



**REPORT OF THE AUDITOR-GENERAL
OF THE SOLOMON ISLANDS
ON THE
PROVINCIAL GOVERNMENTS
2015 - 2016 ACCOUNTS**

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Contents

Foreword from the Auditor-General	vi
Executive Summary	1
Mandate	1
Lack of accountability by public officers	1
Disclaimed and qualified audit certificates	1
Status of Financial Statements	1
Overall findings	2
1. Introduction.....	3
Mandate	3
Audit objectives and scope	3
Glossary and acronyms	4
2. Choiseul Provincial Government	7
Overview	7
Background.....	7
Summary of financial performance.....	7
Conclusion	7
Key findings.....	8
Overall recommendations	9
Detail audit findings and recommendations	10
Procurement and expenditure	10
Ward development grant	10
Payroll	11
Investment.....	11
Imprest.....	12
Assets.....	13
Accounts payable	13
Accounts receivable	14
3. Central Islands Provincial Government.....	15
Overview	15
Background.....	15
Summary of financial performance.....	15
Conclusion	15

Key findings.....	16
Overall recommendations	18
Detail audit findings and recommendations	18
Revenue	18
Cash and cash equivalents	20
Procurement and expenditure	21
Special imprests	22
MPA allowances and ward development grant	23
Property, plant and equipment.....	24
Internal audit function	24
4. Guadalcanal Provincial Government.....	26
Overview	26
Background.....	26
Summary of financial performance.....	26
Conclusion	26
Key findings.....	27
Overall recommendations	28
Detail audit findings and recommendations	29
Revenue	29
Procurement and expenditure	30
Special imprests and advances.....	32
Property, plant and equipment.....	33
Accounts receivable	34
Accounts payable	34
5. Isabel Provincial Government.....	36
Overview	36
Background.....	36
Summary of financial performance.....	36
Conclusion	36
Key findings.....	37
Overall recommendations	38
Detail audit findings and recommendations	39
Financial reporting	39
Revenue	41
Procurement and expenditure	41
Ward assistance fund.....	42

Payroll	43
Investment.....	44
Accounts receivable	44
6. Makira Ulawa Provincial Government.....	46
Overview	46
Background.....	46
Summary of financial performance.....	46
Conclusion	46
Key findings.....	47
Overall recommendations	48
Detail audit findings and recommendations	49
Procurement and expenditure	49
Ward development grant	50
Payroll	51
Cash.....	51
Investment.....	52
Imprest.....	53
Assets.....	53
Accounts payable	54
Accounts receivable	54
7. Malaita Provincial Government.....	56
Overview	56
Background.....	56
Summary of financial performance.....	56
Conclusion	56
Key findings.....	57
Overall recommendations	59
Detail audit findings and recommendations	61
Revenue	61
Cash and cash equivalents	62
Procurement and expenditure	63
Payroll	65
Investment.....	66
Imprest.....	66
Staff advances	67
Assets.....	67

Accounts payable	68
Accounts receivable	69
8. Rennell and Bellona Provincial Government	70
Overview	70
Background.....	70
Summary of financial performance.....	70
Conclusion	70
Key findings.....	71
Overall recommendations	74
Detail audit findings and recommendations	75
Financial reporting	75
Revenue	78
Procurement and expenditure	80
Ward development grant	82
Bank accounts	83
Imprests and advances.....	83
Payroll	84
Investment.....	85
Property, plant and equipment	86
Accounts payable	86
9. Temotu Provincial Government.....	87
Overview	87
Background.....	87
Summary of financial performance.....	87
Conclusion	87
Key findings.....	88
Overall recommendations	89
Detail audit findings and recommendations	90
Revenue	90
Procurement and expenditure	93
Payroll	94
Cash.....	95
Investment.....	96
Imprest and advances	98
Assets.....	99
Accounts payable	99

Accounts receivable	100
Executive matters	100
10. Western Provincial Government	103
Overview	103
Background.....	103
Summary of financial performance.....	103
Conclusion	103
Key findings.....	104
Overall recommendations.....	108
Detail audit findings and recommendations	109
Financial reporting	109
Executive minutes	112
Revenue	113
Procurement and expenditure	114
Ward assistance fund.....	119
Payroll	120
Cash.....	121
Investment.....	122
Imprests and advances.....	122
Assets.....	125
Accounts payable	127
Accounts receivable	128

Foreword from the Auditor-General

I am pleased to present this Report to Parliament covering the results of audits performed on the nine provincial governments for the financial year 1st April 2015 to 31st March 2016.

This Auditor-General's Report to Parliament details the results of financial statement audits conducted, as well as some of the higher risk issues identified in our audits, on the nine provincial governments' accounts.

Results of audits

I am concerned that the continued lack of Provincial Governments to have their accounts and records in order results in continued disclaimer. As can be seen from the results of audits reported in below, there is a correlation between poor record keeping and financial performance and results.

Acknowledgements

I would like to acknowledge the great work done by my officers during the audit field work and the preparation of the field reports.

I thank the provincial governments for their support during the audit without which the audit could not be done.



Peter Lokay
Auditor-General
Honiara

23 November 2017

Executive Summary

Mandate

The post of Auditor-General is established under section 108 of the *Constitution* which provides the mandate:

“The public accounts of Solomon Islands, of all Ministries, offices, courts and authorities of the Government, of the government of Honiara city and of all provincial governments, shall be audited and reported on annually by the Auditor-General, and for that purpose the Auditor-General or any person authorised by him in that behalf shall at all times be entitled to access to all books, records, returns and other documents relating to such accounts.”

The *Constitution* and the *Public Finance and Audit Act [Cap 120]* Part VI prescribe the duties and responsibilities of the Auditor-General.

Section 39 of the Provincial Government Act 1997 also provides the mandate for the audit of provincial governments:

(3) The Auditor-General shall, after auditing the accounts pursuant to subsection (3) of section 108 of the Constitution (audit of public accounts) lay copies of them, together with his report as required under that subsection before the Assembly.

Lack of accountability by public officers

I am concerned at the lack of accountability for the actions of decision makers and public officers who have acted inappropriately, negligently or dishonestly.

Disclaimed and qualified audit certificates

All of the financial statements of the provincial governments continue to be certified by the Auditor-General with modified audit opinions due to lack of supporting documents and inadequate internal processes of the audited entities. These problems were so significant in many of the provincial governments. The Auditor-General was unable to form an opinion on the financial statements of six provincial governments and issued a disclaimer of opinion. Three governments were issued with qualified audit opinions.

Status of Financial Statements

The status of all Provincial Government financial statements for the fiscal year 2015-2016 is provided in the table below.

Province	Last statements issued	Date of signing by Province	Date received by OAG	Date of signing by Auditor-General	Opinion
Central Islands	2015/16	20/12/2016	22/12/2016	5/09/2017	Disclaimer
Choiseul	2015/16	6/12/2016	12/12/2016	23/06/2017	Qualified
Guadalcanal	2015/16	28/12/2016	30/12/2016	12/10/2017	Disclaimer
Isabel	2015/16	21/07/2016	16/06/2016	15/05/2017	Qualified
Makira/Ulawa	2015/16	23/12/2016	29/12/2016	11/08/2017	Disclaimer
Malaita	2015/16	21/12/2016	31/12/2016	31/07/2017	Disclaimer
Rennell and Bellona	2015/16	20/06/2016	22/06/2016	8/05/2017	Disclaimer
Temotu	2015/16	12/12/2016	16/12/2016	25/08/2017	Disclaimer
Western	2015/16	14/11/2016	21/12/2016	30/06/2017	Qualified

Table 1: Status of audits – provincial governments

Overall findings

All of the financial statements were submitted to the Auditor-General within the statutory time frame. However, the time allowed of nine months after the end of the financial year is much more generous than the three months allowed for state owned enterprises and statutory bodies, and six months for the SIG financial statements.

For almost all of the provincial government financial statements submitted for audit in the 2015 - 2016 fiscal year, the Auditor-General was unable to express an opinion on the financial statements due to missing records and poor control over receipting and payment of moneys. This means that the information contained in the financial statements cannot be relied upon to be materially correct and a true and fair view of the operations of the provincial governments. Only three provinces' financial statements were issued qualified audit opinions.

There were several areas of concern noted that all or most provincial governments had in common. These were:

- Lack of planning and monitoring of investment companies and businesses, and their financial statements not being consolidated in the provincial governments' financial statements.
- Poor controls over Ward Development Grants.
- Non-performance of or incomplete bank reconciliations.
- Poor controls over the collection, recording and banking of receipts.
- Missing, unsupported and unauthorised payment vouchers.
- Poor control over payroll.
- Poor control over imprests and advances.
- Poor control over fixed assets.

OAG also noted instances of illegal and usurious loans being taken out by provincial governments.

The detail report for each provincial government is in the chapter relating to that particular province.

1. Introduction

Mandate

Under Section 39 of the Provincial Government Act (PGA) 1997 the Provinces Executives have the following obligations:

- (1) *For each financial year, the Provincial Executive shall prepare the following accounts –*
 - (a) *Accounts of sums paid and received by the Executive;*
 - (b) *An account of payments into and out of the Provincial Fund; and*
 - (c) *A balance sheet of the assets and liabilities of the Executive.*
- (2) *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.*
- (3) *The Auditor-General shall, after auditing the accounts pursuant to subsection (3) of section 108 of the Constitution (audit of public accounts) lay copies of them, together with his report as required under that subsection before the Assembly.*
- (4) *The Assembly shall publish -*
 - a) *Accounts and reports received by it under subsection 39(3); and*
 - b) *The reports of the Accounting Committee.*
- (5) *The Provincial Executive shall pay in respect of any audit under section 108(3) of the Constitution such amount as the Auditor General may direct; and any sum payable under this subsection –*
 - (a) *Shall be paid in accordance with the direction; and*
 - (b) *Shall be charged on the Provincial Fund.*

Audit objectives and scope

An audit pursuant to section 108(3) of the Constitution, section 35(1) of the Public Finance and Audit Act (PFAA) (CAP 120) and section 39(3) of the PGA was conducted on the nine Provincial Governments' financial systems and internal controls in order to form an opinion on the effectiveness of managements' internal controls used in the operations of the provinces, their safeguarding of provinces' assets and the preparation of financial information that underlie the production of financial statements.

The scope of each audit was on the operations of financial systems of each province for 2015/16 fiscal year and included a review of the following systems:

- Executive Minutes;
- Revenue and receivables;
- Procurement, expenditure and payables;
- Payroll and staff benefits;
- Imprests and advances;
- Cash and banking arrangements;
- Assets; and
- Financial statements.

The primary objective was to obtain reasonable assurance over the effectiveness of managements' internal controls used in the preparation of financial information to assess whether it was accurate, complete and reported in a timely manner to enable more timely and informed decision making. Other objectives included the mapping of key systems and to make practical recommendations to

management of the provinces in order for them to improve current systems and develop any necessary internal controls.

Glossary and acronyms

Glossary

The **International Standards of Supreme Audit Institutions (ISSAIs)** include the International Standards of Auditing plus additional professional standards specific to the operations and activities of public sector audit institutions and auditing.

