that it operated for the audited period. However, OAG noted that the bank reconciliations for Western Province Investment Corporation (WPIC) account were not signed by the preparer and reviewer/certifier. Financial Management Ordinance 2008 requires that the Provincial Government must perform monthly bank reconciliations for all the bank accounts that it operates. In addition, OAG was not able to examine the general ledger for WPIC during the audit.

Implications

Lack of signing by responsible officers increases the risk of errors not detected early, genuineness of the bank reconciliation could be questionable and bank reconciliation can be performed without supervision.

Recommendation 1

OAG recommends that the Provincial Government:

- Ensure to sign and date the bank reconciliations by the preparer and reviewer and also to attach the cashbook copies;
- Make sure to file the bank reconciliations in its proper folder and stored in a secured location from public and;
- Ensure to make available the general ledger for WPIC when audit is conducted.

Executive Response

The Executive agreed with the OAG recommendation and resolved that WPIC accounts are reviewed on a monthly basis, effective 1st April 2015.

The Executive resolved to take the following actions

- *The deputy provincial treasurer (preparer) must ensure that WPIC cash books are reconciled and agreed with the General Ledger and signed them off*
- *The provincial treasurer (reviewer) must ensure that the WPIC cash books and GL are reconciled and signed off*
- *Reconciliation of these books must be done on a monthly basis or not later than two weeks after the end of the month*

2.0 ACCOUNT RECEIVABLES

2.1 Unaccounted debtors/receivables

Risk Rating - Low

The audit discovered that trade debtors/receivables for the audited period has an outstanding balance that needs to be monitored. The Provincial Government needs to have proper listing of its debtors/receivables. No listing was actually maintained and updated and given to audit for audit verification purposes when called for.

Implications

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

Recommendation 2

OAG recommends that the Provincial Government:

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

Executive Response

The Executive take not of the OAG recommendation and will ensure to maintain and continuously update the debtors/business register throughout Western province, and will ensure they are properly filed and recorded to be made available for OAG examination.

This will be an ongoing process to minimize risk of theft, misappropriation and unauthorized collection of PG funds.

The Executive resolved to take the following actions

- *Investment Officer to reconcile list of companies registered under the Company Haus and those operating within the communities in Western Province and submit list to the treasury/revenue division*
- *Senior accountant revenue officer to update and reconcile the list of collection against debtors/business register to ensure that unaccounted debtors and receivables agreed with the GL*
- *A monthly review by the senior accountant revenue officer or the deputy treasurer of revenue records must be ensured*
- *Quarterly reports to be presented to the Executive*

3.0 INVESTMENTS

3.1 Unconsolidated Western Province Investment Corporation (C/fwd from 2011/12)

Risk Rating - High

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

Implication

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

Recommendation 3

OAG recommends that the Provincial Government:

- Must consolidate WPIC's financial accounts to ensure that a true and fair view of the investment balance is depicted in the financial statements. Consultations must be made to ensure correct advice are taken and adopted.

Executive Response

The Executive agreed with OAG recommendations and agreed for WPG to consult with OAG to advise on how WPIC accounts will be consolidated and disclosed in WPG FS

The PG will ensure to disclose the WPIC finances in the WPG 2014/2015 FS

The Executive resolved to take the following actions

- *WPG to request OAG to advise on how to consolidate and disclose WPIC accounts in the WPG 2014/2015 FS*
- *The provincial treasurer must ensure that all provincial investments are clearly disclosed in the annual financial statements*
- *Annual consultations between WPG and WPIC and any other investment partner, should be encouraged to ensure compliance on any document binding WPG and the investment partner*

- *A routine review of any legal binding documents between WPG and the investment partner should be maintained*

4.0 SPECIAL IMPRESTS

4.1 Imprest not retired on timely basis

Risk Rating - Moderate

The Financial Ordinance 2008 (FMO) 53(1) stipulates special imprests to be retired when the purpose for the imprest has finished. It provides FMO 56 (1) for purpose of recovery of the outstanding imprest if the imprest is not retired within the required period. FMO 56(2) and (5) describes the necessary action to recover the moneys from the imprest holder.

OAG noted an improvement has been seen in the 2013/2014 financial year in recoveries and follow ups as required by the FMO 2008.

Implication

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

Recommendation 4

OAG recommends that:

- The Western Provincial Government to take necessary actions to recover the overdue unretired imprests from imprest holders and;
- WPG ensure that the imprests are regularly monitored for unretired imprests.