The **International Public Sector Accounting Standards (IPSAS)** are the internationally recognised accounting standards for public sector entities. These follow closely to the **International Standards of Accounting (ISA)** and **International Financial Reporting Standards (IFRS)**. However, IPSAS takes into account the essential differences and accounting and disclosure needs between public sector entities and privately owned commercial enterprises.

The term **IPSAS** generally refers to the full set of accounting standards, most of which apply to entities preparing financial statements on the **accrual basis**.

The term **Cash Basis IPSAS** is generally used to refer to the specific set of accounting standards which apply to public sector entities which perform accounting and prepare financial statements on the cash basis.

Cash accounting is used by entities which account for income and outgoings as funds are received or paid. Other than cash at bank, assets and liabilities are not recorded and are not disclosed in the financial statements.

Accrual accounting is used by entities which recognise revenue when it is earned and expenditure when the goods or services have been received. There is often a difference in the timing between when revenue is earned and when cash payment for the earnings is received, and when the benefits of goods and services have been received and when they are paid for. Entities that perform accounting on the accrual basis record assets and liabilities in their accounting records and financial statements.

Audit opinion definitions

When providing an audit opinion over a set of financial statements, the Auditor-General is required to comply with international auditing standards.

These standards define the type of audit opinion that should be issued depending upon the nature of the errors, internal control weaknesses and other matters identified during the audit. The table below provides details of the different types of modified audit opinions that the Auditor-General may issue when certifying a set of financial statements.

Nature of matter giving rise to the modification	Auditor's Judgement about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified audit opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified audit opinion	Disclaimer of opinion

The best type of audit opinion to receive is an **unqualified audit opinion**. Ultimately, it should be a key objective for all auditees to achieve an unqualified audit opinion.

The Auditor-General is also required to report on other legal and regulatory requirements. This forms the second part of the Auditor General's audit opinion and details any significant breaches of other legal or regulatory requirements identified in relation to reporting requirements under the applicable Act.

Emphasis of Matter paragraphs

In some of the Auditor-General's audit opinions, international auditing standards require him to issue an emphasis of matter paragraph. This is not the same as a qualification but the Auditor-General is required to alert readers of the financial statements to any matters which may not result in modification to the financial statements but are important issues that the Auditor-General wishes to bring to the readers' attention

Risk rating

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

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.

Table 2: Risk rating

Acronyms

BLO	Business Licences Ordinance
CIP	Central Islands Province
CIPG	Central Islands Provincial Government
CPG	Choiseul Provincial Government
DPTR	Deputy Provincial Treasurer
FAR	Fixed Asset Register
FMO	Financial Management Ordinance
FSI	Financial and Store Instructions
GP	Guadalcanal Province
GPG	Guadalcanal Provincial Government
HOD	Head of Department
IDC	Isabel Development Company
IIC	Isabel Investment Corporation
IPG	Isabel Province Government
LPO	Local Purchase Order
MCDA	Malaita Chazon Development Authority
MP	Malaita Province
MPA	Members of Provincial Assembly
MPG	Malaita Provincial Government
MPGIS	Ministry of Provincial Government and Institutional Strengthening
MUP	Makira Ulawa Province
MUPG	Makira Ulawa Provincial Government
MUPIC	Makira Ulawa Province Investment Corporation
PCDF	Provincial Capacity Development Fund
PEO	Provincial Enterprise Ordinance
PFAA	Public Finance and Audit Act (Cap 120)
PFMA	Public Financial Management Act 2013
PGA	Provincial Government Act 1997
PPE	Property, Plant and Equipment
PTR	Provincial Treasurer
PV	Payment Vouchers
RBDA	Rennell and Bellona Development Authority
RBP	Rennell and Bellona Province
RBPG	Rennell and Bellona Provincial Government
SIR	Special Imprest Register
TDA	Temotu Development Authority
TEC	Technical Evaluation Committee
TP	Temotu Province
TPDAO	Temotu Province Development Authority Ordinance
TPG	Temotu Provincial Government
TPT	Temotu Province Treasury
WAF	Ward Assistance Fund
WCC	Ward Council of Chiefs
WDAO	Ward Development Authority Ordinance
WDA	Ward Development Authority
WDG	Ward Development Grant
WDV	Written down value
WP	Western Province
WPG	Western Provincial Government
WPIC	Western Province Investment Corporation

2. Choiseul Provincial Government

Overview

Background

The Choiseul Provincial Government (CPG) submitted its financial statements for the financial year ended 31 March 2016 to the OAG on 12 December 2016.

CPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	9,620,648	7,452,970
Capital	7,756,600	7,649,216
total	17,377,248	15,102,186
Payments		
Recurrent	9,345,384	6,866,651
Capital	5,262,594	4,263,179
total	14,607,978	11,129,830
Increase in cash	2,769,270	3,972,356
Closing cash and cash equivalent position	7,687,053	4,917,783
Less restricted cash balances	0	0
Cash available for use	7,687,053	4,917,783
Cash reconciliation		
Opening cash balance	4,917,783	945,609
Increase in cash	2,769,270	3,972,356
Closing cash and cash equivalent	7,687,053	4,917,965
Prior year adjustments	0	-182
Closing cash and cash equivalent	7,687,053	4,917,783

Table 3: Summary of financial performance

Conclusion

The OAG completed the audit of Choiseul Province and found that Choiseul Province has some weaknesses in the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- Multiple imprest holder;
- Laurus Shipping financial statements were not prepared, audited, present in the Assembly and consolidated in the province's financial statement;
- Ward development grant (WDG) reports were not fully done or partially done by Members of Provincial Assembly (MPA);
- Variance between the financial statement and trial balance, and
- Asset register was not properly updated.

As a result the Auditor General has issued a **qualified audit opinion** on the financial statements of Choiseul Province for the financial year ended 31st March 2016.

Key findings

OAG observed that the process to manage and monitor procurement, expenditure, revenue, assets, bank accounts and imprests procedures was inadequately controlled which breached some requirements of the Financial Management Ordinance (FMO) 2008, Financial and Store Instructions (FSI) and Ward Development Authority Ordinance (WDAO) 2006. The audit issues identified are summarised below:

Expenditure certification

Risk Rating: Moderate

Audit found that whilst the CPG has a robust expenditure processing system with good controls, there were instances where it required minor improvement over expenditure such as payments to be certified by the paying officer. The lack of certification of paying officer can raise doubts over whether payments are processed procedural and if not practised as required may pose risks for abuse of authority and processes.

Ward development grant reporting requires improvement.

Risk Rating: High

Not all the wards have reported on the usage of the ward development grant monies that have been allocated to each MPA. Only two wards out of the sixteen wards have reported well on the usage of the ward grants. The lack of WDG reports increases the risk of no accountability and transparency. WDG money may not be used for the intended purposes and tax payers' money may not be accounted for.

Lack of payslips issued to employees

Risk Rating: Low

The CPG has a robust payroll system process and good controls in place. The province needs to re-introduce issuing of payslips on fortnightly basis to its employees as a good practice. The usual practice was that no payslips were issued on fortnightly basis. The lack of issue of payslip fortnightly may result in employees correct rates not paid accordingly resulting in over or under payment.

No financial statement provided by the provincial enterprise (Lauru Shipping)

Risk Rating: High

No financial statement has been provided by the provincial enterprise (Lauru Shipping). This was a breach of the Provincial Enterprise Ordinance (PEO) 2011 that specifies in section 9 sub-sections 1 and 2: *"the requirement that the business arm of the Province must provide the full set of financial accounts and other audit reports and statements for its annual reporting"*.

When no financial statement is given by Lauru shipping to consolidate with the provincial statement of cash receipts and payments, the stakeholders will not be able to see the full picture of the financial affairs of the provincial government and this affects the audit opinion given on the province's financial statements.

Multiple imprest holders

Risk Rating: High

OAG discovered multiple imprest holders from the CP special imprest register. This was a breach of the FMO 2008 Part VII – Making of Advances and Imprests section 55 on Outstanding Imprests that requires “*No imprest may be advanced to a Provincial employee or member where a previous imprest is still outstanding*”. Multiple imprest holders may result in the delaying for the retirement of imprests or imprest holder will be unable to retire the imprest resulting in loss of provincial funds.

Fixed asset register (FAR) requires improvement

Risk Rating: High

An asset register was kept by CPG. However, it required improvement on providing asset details where it could be traced and identified as owned by the Provincial Government. The FAR was not fully updated. Lack of adequate information on the fixed asset register increases the risk of abuse, theft, obsolete, and budget over-run.

No accounts payable register is available

Risk Rating: Moderate

No accounts payable register was kept in the CPG’s Treasury Division. They kept an in-tray for all their accounts payables and prioritized older accounts payables when funds were available. Accounts Payable register is important especially if the accounts payable documents in-tray is misplaced. No register was available to trace to the document if an in-tray document was misplaced. Lack of payables register increases the risk of payments made to ghost suppliers, duplicate payments, budget over-run and misstatement of the financial statements.

Lack of accounts receivable register

Risk Rating: Moderate

CPG has no accounts receivables register. A register is important because it can be used as a monitoring mechanism to reconcile the licence holders, fee payers and other revenues so that the Province can determine how many businesses still owe them for the financial year. OAG acknowledges the Provincial Government for keeping an updated business register for license holders, fee payers and logging company fees but the register needs to be translated to the accounts receivable register. This will enable the province to detect and follow up arrears of revenue. Lack of accounts receivables register increases the risk of unauthorised officers collecting revenue, businesses operating illegally in the Province, loss of revenue and misstatement of the financial statements.

Overall recommendations

OAG’s key recommendations are that the CPG:

- Ensures that the paying officer sign-off as a certification officer when payment vouchers are prepared;
- Ensures that ward development grant recipients must provide quarterly reports to the Provincial Treasury for verification before applying for the next tranche of the grant;
- Ensures to create a proper filing system for all ward development grant supporting documents and safely stored for review and audit purpose;
- Ensures that Lauru Shipping Service produces audited financial statements as required by section 9 (1)(2) of the PEO 2011;
- Liaise with Lauru Shipping to comply with section 2 of the PEO 2011;
- Ensures to comply with requirements of section 55 of the FMO 2008 regarding special imprests;

- Ensures to regularly update the fixed asset register to reflect the actual capital assets procured each fiscal year;
- Ensures that fixed and attractive assets are clearly labelled as the Province's property;
- Ensures to create a proper storage facility to safeguard the assets;
- Establishes a policy and procedure for the disposal of fixed assets;
- Conducts annual stock-take on the assets;
- Establishes a proper accounts payable register and regularly update it; and
- Establishes a proper accounts receivable register to capture all uncollected revenue;

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

Detail audit findings and recommendations

Procurement and expenditure

Expenditure certification

Risk Rating: Moderate

The CPG has strong controls over expenditure except for instances where paying officer certifications of the prepared payment vouchers were not done. It is good practice to have the necessary details to be completed as required on the payment vouchers.

Implications

The lack of certification by paying officer can raise doubts over whether payments are processed procedural, and if not practised as required may pose risks for abuse of authority and processes.

Recommendation 1

OAG recommends that the CPG:

- Ensure that the paying officer sign-off as a certification officer when payment vouchers are prepared.

Executive Response

Management acknowledges failure on certification by paying officer. Officer responsible will be consulted to carry out tasks as required.

Ward development grant

Ward development grant reporting requires improvement

Risk Rating: High

OAG reviewed the ward development grants' files and noted that not all of the 16 ward members reported on the usage of the ward grants being allocated to them for the 2015/16 fiscal year. Two out of the sixteen ward members have fully accounted for the usage of their ward development grants and they were wards 6 and 9 members. Five MPA files could not be located; two MPA did not provide any report while seven MPA only partly reported on their grant allocations.

Implications

The lack of WDGs reports increases the risks of no accountability and transparency. WDG money might not be used for intended purposes and tax payers' money might not be accounted for.

Recommendation 2

OAG recommends that the CPG:

- Ensure that Ward Grant recipients must provide quarterly reports to the Provincial Treasury for verification before applying for the next tranche of the grant; and
- Ensure to create a proper filing system for all ward development grant supporting documents and safely store them for review and audit purpose.

Executive Response

Management acknowledges issues raised. MPAs will be consulted and assisted on the need for reporting. Management however wish to point out that some grants are only partly reported since not all grants are paid out in full during the time of audit.

Payroll

Lack of payslips issued to employees

Risk Rating: Low

Audit reviewed the payroll controls and noted it to be satisfactory except for the issuing of payslips to the employees on fortnightly basis. The usual practice was that no payslip was issued to the employee on fortnightly basis so he or she did not know what has been deducted from his or her salary.

Implications

The lack of issuing of payslips on fortnightly basis may result in employees correct rates not paid accordingly resulting in over or under payment.

Recommendation 3

OAG recommends that the CPG:

- Ensure to re-introduce the practice of issuing payslips to employees on fortnightly basis.

Executive Response

Management acknowledges issue. Responsible officers will be consulted to carry out requirement.

Investment

No financial statements provided by the provincial enterprise (Lauru Shipping)

Risk Rating: High

No financial statements were given by Lauru Shipping to the CPG during the fiscal year of 2015/16. According to section 9 subsection 1 and 2 of the PEO 2011, it states clearly the requirement that the business arm of the Province must meet in terms of annual reporting.

When OAG reviewed the PEO 2011, it was noted that the financial year as per the Ordinance was not consistent with the financial year of Lauru Shipping. According to section 2 of the PEO 2011 the financial year is 1 April to March 31st while the Lauru Shipping's financial year ended on 31st December.

Implications

When no financial statements are produced by the Lauru Shipping to consolidate with the provincial financial statements, the stakeholders will not be able see the full picture of the financial affairs of

the Provincial Government. This could also affect the audit opinion given on the province's financial statements.

Recommendation 4

OAG recommends that the CPG:

- Ensure that Lauru Shipping complies with section 9 (1)(2) of the PEO 2011 by producing audited financial statements; and
- Requires Lauru Shipping to comply with section 2 of the PEO 2011 by adopting the required financial year.

Executive Response

Management acknowledges the failure of Lauru Shipping to comply with Sections 2 and 9 of Provincial Enterprises Ordinance 2011. The latest of Lauru Shipping audited report is for 2012 only. Management will pursue the issue with Lauru Shipping's board of management.

Imprest

Multiple imprest holders

Risk Rating: High

OAG analysis of the Special Imprest Register (SIR) has revealed that the register contains multiple imprest holders. This means that the same officer has an outstanding imprest to retire but has been issued with another special imprest. OAG further noted instances where the outstanding special imprest and the new special imprest retirement date were the same or similarly instances where they might be retired in different dates but the date at which special imprest was paid was few days after the first has been paid.

The FMO 2008 Part VII - Making of Advances and Imprests *section 55* on Outstanding Imprests states: "No imprest may be advanced to a Provincial employee or member where a previous imprest is still outstanding".

It is good practice to be in compliance with what the FMO requires because long term effect of such may result in misappropriation of funds.

Implications

Multiple imprest holders will result in the delaying for the retirement of imprests and imprest holder will be unable to retire the imprest resulting in loss of provincial funds.

Recommendation 5

OAG recommends that the CPG:

- Complies with section 55 of the FMO 2008.

Executive Response

Management acknowledges issue however wish to put explanation on the following marked imprest holders;

1. *H Leghu's two imprests were issued as a result over his extended stay in Honiara to carryout official business. (See dates issued). On his return he retired both on the same day.*
2. *Hon. J Kiloe – Premier: Premier was on official travel when money for generator part (fuel filter) was sent to him. Additional imprest was required as a result.*
3. *J Malasa: Extension of meetings by Public Accounts Committee results in the requirement for another imprest. Julie being the secretary has been appointed to be imprest holder.*

4. *S Zesapa is the Second Appointed Day Committees' Treasurer. Due to BSP Agency policy where withdrawals cannot exceed \$50,000 Treasury has to raise cheques in such amounts thus resulted in a multiple imprest.*

Assets

Fixed asset register (FAR) requires improvement

Risk Rating: High

OAG reviewed the fixed asset register and noted that certain important details were not completed in the register which made it difficult to locate them during the audit. The Provincial Government needs to complete the assets' details such as:

- serial number;
- asset number;
- original cost;
- purchase order number;
- asset location;
- date of acquisition;
- asset condition;
- due date for replacement; and
- sales proceed of the asset.

For good practice, it is important that they are made available for audit trail but most importantly for management to confirm what commitments they have been making within a fiscal year.

Implications

Lack of adequate information on the fixed asset register increases the risk of abuse, theft, obsolete and budget over-run.

Recommendation 6

OAG recommends that the CPG:

- Regularly updates the fixed asset register to reflect the actual capital asset acquisitions during the fiscal year;
- Ensure that each asset is clearly labelled as the Province's property;
- Ensure to create a proper storage facility to safeguard the assets;
- Make sure to establish a policy for assets disposals;
- To create a robust mechanism to ensure all assets are captured in the fixed asset register; and
- Ensure to conduct annual stock-take of the assets.

Executive Response

Management acknowledges and notes the need to improve the register. There has been work on the register however links between divisions and procurement officer to record newly acquired assets is an area of weakness needing improvement.

Accounts payable

No accounts payables register available

Risk Rating: Moderate

OAG noted that there was no accounts payable register. The alternative that the Provincial Government has in place was an in-tray maintained by the Treasury Cashier to store the Local Purchase Orders (LPOs) while waiting for the availability of fund before prioritizing the oldest LPO to pay first. That has worked well for them.

However, for good practice an accounts payable register must be established and regularly updated. In future for cases where an LPO might be accidentally misplaced, the accounts payable register could be used to access and response to any accounts payable query by the office.

Implications

Lack of accounts payable register increases the risk of payments made to ghost suppliers, duplicate payments, budget over-run and misstatement of the financial statements.

Recommendation 7

OAG recommends that the CPG:

- Establish a proper accounts payable register and regularly update it.

Executive Response

Management takes note and acknowledges the failure for putting in place a payables' register. Intention was only for a short period credit purchases however cash flow constraints situation usually resulted bills being unpaid for long period.

Accounts receivable

Lack of accounts receivable register

Risk Rating: Moderate

OAG noted that no accounts receivable register was maintained by the Provincial Government. It is very important to have an accounts receivable register to reconcile the license holders, fee payers and other revenues so that the Provincial Government can determine how many businesses still owe them for the financial year. However, OAG acknowledges the Provincial Government for keeping an updated business register for license holders, fee payers and logging company but this register needs to be translated to accounts receivable register to enable the Treasury to follow up outstanding dues.

Implications

Lack of accounts receivable register increases the risk of unauthorised officers collecting revenue, businesses operating illegally in the Province, loss of revenue and misstatement of the financial statements.

Recommendation 8

OAG recommends that the CPG:

- Establish a proper accounts receivable register to capture all uncollected revenue; and
- Understand that even if IPSAS cash basis is adopted and that only cash receipts and payments is of concern to them, they should maintain the accounts receivable register that captures the fee payers database and licence holders database that can be reconcile with the business licence register in order to determine the amount still owed to the Provincial Government.

Executive Response

Management acknowledges not having a receivables register. A business license register in place has been used as tool for capturing uncollected fees. The management realizes the need for such thus will put in place.

3. Central Islands Provincial Government

Overview

Background

The Central Islands Provincial Government (CIPG) submitted its financial statement for the financial year ended 31 March 2016 to the OAG on 22 December 2016.

CIPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	4,239,921	4,977,743
Capital	5,492,068	4,457,779
total	9,731,989	9,435,522
Payments		
Recurrent	3,130,061	4,060,624
Capital	4,149,986	4,370,139
total	7,280,047	8,430,763
Increase in cash	2,451,942	1,004,759
Cash and cash equivalent position	2,702,468	1,004,757
Less restricted cash balances	48,764	0
Cash available for use	2,653,704	1,004,757
Cash reconciliation		
Opening cash balance	250,527	-754,232
Increase in cash	2,451,942	1,004,759
Closing cash and cash equivalent	2,702,469	250,527

Table 4: Summary of financial performance

Conclusion

The OAG completed the audit of Central Islands Province (CIP) and found that CIP has poor control over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- Missing receipts for revenue totalling \$9,731,989;
- Accuracy of opening balances of the financial statement as at 1 April 2015 could not be determine;
- Missing vouchers for payments totalling \$7, 280,047;
- Lack of surprise survey of cash (Carried forward from 2012/13);
- Lack of segregation of duty;
- Ineffective procurement and tender process;
- Lack of proper management over fuel for provincial use (C/fwd from 2014/15);
- Special imprests register not updated (C/fwd from 2012/13);
- Multiple imprests;

- Assembly meeting minutes not available;
- No asset management policy; and
- Lack of internal audit function by MPGIS.

As a result the Auditor General was unable to place reliance on the financial statements of CIP and issued a **disclaimer opinion**.

Key findings

Overall, OAG observed that the process to manage and monitor procurement, expenditure, revenue, assets, bank accounts, payroll and imprests was inadequately controlled with little or no regard for the requirements of the Financial Management Ordinance (FMO) 2013 and Financial & Store Instructions (FSI). The audit issues identified are summarised below:

Missing receipts

Risk Rating: High

There were some missing receipts from the lodgement of revenue by the Revenue Collector to the Cashier. The missing receipts made it difficult to determine the accuracy and completeness of the transactions for the financial year. Lack of source documents to verify amount of revenue increases the risk of fraud, misuse of provincial funds, lack of services to the people, loss of revenue and personal gain.

Lack of surprise survey of cash (C/fwd from 2012/13)

Risk Rating: High

The Provincial Treasurer or Deputy Provincial Treasurer never conducted surprise survey of cash for the period which was a clear breach of s30 (2) of the FMO 2013. Lack of compliance to s30 (2) of FMO 2013 increases the risk of revenue collected not reflected in the bank statement, embezzlement, conflict of interest, fraud and misstatement of the financial statements.