Executive Response

The Executive agreed with OAG recommendation and would ensure to:

- *Administration and treasury must ensure the recommended actions are carried out immediately*
- *Control issuing and proper management of imprests*
- *Make proper acquittal at the right time*
- *Review the collection procedures for outstanding imprest accounts*

The Executive resolved to take the following actions

	Elected officials	Direct employees	Seconded officers
Still in service with WPG	Control & Manage <ul style="list-style-type: none"> • <i>Not allowed to hold imprest if travelling with</i> 	Control & Manage <ul style="list-style-type: none"> • <i>Treasurer & HOD to screen</i> 	Control & Manage <ul style="list-style-type: none"> • <i>Treasurer to screen applications</i>

	<p>a delegation (except when travelling alone)</p> <ul style="list-style-type: none"> • Imprest issued to be in compliance with approved parliamentary entitlements <p>Imprest acquittal</p> <ul style="list-style-type: none"> • The deputy treasurer to issue appropriate written reminder to MPA one month after due date • The deputy treasurer to issue second reminder one month after the first reminder and copy to MPGIS and MoFT <p>Collection procedures</p>	<p>applications to ensure official does not have unacquitted imprest</p> <ul style="list-style-type: none"> • PS and Treasurer to screen the reasonability of the amount applied for • No imprest to be issued to non-official and fully funded trips <p>Imprest acquittal</p> <ul style="list-style-type: none"> • The deputy treasurer to issue appropriate written reminder one month after due date • The deputy treasurer to issue second reminder one month after the first reminder and copy to PS, PTR and HOD in question <p>Collection procedures</p>	<p>to ensure official does not have unacquitted imprest</p> <ul style="list-style-type: none"> • PS and Treasurer to screen the reasonability of the amount applied for <p>Imprest acquittal</p> <ul style="list-style-type: none"> • The deputy treasurer to issue appropriate written reminder one month after due date • The deputy treasurer to issue second reminder one month after the first reminder and copy to PS, PTR, line ministry and MoFT <p>Collection procedures</p>
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	<ul style="list-style-type: none"> • All outstanding imprests will be fully recovered from the MPA's salary or other personal emoluments one month after the second reminder • The report on outstanding imprest shall be communicated to the Executive for their information and action 	<ul style="list-style-type: none"> • Any outstanding imprest shall be fully recovered from the officers salary on agreed instalments payable before 31st March of the current year 	<ul style="list-style-type: none"> • Any outstanding imprest shall be fully recovered from the officers salary on agreed instalments payable before 31st March of the current year
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<p>Out of service (WPG) but still working elsewhere</p>	<ul style="list-style-type: none"> • Appropriate written reminder and copy to their current employers for possible recovery from salary • Report outstanding imprest to the Executive for possible "bad debt" declaration
<p>Out of service (WPG) and not working elsewhere</p>	<p>Control & Manage</p> <ul style="list-style-type: none"> • Issuing of imprests to official not working for WPG is not to be encouraged in any circumstances <p>Imprest acquittal</p> <ul style="list-style-type: none"> • Appropriate written reminder to be made <p>Collection procedures (for outstanding imprests)</p> <ul style="list-style-type: none"> • If no acquittals are made one month after the written reminder, a report should be made to the Executive for recommendation to the Assembly for possible "bad debt" declaration
<p>Deceased</p>	<p>Collection procedures (for outstanding imprests)</p> <ul style="list-style-type: none"> • Report to the Executive for recommendation to the Assembly for possible "bad debt" declaration

5.0 PROPERTY, PLANT & EQUIPMENT

5.1 Incomplete asset register (C/fwd from 2012/13)

Risk Rating - High

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

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

Implication

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

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

Recommendation 5

OAG recommends that:

- All unit costs for assets to be updated to reflect the correct purchase price;
- WPG established an asset register of all assets owned by the Provincial Government including details such as asset name, number, brief description, date of purchase, asset condition and date of disposal;
- An annual asset stocktake to be performed over all assets by the Provincial Government to ensure existence, condition and value of assets recorded and;
- Established procedures for capturing all assets including the acquisition or construction of buildings and other structure in its accounts and asset register.

Executive Response

The Executive agreed with OAG recommendations but also aware that PGSP is currently working on policies and procedures on fixed assets. In the meantime, the PG is committed to prepare and maintain a list of all assets that the province own.

The Executive resolved to take the following actions

- *WPG must develop a property, plant and management policy in accordance to the Provincial Government Financial Instructions and Stores Instructions 2008, and the Provincial Government Financial Management Ordinance 2008 to manage its assets*
- *The WPG to outsource valuation of its property for proper documentation in accordance with Provincial Government Financial Instructions and Stores Instructions 2008, and the Provincial Government Financial Management Ordinance 2008*
- *In collaboration with the department of lands, the appropriate citation and valuation of the property shall be properly recorded and documented*
- *WPG to recruit a procurement officer to maintain record of provincial properties, plants and assets. Officers to be recruited under the ministry of planning and project coordination*
- *There must be proper training and refresher course for the procurement officer*
- *Record of provincial assets, plants and equipment should be kept in the finance office and the office of the provincial secretary*