Lack of cash and cheque summary sheet

Risk Rating: Moderate

There was no daily summary sheet to record revenue received each day. This has made it difficult to determine the accuracy and completeness of the revenue collected for the fiscal year. Lack of cash and cheque summary sheet increases the risk of embezzlement, misuse, fraud, loss of revenue, budget not achieved and misstatement of the financial statements.

No review function performed for bank reconciliations

Risk Rating: Moderate

OAG acknowledge the effort by the Provincial Government in performing monthly bank reconciliations for the three bank accounts, but it was noted that there was no review function performed by the senior official such as Provincial Treasurer. Lack of review of the bank reconciliations increases the risk of errors and irregularities not detected early, manipulation of figures and misstatement of the financial statements.

Lack of segregation of duty

Risk Rating: High

The Cashier was doing the cash receipting, banking and cash payment so there was no segregation of duty. The Deputy Provincial Treasurer stated that the Provincial Treasurer normally checked the work of the Cashier, however, OAG could not sight any evidence that this was done. Lack of segregation of duty increases the risk that the provincial money could be lost through fraudulent activity but were undetected by management.

Ineffective procurement and tender process**Risk Rating: High**

The Provincial Government had an ineffective procurement and tender process for the development projects which resulted in projects not completed in the timeframe agreed in the contract agreements and additional costs incurred by the Provincial Government for the delayed projects. Ineffective procurement and tender process increases the risk of wastage of resources, poor project deliveries and fraudulent activities.

Lack of proper management over fuel for provincial use (C/fwd from 2014/15)**Risk Rating: High**

As reported from previous audit, OAG continued to note that there was poor control over the management of fuel for provincial use and this has led to the Provincial Government having to spend huge cost on fuel.

Special imprests register not updated (C/fwd from 2012/13)**Risk Rating: High**

The Provincial Government did not update its special imprests register for the fiscal year. This has made it difficult to determine the accuracy, completeness and genuineness of the transactions. Lack of update of the register increases the risk of conflict of interest, loss of provincial monies, misappropriation, inaccurate reporting and misstatement of the financial statements.

Multiple imprests**Risk Rating: High**

Two officers were issued with multiple imprests even though they had unretired imprests. This was a clear breach of s55 of the FMO 2013. Lack of management control over imprests increases the risk of negligence of duties, conflict of interest, abuse, misconduct, financial loss and misstatement of the financial statements.

Assembly meeting minutes not available**Risk Rating: High**

OAG was not provided with the full assembly minutes held in the audited period to verify if the payment for the assembly sitting allowances and subsistence allowances of \$14,685.00 for the meetings held on 9 to 13 November 2015 were accurate and complete. The lack of assembly minutes does not provide an audit trail that significant matters and transactions have been authorised by the Assembly.

No asset management policy**Risk Rating: High**

The Provincial Government had no asset management policy to guide them on asset depreciation, revaluation, acquisition and disposal. Lack of asset management policy increases the risk of budget over-run, asset abuse, misuse, theft, conflict of interest and misreporting of asset values in the financial statements.

Lack of internal audit function by MPGIS**Risk Rating: High**

The Ministry of Provincial Government and Institutional Strengthening (MPGIS) Internal Auditor was supposed to provide internal audit services for all the provinces. However, it was revealed that they were yet to carry out internal audit function to the Province. Any organization is prone to frauds and corruption and must guard itself through periodic and continuous check of its operations, governance and policy decisions. Lack of the function of continuous check of the provincial government's operations and governance increases the risk of non-detection of fraudulent activities.

Overall recommendations

OAG's key recommendations are that the CIPG:

- Ensure that the Cashier checks the receipts lodged against the cash before accepting the lodgement;
- Ensure that the Cashier obtain reasons for missing receipts upon lodgement and record them for audit purpose;
- Ensure that the receipts are properly kept and cash are deposited on time;
- Ensure that the used receipt books are securely stored in a lockable cabinet;
- Ensure that the Provincial Treasurer regularly monitors the revenue collection process;
- Ensure that Provincial Treasurer or Deputy Provincial Treasurer conducts regular surprise survey of cash;
- Ensure that cash received must be promptly deposited into a bank account before authorised withdrawals are made to comply with s30(2) of FMO 2013;
- Ensure that management segregate the functions of cash receipting, banking and cash payment;
- Must always ensure that check is done by a senior supervisor where he/she sign off and date the document;
- Ensure to include in the tender evaluation committee an expertise in the area of engineering;
- Make sure there should be a set criteria to guide tender committee for the selection of appropriate bidder;
- Ensure to review the procurement functions and identify gaps in the entire process and take corrective action;
- Ensure to put in place a control measure for the procurement and usage of fuel supplies for the province;
- Must update the special imprests register on a regular basis;
- Immediately establish effective recovery strategy for outstanding imprests;
- Ensure that Management must properly plan and organise their team so that all documents are readily available before the arrival of the audit team on site. This includes those key management officer(s) that will be out during the audit visit should ensure to pass the documents and/or knowledge to next senior officer(s) before they leave Provincial Head Quarter and;
- Liaise with MPGIS to strengthen its internal audit function to the provinces by ensuring it has annual work plan to assist the provinces. The work plan should include assessment of significant internal controls or operations of all the nine provincial governments.

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

Detail audit findings and recommendations

Revenue

Missing receipts

Risk Rating: High

OAG noted during testing that a Revenue Collector has lodged revenue collected to the Cashier on 17/02/16, however the receipts lodged were not in sequence. OAG noted that some receipts were missing and could not be confirmed whether the receipts were cancelled because the receipt book was not available at the time of the audit.

The Cashier confirmed that the receipt book was still with the Revenue Collector, however according to the receipt book register; it revealed that the Revenue Collector was issued with the receipt book

on 5/10/15 and returned it on 13/10/15. The missing receipts made it difficult to determine the accuracy and completeness of the transactions for the period.

Implications

Lack of source documents to verify revenues increase the risk of fraud, misuse of provincial funds, lack of services to the people, loss of revenue and personal gain.

Recommendation 1

OAG recommends that the CIPG:

- Ensure that the Cashier checks the receipts lodged against the cash before accepting the lodgement;
- Ensure that the Cashier obtains reasons for missing receipts upon lodgement and record it for audit purpose;
- Ensure that the receipts are properly kept and cash are deposited on time;
- Ensure that the used receipt books are securely stored in a lockable cabinet; and
- Ensure that the Provincial Treasurer regularly monitors the revenue collection process.

Executive Response

The Central Provincial Government agrees with the OAG recommendation to properly manage and record all the cash received. The CPG will also ensure that all used and new receipt books are properly kept and stored in a locked cabinet.

Lack of surprise survey of cash (C/fwd from 2012/13)

Risk Rating: High

Section 30 (2) of the FMO 2013 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.”

During the audit, it was noted that the Provincial Treasurer or his deputy never conducted surprise survey on cash for the period audited which could lead to breach of s30 (2) of the FMO 2013.

Implications

Lack of compliance to s30 (2) of FMO 2013 increases the risk of loss of revenue collected due to embezzlement, conflict of interest and fraud.

Recommendation 2

OAG recommends that the CIPG:

- Ensure that Provincial Treasurer or Deputy Provincial Treasurer conduct regular surprise survey of cash;
- Ensure that cash received must be promptly deposited into bank account before withdrawal are made to comply with s30(2) of FMO 2013; and
- Failure to comply with s30 (2) of FMO 2013 must be dealt with under s91 and s92 of the FMO 2013.

Executive Response

The Executive agrees with the OAG recommendation for the PTR or the DPTR to conduct regular surprise survey of cash and to ensure that cash received are promptly deposited into the bank accounts before any withdrawals are made.

Lack of cash and cheque summary sheet

Risk Rating: Moderate

Audit performed cash count at the end of the day and confirmed that cash agreed to the receipts. The receipts issued per day were recorded at the back of the deposit book for banking purposes. However, Audit noted that there was no daily summary sheet in place to record the revenue received per day. This has made it difficult to determine the accuracy and completeness of the revenue collected for the fiscal year.

Implications

Lack of cash and cheque summary sheet increases the risk of embezzlement, misuse, abuse, fraud, loss of revenue, budget not achieved and misstatement of the financial statement.

Recommendation 3

OAG recommends that the CIPG:

- Must ensure that the Provincial Treasurer create a daily summary sheet for the Cashier to record the daily revenue received; and
- Ensure that Provincial Treasurer or Deputy Provincial Treasurer monitor the Cashier that she/he is keeping the daily summary sheet.

Executive Response

The Executive agree with the OAG recommendation for the PG to create a daily summary sheet to record the daily revenue received.

Cash and cash equivalents

No review function performed for bank reconciliations

Risk Rating: Moderate

OAG reviewed the bank reconciliations reports for the three bank accounts held by the Provincial Government and noted that there was no review function performed for all bank reconciliation reports. It is an important control that when the preparer prepares the bank reconciliation that another person reviews the bank reconciliation to see that it is done correctly.

Implications

Lack of review of the bank reconciliations increases the risk of errors and irregularities not detected early, manipulation of figures can happen and misstatement of the financial statement.

Recommendation 4

OAG recommends that CIPG:

- Must ensure that review function to be performed by a senior staff such as Provincial Treasurer if the Deputy Provincial Treasurer prepares the bank reconciliation; and
- Ensure that the reviewer to sign off and date the bank reconciliation as proof that the function is performed.

Executive Response

The Executive agrees with the OAG recommendation to ensure that monthly bank reconciliations and monthly financial reports are prepared by a delegated officer and reviewed by the PTR.

Procurement and expenditure

Lack of segregation of duty

Risk Rating: High

OAG noted during the audit that there is no segregation of duty for the function of cash receipting, banking and cash payment as the same officer, the Cashier do all three functions. Discussion with Deputy Provincial Treasurer, OAG was informed that the Provincial Treasurer normally do checking as a control on the non-segregation of duty function however, OAG noted that there is no evidence of the check done by the Provincial Treasurer.

Implications

Lack of segregation of duty increases the risk that the provincial money could be loss through fraudulent activity but were undetected by management.

Recommendation 5

OAG recommends that CIPG:

- Ensure that management segregate the function of cash receipting, banking and cash payment; and
- Must always ensure that check is done by a senior supervisor where he/she sign off and date the document.

Executive Response

The Provincial Executive agrees with the OAG recommendation to ensure CPG management segregate function of cash receipting, banking and cash payment and that such functions are routinely checked and properly supervised.

Ineffective procurement and tender process

Risk Rating: High

OAG noted during testing of development expenditures that CIPG implemented many major development projects. However, OAG noted the following deficiencies in the tender committee and procurement and tender process.

- The committee who did the tender and assessment of the bidders lacked proper knowledge and expertise to select the appropriate contractor to build the development projects. These included lack of effective monitoring and evaluation and tracking of project costs, status and key outcomes and also lack of risk assessment undertaken during the phases of the projects.
- Furthermore, the winning contractors lacked proper expertise and had no experience in building the type of building. For instance, the Provincial Government had spent \$400,000 for the construction of the Tulaghi commercial building however, no progress was made in the building since 2014/2015 audit. In addition, the agreement was extended three times for the same contractor to build and complete the Assembly hall.

Implications

Ineffective procurement and tender process increases the risk of wastage of resources, poor project deliveries, irregular and fraudulent activities.

Recommendation 6

OAG recommends that the CIPG:

- Ensure to include in the tender committee an expertise in the area of engineering;

- Make sure there should be a set criteria to guide tender committee for the selection of appropriate bidder; and
- Ensure to review the procurement functions and identification of gaps in the entire process and take corrective action.

Executive Response

The Executive agrees with the OAG recommendation for the Provincial Government to engage expertise and technical people in the area of engineering to assist the TEC in screening bids and award of contracts. The Executive also agreed for the technical committee to establish criteria to guide the tender committee in selecting appropriate bidders.

Lack of proper management over fuel for provincial use (C/fwd from 2014/15)

Risk Rating: High

OAG noted during the testing of fuel expenses that 6 out of the 10 samples have the following deficiencies:

- Authorized fuel service order form not attached to the payment voucher.
- Appropriate authorities have authorized the payment however, it did not comply with the payment process as fuel was already committed or used before invoice/fuel bill was sent to Finance Department for authorization.
- Invoice for fuel from supplier not attached to the payment voucher.

These findings indicate that the Provincial Government is not properly managing its funds for fuel. This issue was brought forward from previous audit which is a serious concern to OAG.

Implications

Lack of compliance with payment processes and unsupported invoice/bill for the payment of fuel increases the risk that CIP losses money through fraudulence activity but is undetected by the management.

Recommendation 7

OAG recommends that CIPG:

- Ensure to put in place a control measure by identifying and recommending only certain fuel suppliers for the province these includes those in the remote areas; and
- Ensure that fuel payment to be authorized and processed only if invoice is obtained from recommended fuel suppliers.

Executive Response

The Provincial Executive agrees with the OAG recommendation to identify and recommend fuel suppliers to provide fuels for the Provincial Government. The PG will ensure fuel is sourced only from these suppliers with strict compliance to authorization from the PG management team.

Special imprests

Special imprests register not updated (C/fwd from 2012/13)

Risk Rating: High

OAG noted that the special imprest register was not updated during the financial year. OAG confirmed during analysis of the special imprest register that officers retired their imprests but the register was not updated. This has made it difficult to determine the accuracy and completeness of the transactions.

Implications

Lack of up to date register increases the risk of conflict of interest, loss of provincial monies, misappropriation, inaccurate reporting and misstatement of the financial statements.

Recommendation 8

OAG recommends that the CIPG:

- Must immediately update the special imprests register;
- Ensure to regularly monitor and update the register; and
- Immediately establish effective recovery strategy for outstanding imprests.

Executive Response

The Provincial Executive agrees with the OAG recommendation to immediately update the special imprest register and ensuring imprest retirement is continuously monitored.

Multiple imprests

Risk Rating: High

OAG reviewed the special imprests register and found that two officers were issued with multiple imprests even though they have unretired imprests. This is a clear breach of section 55 of the Financial Management Ordinance 2013.

Implications

Lack of strong control over imprests increases the risk of negligence of duties, conflict of interest, abuse, misconduct, loss of provincial funds and misstatement of the financial statements.

Recommendation 9

OAG recommends that the CIPG:

- Must fully comply with section 55 of the FMO 2013; and
- Ensure to properly monitor the imprest register to avoid multiple imprests given to officers.

Executive Response

The Executive agrees with the OAG recommendation to comply with Section 55 of the FMO 2013 and not to issue multiple imprests to officers who have outstanding imprests.

MPA allowances and ward development grant

Assembly meeting minutes not available

Risk Rating: High

OAG was not provided with the full assembly minutes held in the financial year 2015/16 for review. OAG requested these minutes for review during the 2 weeks of audit but without any success. Assembly minutes form a critical part of the corporate governance process as they record all key resolutions and approvals provided by the Assembly. Any disputes can be traced back to the minutes.

Furthermore, without the minutes, OAG could not verify if the payments for assembly sitting allowances and subsistence allowances totalling \$14,685.00 for the meetings held from 9 to 13 November 2015 were genuine.

Implications

The lack of assembly minutes does not provide an audit trail that significant matters and transactions have been authorised by the Assembly.

Recommendation 10

OAG recommends that the CIPG:

- Ensure that Management must properly plan and organise their team so that all documents are readily available before the arrival of the audit team on site. This includes those key management officer(s) that will be out during the audit visit should ensure to pass the documents and/or knowledge to next senior officer(s) before they leave Provincial Headquarters.

Executive Response

Central Provincial Executive agrees with the OAG recommendation for the provincial and assembly management to properly plan staff movement and ensure documents for audit purposes are completed and available on time. This will include executive minutes, assembly minutes, divisional reports and committee reports.

Property, plant and equipment

No asset management policy

Risk Rating: High

It was confirmed through system documentation of property, plant and equipment that the Provincial Government does not have any asset management policy in place to guide them on asset depreciation, revaluation, procurement and disposal. It is important to have asset management policy to safeguard the assets of the Province from abuse, misuse, theft and budget over-run.

Implications

Lack of asset management policy increases the risk of budget over-run, asset abuse, misuse, theft, conflict of interest and misreporting of asset values in the financial statements.

Recommendation 11

OAG recommends that the CIPG:

- Ensure management establish an asset management policy to control and manage the provincial assets.

Executive Response

Executive agrees with the recommendation by OAG for CPG to establish an Asset Management Policy.

Internal audit function

Lack of internal audit function by MPGIS

Risk Rating: High

Discussion OAG had with Deputy Provincial Treasurer indicated that the MPIS Internal Audit was the internal auditor for all the provincial governments. However, it was noted from the discussion that the internal auditors did not carry out the internal audit function to the Province. This has made it difficult for the Province to implement most of OAG's recommendations without the support of the internal auditors.

Implications

Lack of the function of continuous check of the provincial government's operations and governance increases the risk of fraudulence activity that can go undictated.

Recommendation 12

OAG recommends that the CIPG:

- Liaise with MPGIS to strengthen its internal audit function to the provinces by ensuring it has annual work plan to assist the provinces. The work plan should include assessment of significant internal controls or operations of all the nine provincial governments.

Executive Response

The Executive agrees with the OAG recommendation for MPGIS to conduct internal audit functions to Central Province. Audit functions to include assessment of internal controls or operations of the provincial government.

4. Guadalcanal Provincial Government

Overview

Background

The Guadalcanal Provincial Government (GPG) submitted its financial statement for the financial year ended 31 March 2016 to the OAG on 20 December 2016.

GPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	16,658,920	20,060,005
Capital	3,500,000	0
total	20,158,920	20,060,005
Payments		
Recurrent	18,738,566	15,876,050
Capital	3,750,000	7,077,377
total	22,488,566	22,953,428
Increase in cash	-2,329,647	-2,893,423
Closing cash and cash equivalent position	155,633	44,810
Less restricted cash balances	528,858	0
Cash available for use	-373,224	44,810
Cash reconciliation		
Opening cash balance	44,811	4,959,741
Increase in cash/(decrease in cash)	-2,329,647	-2,893,423
Closing cash and cash equivalent	-2,284,836	2,066,318
Adjustments	2,440,469	-2,021,507
Closing cash and cash equivalent	155,633	44,811

Table 5: Summary of financial performance

Conclusion

The OAG completed the audit of Guadalcanal Province (GP) and found that GP has poor control over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- No management of revenue and unverified receipts for \$20,158,919.57;
- Discrepancy in opening and closing balances of cash in the financial statement;
- No specimen signatories available;
- Unbudgeted payments of \$465,600;
- Missing payment vouchers for \$626,102;
- Lack of adequate supporting documents for \$432,200;
- Poor control over retiring of imprests;
- Fixed asset register not updated (C/fwd from 2013/14);

- No accounts receivable records; and
- Accounts payable register not maintained.

As a result the Auditor General was unable to place reliance on the financial statement of GPG and issued a **disclaimer opinion**.

Key findings

OAG observed that the process to manage and monitor procurement and expenditures, revenue, assets, bank accounts and imprests procedures was inadequately controlled with little or no regard for the requirements of the FMO 2008 and FSI. The audit issues identified are summarised below:

No controls over management of revenue

Risk Rating: High

That the GPG revenue data was recorded in several spreadsheets and there was no central database for revenue. The lack of proper and effective revenue collection process increases the risk of loss of revenue, unauthorised collection of revenue, negligence of duties and misstatement of financial statement. This exposes provincial funds to misuse and fraud.

No specimen signatories available

Risk Rating: Moderate

The Provincial Government never kept copies of specimen signatures of authorised personnel to sign for payment, special imprests and other documents. The lack of maintaining record of specimen signatures increases the risk of payments being paid without proper authorization and this would lead to misappropriation of provincial fund.

Unbudgeted payments

Risk Rating: High

A number of payment vouchers for computer equipment under the Finance Division with a total value of \$465,600 were incurred without any approved budget. The dates of payments to various suppliers were not in sequential order and there was lack of any progress reports on projects prior to payments being made to contractors. The unbudgeted payments increase the risk of provincial funds being misused and misappropriated.

Missing payment vouchers

Risk Rating: High

OAG is unable to locate eight (8) payment vouchers with a total value of \$626,102 to examine for its accuracy and completeness. It was not possible for OAG to substantiate the legitimacy of the above expenditures because there were insufficient document to confirm verification, approval and authorisation by delegated officers. OAG was unable to ascertain the accuracy, completeness and validity of the expenditures. The non-availability of financial records increases the risk of provincial funds being misappropriated.

Lack of adequate supporting documents

Risk Rating: High

The Provincial Government did not keep adequate source documents to support expenditure of \$432,200. OAG was therefore unable to determine whether the expenditures were properly authorised. The lack of supporting source documents increases the risk of provincial funds being misappropriated.

Poor controls over retiring of imprests

Risk Rating: High

There was breakdown in the management of imprests where only 33% of imprests were retired while 67% of imprests were unretired for 2015/16 fiscal year. There is an increased risk of loss or misuse of monies.

Fixed assets register not updated (C/fwd from 2013/14)

Risk Rating: High

The register for property, plant and equipment (PPE) was not updated as at 31 March 2016. The lack of valuation of all assets owned and leased by the province was a significant issue. The non-updating of the fixed asset register and the incorrect presentation and disclosure of property, plant and equipment balance exposes the province to the risk of losing valuable assets through theft, fraud and misuse. The province was yet to establish an asset management policy. The lack of asset management policy enhances poor management control over the provincial assets especially in procurement, maintenance and disposal of assets.

No accounts receivable records

Risk Rating: Moderate

The listing of accounts receivable for 2015/16 fiscal year was not available. The lack of accounts receivable register increases the risk of unauthorised people collecting the revenue without the province's knowledge. This exposes provincial funds to misuse and could lead to fraud.