6.0 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 the Provincial Government:</p> <ul style="list-style-type: none"> • Ensure to sign and date the bank reconciliations by the preparer and reviewer and also to attach the cashbook copies; • Make sure to file the bank reconciliations in its proper folder and stored in a secured location from public and; • Ensure to make available the general ledger for WPIC when audit is conducted. 	<ul style="list-style-type: none"> • The deputy provincial treasurer (preparer) must ensure that WPIC cash books are reconciled and agreed with the General Ledger and signed them off • The provincial treasurer (reviewer) must ensure that the WPIC cash books and GL are reconciled and signed off • Reconciliation of these books must be done on a monthly basis or not later than two weeks after the end of the month 	DPTR & PTR	On going
2	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Management to ensure that all debtors' listing is updated to show the total outstanding figure on a periodic basis for reporting and for financial disclosure. 	<ul style="list-style-type: none"> • Investment Officer to reconcile list of companies registered under the Company Haus and those operating within the communities in Western Province and submit list to the treasury/revenue division • Senior accountant revenue officer to update and reconcile the list of collection against debtors/business register to ensure that unaccounted debtors and receivables agreed with the GL • A monthly review by the senior accountant revenue officer or the deputy treasurer of revenue records must be ensured • Quarterly reports to be presented to the Executive 	Investment Officer, Senior Revenue Officer, DPTR	On going
3	<p>OAG recommends that the Provincial Government:</p> <ul style="list-style-type: none"> • Must consolidate WPIC's financial accounts to ensure that a true and fair view of the investment balance is depicted in the financial statements. Consultations must be made to ensure correct advice are taken and adopted. 	<ul style="list-style-type: none"> • WPG to request OAG to advise on how to consolidate and disclose WPIC accounts in the WPG 2014/2015 FS • The provincial treasurer must ensure that all provincial investments are clearly disclosed in the annual financial statements • Annual consultations between WPG and WPIC and any other investment partner, should be encouraged to ensure compliance on any document binding WPG and the investment partner • A routine review of any legal binding documents between WPG and the investment partner should be maintained 	PTR	Sept 2015
4	OAG recommends that:	<u>Still in service with WPG</u> Control & Manage	HOD, DPTR, PTR & PS	On going

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> The Western Provincial Government to take necessary actions to recover the overdue unretired imprests from imprest holders and; WPG ensure that the imprests are regularly monitored for unretired imprests. 	<ul style="list-style-type: none"> Treasurer & HOD to screen applications to ensure official does not have unacquitted imprest PS and Treasurer to screen the reasonability of the amount applied for No imprest to be issued to non-official and fully funded trips <p>Imprest acquittal</p> <ul style="list-style-type: none"> The deputy treasurer to issue appropriate written reminder one month after due date The deputy treasurer to issue second reminder one month after the first reminder and copy to PS, PTR, HOD or line ministry and MoFT <p>Collection procedures</p> <ul style="list-style-type: none"> Any outstanding imprest shall be fully recovered from the officers salary on agreed instalments payable before 31st March of the current year <p>Out of service (WPG) but still working elsewhere</p> <ul style="list-style-type: none"> Appropriate written reminder and copy to their current employers for possible recovery from salary Report outstanding imprest to the Executive for possible “bad debt” declaration <p>Out of service (WPG) and not working elsewhere</p> <p>Control & Manage</p> <ul style="list-style-type: none"> Issuing of imprests to official not working for WPG is not to be encouraged in any circumstances <p>Imprest acquittal</p> <ul style="list-style-type: none"> Appropriate written reminder to be made <p>Collection procedures (for outstanding imprests)</p> <ul style="list-style-type: none"> If no acquittals are made one month after the written reminder, a report should be made to the Executive for recommendation to the Assembly for possible “bad debt” declaration <p>Deceased</p> <p>Collection procedures (for outstanding imprests)</p> <ul style="list-style-type: none"> Report to the Executive for recommendation to the Assembly for possible “bad debt” declaration 		
5	OAG recommends that:	<ul style="list-style-type: none"> WPG must develop a property, plant and management policy in accordance to the Provincial Government 	Procurement Officer, DPTR & PTR	On going

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> • All unit costs for assets to be updated to reflect the correct purchase price; • WPG established an asset register of all assets owned by the Provincial Government including details such as asset name, number, brief description, date of purchase, asset condition and date of disposal; • An annual asset stocktake to be performed over all assets by the Provincial Government to ensure existence, condition and value of assets recorded and; • Established procedures for capturing all assets including the acquisition or construction of buildings and other structure in its accounts and asset register. 	<p>Financial Instructions and Stores Instructions 2008, and the Provincial Government Financial Management Ordinance 2008 to manage its assets</p> <ul style="list-style-type: none"> • The WPG to outsource valuation of its property for proper documentation in accordance with Provincial Government Financial Instructions and Stores Instructions 2008, and the Provincial Government Financial Management Ordinance 2008 • In collaboration with the department of lands, the appropriate citation and valuation of the property shall be properly recorded and documented • WPG to recruit a procurement officer to maintain record of provincial properties, plants and assets. Officers to be recruited under the ministry of planning and project coordination • There must be proper training and refresher course for the procurement officer • Record of provincial assets, plants and equipment should be kept in the finance office and the office of the provincial secretary 		