Accounts payable register not maintained

Risk Rating: Moderate

The Provincial Government did not maintain any accounts payable in the MYOB system to determine the outstanding arrears to the suppliers. The lack of keeping an updated creditor register might increase the risk of creditors being over paid or there might be possibilities of duplicate payments.

Overall recommendations

OAG's key recommendations are that the GPG:

- Account for all revenues collected in MYOB Accounting Software;
- To strengthen controls over management of revenue collections to minimise revenue losses and fraud;
- Ensure that all payments documents are signed by authorised officers;
- Ensure that authorised officers' specimen signatures are kept;
- Comply with FMO 2008 when incurring expenditure;
- Properly file all payment vouchers and other financial records in a secure location and is accessed by authorised persons only;
- Ensure to comply with the Government Records Management Policy;
- Ensure that documents are provided for audit when requested;
- Ensure that source documents are attached to payment vouchers to support the payments;
- Ensure to refer suspicious payments of fraud to relevant authorities for further investigation;
- Ensure that the imprest forms are authorised;
- Ensure that all required documentation is attached to imprest forms and applications and must file accordingly;
- Review the internal procedures surrounding the recovery of outstanding imprest accounts;
- To review all fixed asset records and consolidate those records to produce an updated and complete record of all the provincial assets;
- Continue to collaborate with MPGIS regarding revaluation of all provincial assets;
- Properly monitor and safe guard the assets from misuse and theft by ensuring annual stock take is carried out;
- Ensure to establish an asset management policy as soon as possible; and

- To correctly classify and disclose PPE in the PPE register showing the correct value of each asset as at the end of the financial year.

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

Detail audit findings and recommendations

Revenue

No control on management of revenue

Risk Rating: High

The Guadalcanal Provincial revenue data was kept in several Excel spreadsheets within the Accounts Division. There was no central database for revenue and the excel spreadsheets were never reconciled.

Actual revenue analysis of year 2015/16 verses 2014/15 is showed below.

Account Name	2015/2016 (\$)	2014/2015 (\$)
Recurrent receipts	0	166,435
Capital receipts	0	2,149,765
TOTAL	0	\$2,316,200

Table 6: Revenue/receipts captured in 2015 but not in 2016

By comparison as above, the \$2,316,200 revenue in 2014/2015 did not appear in 2015/16. The main attribute to the 2014/2015 Capital receipts represented revenue arrears of 2014 not collected.

The incompleteness of revenue data in the general ledger and cash book made it difficult to verify all revenue collections. Therefore the completeness of revenue collections could not be ascertained.

Implications

The lack of proper and effective revenue collection process increases the risk of loss of revenue, unauthorised collection of revenue, negligence of duties and misstatement of financial statement. This exposes provincial funds to misuse and fraud.

Recommendation 1

OAG recommends that the Provincial Government:

- Account for all revenues collected in MYOB Accounting Software; and
- Strengthen controls over management of revenue collections to minimize revenue losses and fraud.

Executive Response

The Executive noted the issue raised in relation to revenue collection and strongly recommend the following to rectify the audit issue:

- a) The installation of MYOB software on the computers used by revenue officers.
- b) The revenue officers are required to input all revenue data into MYOB.
- c) Internal training must be conducted by the Acting Treasurer on MYOB for the revenue officers.

Procurement and expenditure

No specimen signatories available

Risk Rating: Moderate

Guadalcanal Province (GP) did not keep copies of specimen signatures of authorised personnel to sign accountable documents such as payment vouchers, special imprests forms and other payment documents. The lack of file of specimen signatures made it difficult to ascertain whether payment vouchers and other financial records were signed by properly authorised and legitimate signatories.

Implications

The lack of maintaining record of specimen signatures increases the risk of payments being paid without proper authorization and this would lead to misappropriation of provincial fund.

Recommendation 2

OAG recommends that the Provincial Government:

- Keep copies of specimen signatures of personnel authorised to incur expenditure for each financial year;
- Ensure this is done for all the standard cycles of the provincial government; and
- Ensure that FMO 2008 is complied with.

Executive Response

The executive acknowledged the issue raised on the above audit issue and strongly recommend the following to rectify the audit issue:

- a) Payments must be properly documented, authorised by relevant, appropriate and responsible officers.*
- b) All PVs that are ready to be paid must be kept by the Treasurer for final verification before issuing PVs to the Provincial Secretary to sign before cheque is raised.*

Unbudgeted payments

Risk Rating: High

OAG noted from the analysis of all payments for computer expenditure under the Finance Division that significant amounts of payment vouchers with a total value of \$465,600 were incurred without approved budget. The budget for the computer expenditure vote was \$46,400 but the department expended \$465,600 on the budget line – computer expenditure. This was an overspending of \$419,200. The dates of the payments made to various suppliers seemed to indicate that they were manipulated by the Treasurer and the suppliers during the period of July 2015.

The lack of any progress records to ensure all the work done was certified and approved made it difficult to determine the appropriateness of these payments.

Implications

The unbudgeted payments increase the risk of provincial funds being misused, misappropriated and exposed provincial funds to fraud.

Recommendation 3

OAG recommends that the Provincial Government:

- Ensure that all payments are signed by authorised officers before they are paid out;
- Ensure that authorised officers' specimen signatures are made available for all cycle of payments; and
- Ensure that the provincial government comply with FMO 2008 when incurring expenditure.

Executive Response

The Executive noted the queries on this particular audit issue and resolved on the following to address it:

- a) All HODs must sign appropriate documents such as requisitions before payments can proceed.*
- b) Payments that are not budgeted for must NOT be executed until executive approval is sought and granted.*

Missing payment vouchers

Risk Rating: High

It is a requirement under the Government Records Management Policy for all Government Ministries, Provincial Governments and other government agencies to maintain good records management. Hence provincial government staff must ensure that all actions of all public servants in carrying out their official duties are recorded in an official recordkeeping system and the system to be managed so that the information can be found quickly when needed, is secured and cannot be tampered with and not be destroyed before it is no longer needed.

OAG was unable to locate eight (8) payment vouchers with a total value of \$626,102 to examine for its accuracy and completeness.

Implications

The non-availability of financial records increases the risk of provincial funds being misappropriated.

Recommendation 4

OAG recommends that the Provincial Government:

- Properly file all its payment vouchers and other financial records in a secure location and accessible to authorised persons only;
- Ensure to comply with the Government Records Management Policy; and
- Ensure that documents are provided for audit when requested.

Executive Response

On the audit issue of missing PVs, the executive noted the seriousness of the query and resolve to undertake the following resolutions:

- a) Request the finance staff to review all payments without PVs and seek confirmation of payments from recipients.*
- b) Re-do PVs that relates to payments that were procedural and collected by right recipients.*
- c) A safe area within Finance Division must be allocated for safe keeping of records.*
- d) All payments which are in PVs must be kept by the Provincial Treasurer whom will submit to Provincial Secretary for endorsement before raising of cheques.*
- e) Payments must be done only in the cashier's room.*
- f) Payments are to be done only on Wednesday each week.*

Lack of adequate supporting documents

Risk Rating: High

Audit found that 10% (5/30) of the sample selected for 2015/2016 lacked supporting documents and also insufficient statements of claims were attached to the payment vouchers. The value of payment vouchers without supporting documents totalled to \$432,200. The lack of documents to backup claims has made it difficult to determine whether the payments were genuine.

Implications

The lack of supporting source documents increases the risk of provincial funds being misappropriated.

Recommendation 5

OAG recommends that the Provincial Government:

- Ensure that source documents are attached to payment vouchers to support the payments; and
- Ensure to refer suspicious payments to relevant authorities for further investigation.

Executive Response

We noted the audit issue raised and strongly recommend the following undertaking:

- a) Finance staff to review all payments without adequate supporting documents and re-do or request supporting documents where possible on all payments that were not properly documented.*
- b) All payments that are without adequate supporting documents MUST not be paid.*

Special imprests and advances

Poor control over retiring of imprests

Risk Rating: High

OAG reviewed the imprest records of GPG and sighted significant amounts were disbursed as imprests. OAG noted that there was a breakdown on the Provincial Government's procedure in retirement of imprests.

The tables below shows the summary of imprests recorded for the 2015/16 fiscal year.

Guadalcanal Province Imprest Summary Record in 2015/2016		
Particulars	Amount (\$)	%
Retired Imprests	\$1,269,208	33%
Unretired Imprests	\$2,577,553	67%
Total Imprests Paid	\$3,846,761	

Table 7: Imprest payments

The figures in 2015/2016 showed 33% of imprests were retired on due dates while 67% were unretired or retired late. This showed poor imprest management for the province.

Unretired Imprest Allocation for GPG in 2015/2016		
MPA	1,440,288	56%
Direct employees	970,165	38%
Seconded employees	167,100	6%
Total Unretired Imprest	2,577,553	100%

Table 8: Unretired imprest allocation

Implications

There is an increased risk with imprests being issued that the monies will not be acquitted in a timely manner. Further there is an increased risk of loss or misuse of monies when imprest forms are not authorised or missing and when there is lack of supporting documentation attached.

Recommendation 6

OAG recommends that Provincial Government should:

- Ensure that the imprest forms are authorised;
- Ensure that all required documentation is attached to imprest forms and applications and must file accordingly; and
- Review the internal procedures surrounding the recovery of outstanding imprest accounts.

Executive Response

The audit queries raised on imprests were noted by the Executive therefore the Executive strongly recommended the following to be undertaken to rectify the issue raised:

- a) The Finance staff to review and make a final reminder to everyone who still have outstanding imprest to attempt retiring outstanding imprests.*
- b) MPAs that yet to open WDC Account must immediately do so before third quarter-October 2017.*
- c) Strictly ensure that staff do retire all imprests before they can apply on holding further imprests.*

Property, plant and equipment

Fixed assets register not updated (C/Fwd from 2013/14)

Risk Rating: High

An asset register is an important internal control tool in an organisation that helps the management identify the assets, their purchase price, location and help manage disposal and timing of procurement. The Guadalcanal Province has a lot of assets of high value which were not recorded in any asset register.

The issue remains as it was regarding property, plant and equipment where the register is yet to be updated, with no calculation of depreciation, written down Value (WDV) arithmetically incorrect and the disclosed property, plant and equipment balance being materially misstated as at 31 March 2016. In addition, the lack of valuation of all assets owned and leased by the province was a significant issue, together with the absent of an asset management policy.

OAG has been recommending in its prior reports, for the province to have a register, however, these issue was not addressed. This province failed to account for and accurately report the province's asset values as at the end of each financial year. As a result it could lead to misuse and theft of the assets.

Implications

The recurring issue of not updating or maintaining the fixed asset register and the incorrect presentation and disclosure of property, plant and equipment balance exposes the province to lose valuable assets without being identified, accounted for and reported with its correct value at year end.

Also the lack of asset management policy enhances poor management over the province's procurement, maintenance and disposal of its assets.

Recommendation 7

OAG recommends that the Provincial Government:

- To review all fixed asset records and consolidate those records to produce an up to date and complete record of all the provincial assets;

- Continue to collaborate with MPGIS regarding revaluation of all provincial assets;
- Properly monitor and safe guard the assets from misuse and theft by ensuring annual stocktake is carried out;
- Ensure to establish an asset management policy; and
- And correctly classify and disclosed PPE in the PPE statement showing its correct value as at the end of the financial year. OAG recommended the province to use the straight line method with the appropriate rates.

Executive Response

The executive noted the queries on property, plant and equipment and feels that the Province has an asset register. On the issue of depreciation of value of assets the executive feels that this should be removed from the audit queries because Provincial Governments and Guadalcanal Provincial Government for that matter is operating IPSAS Cash basis of accounting which does not warrant assets to be depreciated to arrive at the net book value. The moment the asset officer keeps the register according to the template there should be no audit query on this.

Accounts receivable

No accounts receivable records

Risk Rating: Moderate

The listing of accounts receivable for the 2015/2016 financial year was not available. There were no general ledger balances in the MYOB Accounting Software for accounts receivable. The absence of accounts receivable listing has made it difficult to determine how many businesses still owe the province for 2015/2016 financial year.

Implications

The lack of accounts receivable register increases the risk of unauthorised people collecting the revenue. This exposes provincial funds to be misused and leads to fraud.

Recommendation 8

OAG recommends that GPG:

- Ensure to establish, maintain and update the accounts receivable listing; and
- A special task committee to ascertain the accounts receivable balance.

Executive Response

The Executive noted the audit queries and recommended that an immediate installation of MYOB software for all of the staff in the finance division and also conduct internal or in house training for staff who are yet to familiarise on the use of MYOB.

Accounts payable

Accounts payable register not maintained

Risk Rating: Moderate

OAG was not able to identify from the MYOB system generated general ledger the province's outstanding arrears for its creditors and these include PAYE, Utilities (Solomon Water, SIEA and Telekom) and other business houses. As the province relies on the general ledger data obtained from MYOB to provide them with the information, audit was unable to obtain any creditor register due to the incompleteness of the data.

Implications

The lack of an updated creditor register might increase the risk of creditors being over paid or there might be possibilities of duplicate payments.

Recommendation 9

OAG recommends that the Provincial Government:

- Ensure that an accounts payable register database is created and properly kept by the province; and
- Ensure that the Provincial Treasurer has a copy to assist him/her in advising Accounting Officer on creditors' issues.

Executive Response

The executive noted the queries on this audit issue and recommended the following:

- a) Installation of MYOB software for staff at the finance division.*
- b) The Expenditure Officer to create trade payable register.*
- c) The Treasurer to have access to trade payable spread sheet.*

5. Isabel Provincial Government

Overview

Background

The Isabel Provincial Government (IPG) submitted its financial statements for the financial year ended 31 March 2016 to the OAG on 16 June 2016 and amended financial statements on 21 July 2016.

IPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	13,942,456	13,043,827
Capital	4,462,892	3,107,651
total	18,405,348	16,151,478
Payments		
Recurrent	12,721,998	10,303,682
Capital	5,339,060	5,567,336
total	18,061,058	15,871,018
Increase in cash	344,290	280,460
Closing cash and cash equivalent position	9,416,350	9,021,287
Less restricted cash balances	0	0
Cash available for use	9,416,350	9,021,287
Cash reconciliation		
Opening cash balance	9,072,060	8,740,382
Increase in cash	344,290	280,460
Closing cash and cash equivalent	9,416,350	9,020,842
Prior year adjustments	0	51,218
Closing cash and cash equivalent	9,416,350	9,072,060

Table 9: Summary of financial performance

Conclusion

The OAG completed the audit of IPG and found that IPG has adequate control over the management of its resources. The main issues that require management action are:

- Lack of consolidation disclosures;
- Lack of disclosure of accounts receivable in the financial statement;
- Revenue database not updated;
- Lack of proper planning, monitoring and oversight of few development projects;
- Lack of receipts or acquittals;
- Lack of dividend received from its investment;
- Lack of supporting documents for land rental fees collected; and

- Large value of uncollected revenue (account receivables).

As a result the Auditor General issued a **qualified opinion** for the financial statements of IPG.

Key findings

Overall, OAG observed that the process to manage and monitor procurement and expenditure, revenue, assets, bank accounts and imprests procedures was inadequately controlled in some instances. The audit issues identified are summarised below:

Financial statement overstated

Risk Rating: Low

OAG identified during the analytical review of the financial statement and general ledger that the financial statement is overstated by \$2,659.71 from payroll which is immaterial and does not affect the financial statement. Overstatement of the financial statement increases the risks of conflict of interest, abuse, manipulation of figures, poor supervision and misstatement of the financial statement.

Lack of consolidation disclosures

Risk Rating: High

OAG noted that the Province did not consolidate its financial statement as the Isabel Investment Corporation (IIC) accounts were yet to be finalised and audited by a contracted auditing firm. Lack of consolidation of IIC's financial statements with IPG financial statements increases the risk of the PG pouring funds into the operation of the investment might not be profitable, mismanagement, conflict of interest and misstatement of the financial statements.

Lack of disclosure of account receivables in the financial statement

Risk Rating: High

The value of accounts receivable for the 2015/16 fiscal year was \$1,949,547.00 which was a significant amount that should be reported in the encouraged note of IPSAS Cash Basis reporting framework. Lack of disclosing of significant amount yet to be collected does not give a fair presentation of the entity's expected cash receipts in future periods.

Revenue database not updated

Risk Rating: High

It was revealed during revenue testing that the land database and business registry maintained by the revenue officer did not reflect some of the titleholders of parcels leased to public and ownership of businesses. It was further revealed that forfeited lands were re-issued to new owners but the records were not updated which resulted in land rental being foregone. OAG was informed that it was the responsibility of lands officer to maintain the land database and provide copy to the revenue officer to collect the land rental and property rates. Lack of proper updating and maintaining the land database could result in revenue foregone for the Province.

Lack of proper planning, monitoring and oversight of few development projects

Risk Rating: High

OAG noted during the project inspections that two classroom projects for primary schools were incomplete while others were prolonged due to lack of materials and poor quality workmanship. In addition, the contractor who won the tender sometimes subcontracted the project and there was high turnover of contractors due to termination of contract for poor workmanship. Also there was lack of proper building plans and bill of quantities that resulted in shortage of funds to complete the projects on time. The lack of proper planning, monitoring and oversight of development project

could result in projects not completed on time and cost the province extra funds, properties and resources to meet what was not budgeted for in the beginning of the year.

Lack of receipts or acquittals

Risk Rating: High

Audit found when examining the MPA allowance and ward development grants that there were lack of receipts or acquittals which could imply that the accountability for the grants was in question. Funds for utilities grants may be misappropriated instead of what being budgeted for and conflict of interest can determine its usage.

Lack of timesheet for clock-in and out

Risk Rating: Moderate

OAG noted that the province did not use timesheet for clock in and out for staff attendance to work which resulted in why staff turned up to work late and left work early. This is a clear breach of chapter 7 section 0701 of the Isabel Staff Instruction 2009. Lack of proper monitoring of staff attendance increases the risk of non-performance of staff duties. Also, province paid staff that never carried out their responsibilities which was a waste of public funds. Alternatively, staff might not turn up for work during normal hours to perform their duties but requested overtime for catch up which was a double wastage of fund from salary as well overtime.

Lack of dividend receive from its investment

Risk Rating: High

Audit was informed previously that the province should receive dividend from IDC through IIC for 2014/15 financial year but dividend was not received. For the financial year ended 31 March 2016 the dividend was not received as well. The non-payment of dividends increases the risk of the Provincial Government not meeting its obligations, poor accountability to the rural people and misstatement of the financial statements.

Large value of uncollected revenue (account receivables)

Risk Rating: High

OAG discovered that there is a significant amount of uncollected revenue when reviewing the revenue data provided by the revenue collector. The amount disclosed is of significant amount and if not collected will be a great loss for the Province. Furthermore, the revenue collector needs to work closely with the cashier so whenever customers pay their dues, the receivable data is updated. Lack of proper monitoring the collection of revenue could result in revenue foregone and this could affect the province on the implementation of its activities as there is lack of fund to cover those expenses.

Overall recommendations

OAG's key recommendations are that the IPG:

- Ensure that the financial statements of IIC are audited by reputable audit firm and submitted for consolidation;
- Ensure that additional information of significant amount should be presented under notes in IPSAS Cash Basis reporting;
- Ensure that the Lands officer update and maintained the land database records to reflect the actual land rental for the year;
- Ensure lands officer and revenue officer work together to maintain revenue database with the supervision of the Provincial Treasurer;
- Ensure planning division need proper building plans, carry out daily monitoring and oversight of projects;

- Ensure a budget for a particular project accommodates miscellaneous expenses in order to cater for unexpected circumstance during the duration of the project;
- Ensure projects are awarded to personnel who have construction license with the province;
- Ensure that the employees of the province who are awarded contract from the province must declare with the Executive and LCC of there extra business activities;
- Ensure those who have business or outside interest must performed those duties on their own time to avoid conflict with official working hours;
- Ensure that the provincial members have a receipt book to issue receipts when people requested funds;
- Ensure formal explanatory notes are attached to PV for the utilities grants;
- Ensure to liaise with IDC for the outstanding dividends to be paid;
- Disclose the dividends in its financial statements;
- Ensure the revenue collector and cashier collect revenue due to the province and;
- Ensure Provincial Treasurer coordinate the collection of revenue.

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

Detail audit findings and recommendations

Financial reporting

The OAG acknowledged the IPG in complying with the PGA 1997 to prepare its financial statement for the 1st April 2015 to 31st March 2016 on time. OAG acknowledged the reforms in the province to improve its accountability by engaging a private accountant to prepare the accounts of Isabel Investment Corporation (IIC) in order to meet the requirement under IPSAS Cash Accounting (Part 1).

Financial statement overstated

Risk Rating: Low

OAG noted during analytical review of the financial statement and the general ledger that the financial statement was overstated by \$ 2,659.71 under payroll. OAG already notified the responsible person and this has been addressed during the time of the audit. The amount was not material and did not affect the FS. The error should be noted on the financial statement as stated in IPSAS 1.5.2 *“That an entity should disclose in the notes to the financial statement the nature of the error, the amount of the correction; and the fact that comparative information has been restated.”*

Implications

Overstatement of the financial statement increases the risks of conflict of interest, abuse, manipulation of figures, poor supervision and misstatement of the financial statement.

Recommendation 1

OAG recommends that the IPG:

- Ensure payroll officer reconcile payroll data with the general ledger and financial statement; and
- Ensure the Provincial Treasurer check the work of payroll officer on regular basis to detect errors early and make correction accordingly.

Executive Response

- *Provincial Treasurer has worked closely with the Payroll Officer on the processing of payroll, verify payroll payments are being calculated correctly and accurate posting is done.*
- *PTR ensures time records are being accumulated properly.*
- *PTR verify employees being paid are still working for IPG.*
- *PTR review and authorize the payroll before it's sent for payment.*
- *Performs payroll checking on fortnightly basis.*

Lack of consolidation disclosures

Risk Rating: High

OAG acknowledged the effort made by the province to engage an accounting firm who has already prepared the Isabel Investment Corporation (IIC) financial statements from 2011 to 2015. However, the Province did not consolidate its financial statements as the IIC accounts were yet to be finalised and audited. As stipulate in IPSAS 1.6.5; *"A controlling entity should issue a consolidated financial statements which consolidates all controlling entities, foreign and domestic."* OAG will continue to raise this issue to remind the Province Government of its obligation under IPSAS Cash reporting.

Implications

Lack of consolidation of IIC's financial statements increases the risk of the PG pouring funds into the operation of the investment which is not profitable, mismanagement, conflict of interest and misstatement of the financial statements.

Recommendation 2

OAG recommends that the IPG:

- Ensure that the financial statements of IIC are audited by reputable audit firm and submitted for consolidation.

Executive Response

- *Isabel Provincial Government Executive and Management will meet with the Management and Board of Isabel Investment Corporation on the latest financial statements for FY2015 by May 31st to make audit arrangement with Bauro and Associates.*
- *The Treasurer will ensure the consolidation of IIC's financial statements as soon as the Audit report is received.*

Lack of disclosure of account receivables in the financial statement

Risk Rating: High

OAG noted that the value of account receivables of the province for 2015/16 year ended was \$1,949,547.00. It is best practice that Revenue Officers should prepare listing of account receivables at the end of each financial year and reported in the encouraged note of IPSAS Cash Basis reporting framework. As stipulated in the IPSAS 1.3.30, structure of Notes; (b) *"provide additional information which is not presented on the face of the financial statements but necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances."*

Implications

Lack of disclosing of significant amount yet to be collected does not give a fair presentation of the entity's financial position and expected cash receipts.

Recommendation 3

OAG recommends that the IPG:

- Ensure that additional information of significant amount should be presented under notes in IPSAS Cash Basis reporting.

Executive Response

- *Isabel Provincial Government Executive has taken note.*
- *The Provincial Treasurer will ensure the listing of account receivables and significant amount for the end of each financial year to be reported in the financial statement in the encouraged note of IPSAS Cash Basis reporting framework.*

Revenue

Revenue database not updated

Risk Rating: High

Audit noted during revenue testing that the current land database as well as business registry maintained by the revenue officer to collect land rentals, property rates and business license does not reflect some of the current titleholder of parcel lease to public and ownership of businesses. Forfeited plots of land were re-issued to new owners but the records were not changed. As a result revenue should be collected as land rental were forgone. Audit was informed that maintaining of land database was the responsibility of Lands officer and the copy he forward to Revenue was the one that they were using to collect land rentals and property rates.

Implications

Lack of proper updating and maintaining the land database could result in revenue foregone for the Province.

Recommendation 4

OAG recommends that the IPG:

- Ensure that the Lands officer update and maintain the land database records to reflect the actual land rentals due for the year; and
- Ensure lands officer and revenue officer work together to maintain revenue database with the supervision of the Provincial Treasurer.

Executive Response

- *Isabel Provincial Government Executive and Management have taken note of the recommendation.*
- *Deputy Provincial Secretary will monitor the Lands Officer to ensure the land database record is updated.*
- *Moreover, IPG has recently recruited a Lands Officer in April 2017 and will join the Lands Department around May 2017. The recruitment will alleviate the backlog of tasks in the Department and improve current issues experienced such as the un-updated lands database.*
- *Provincial Treasurer and Deputy Provincial Treasurer monitor the Lands Officer and Revenue Officer to ensure the land and revenue database records are updated and reflect the actual land rental for the year end and to ensure anticipated revenue is collected.*

Procurement and expenditure

OAG acknowledged the Provincial Government on the overall management of procurement and expenditure such there was no missing Payment Voucher (PV) when audit perform sample testing on procurement and expenditure. PV filing was updated and maintained.

However as part of its procurement and expenditure testing, audit observed during its tour to the project sites, how they use the provincial money, property and other resources on completion of the provincial development projects. Samples were selected from previous year's projects and the

current year projects. Audit noted one issue under the management of development projects in the province.

Lack of proper planning, monitoring and oversight of few development projects

Risk Rating: High

Audit observed and noted during its tour that two classroom projects for primary schools were left incomplete, others were prolonged because of lack of materials and some were completed but the materials used were of low quality. Audit was informed that in some cases the contractor subcontracted to another and in other cases high turnover of contractors because the previous ones did not perform to the quality of work required. There was no proper monitoring on the progress of the project between the contractors and the planning division. There was lack of proper building plans and bill of quantities which resulted in shortage of funds to complete those projects. The initial costs that were budgeted for were less than the costs of the ongoing projects.

Implications

The lack of proper planning, monitoring and oversight of development project;

- Could result in projects not completed on time.
- Cost the province extra funds, properties and resources to meet what was not budgeted for in the beginning of the year.

Recommendation 5

OAG recommends that the IPG:

- Ensure planning division need proper building plans, carry out daily monitoring and oversight of projects; and
- Ensure a budget for a particular project need to accommodate miscellaneous expenses in order to cater for unexpected circumstance during the duration of the project.

Executive Response

- *Planning Division has utilised the Investment Servicing Costs funded under PCDF grant to tender contracts to consultants (Architects & Quantity Surveyors). This will ensure Planning Division has accurate drawings, specifications, BOQ's and careful cost estimation.*
- *The Works Division has recently recruited a Senior Works Officer – Project, with a drafting background, and will join the Department around May 2017. The recruitment will boost additional manpower needed for project implementation, monitoring and oversight.*
- *Planning Officers use Investment Servicing Cost to do fortnightly monitoring and evaluation and oversight of projects. This will ensure projects are properly monitored and implemented according to schedule.*

Ward assistance fund

Lack of receipts or acquittals

Risk Rating: High

Audit noted during the substantive testing of the MPA allowance and WDG that there was lack of receipts or acquittals attached with the PV for the utilities grants. Audit was informed by a member of the Executive during exit meeting that the reason for lack of no acquittals was because rural people did not have any receipts when cash were given to them. However, as a best practise provincial members should have receipt books so when people requested funds they raise the amount in their receipt and that copy should be forwarded to accounts section for accountability and transparency purpose.

Implications

Funds for utilities grants may be misappropriate instead of what being budgeted for and conflict of interest can determine its usage.

Recommendation 6

OAG recommends that the IPG:

- Ensure that the provincial members have a receipt book to issue receipts when people requested funds; and
- Ensure formal explanatory notes are attached to PV for the utilities grants.

Executive Response

- *Provincial Treasurer and Deputy Provincial Treasurer will educate MPA's on the policy of Ward Utility Fund. Copies of the policy will be distributed to all MPA's as soon as possible.*
- *MPA's are encouraged to have receipt books to enable recipients for Ward Utility fund to produce receipts. Receipts must have names and mobile contacts for verification purposes. The receipts must be attached to the MPA's imprest retirement including formal explanatory notes.*

Payroll

Lack of timesheet for clock-in and out

Risk Rating: Moderate

OAG noted and observed during walkthrough and the duration of audit that the province did not use timesheet for clock in and out of staff. This could be the reason why staff turned up very late and left early without genuine reason. As Stipulate by Isabel Staff Instruction 2009, chapter 7 section 0701 - full time provincial staff shall work 37.5 hours a week as follows; (a); "Provincial employees shall work 37.5 hours a week from 8:00am to 12:00 noon, 1:00pm to 4:30pm Monday to Friday," and (b) Public officers shall work 37.5 hours a week from 8:00am to 12:00pm and 1:00pm to 4:30pm Monday to Friday."

Implications

Lack of proper monitoring of staff attendance increases the risk of non-performance of duties by staff. Also, province pays officers that never carry out their responsibilities which is a waste of public funds. Alternatively, staff may not turn up for work during normal hours to perform their duties but request overtime for catch up which is a double wastage of fund from salary and overtime.

Recommendation 7

OAG recommends that the IPG:

- Ensure the provincial administration officer implement a timesheet system for IPG in order to keep tract of staffs as well their work performance; and
- Ensure heads of divisions work closely with the provincial administration officer to address.

Executive Response

- *A timesheet has now being developed and used for payroll function.*
- *The timesheet runs from Friday of week 1 to Thursday of week 2 to reflect the pay fortnight*
- *Each day the employee should record his/her start, finish and break to calculate the total hours worked each day.*
- *Every staff member must fill in a time sheet each fortnight, sign it and have it approved by their supervisor on the last Tuesday of the fortnight.*
- *The timesheet must be approved and passed on to the payroll officer to ensure correct payment*

- *The Senior Admin officer is responsible for accuracy, calculations, signing approval and passing the timesheet to the payroll officer.*
- *Currently, Isabel Provincial Government has placed an Attendance Register on the entrance to the Administration Office. This Register has been used for more than 5 years.*
- *The Register is used to track staff attendance on daily basis and as a confirmation and verification for payroll purposes.*
- *A whiteboard has also been placed next to the register to monitor staff movements during working hours.*
- *In addition, 2 x digital clock-in machines have been budgeted for in the FY17/18 budget. The machines have been procured from Australia and should arrive in country, around May 2017. This will track staff attendance and calculate number of hours worked electronically for payroll purposes.*
- *Issue has been actioned.*

Investment

Lack of dividend received from its investment

Risk Rating: High

OAG appreciates the effort made by the province on its ongoing activities to bring to date the account of IIC. Investments by the province are for the future gain of the province through dividend if they are profitable. Audit was informed previously that the province should receive dividend from Isabel Development Company (IDC) through IIC for 2014/15 financial year but dividend is yet to be received. For the financial year ended 31 March 2016 the dividend is yet to be received as well. This is a revenue loss for the province if not collected. It was noted that the province really wanted IDC to pay up the outstanding dividends in order for them to settle some of their obligations.

Implications

The non-payment of dividends increases the risk of the Provincial Government not meeting its obligations, poor accountability to the rural people and misstatement of the financial statements.

Recommendation 8

OAG recommends that the IPG:

- Ensure to liaise with IDC for the outstanding dividends to be paid; and
- Disclose the dividends in its financial statements.

Executive Response

- *The Isabel Development Company, through its Board of Directors has assured the Isabel Provincial Government in its Annual General Meeting held in Buala on 28th April 2017, that it agrees to pay the dividends on payments of instalment. The schedule of payment is yet to be confirmed. However, this is a positive feedback for the province.*
- *The Provincial Secretary/ Deputy Provincial Secretary will liaise with the Board of IDC and Executive on the facilitation of the dividend schedule of payment.*
- *The Provincial Treasurer will ensure the dividend is disclosed in the financial statements when it is paid.*

Accounts receivable

Account receivable are revenue yet to be collected by the province from public at large, business and others who engaged in trading activities with the province. OAG is concerned with the large amount of money that the province is yet to collect.

Large value of uncollected revenue (account receivables)

Risk Rating: High

OAG noted a significant amount of uncollected revenue, \$1,949,547, when reviewing the revenue data provided by the revenue collector. The amount disclosed is of significant amount and if not collected will be a great loss for the Province. Also the revenue collector needs to work closely with the cashier so whenever customers pay their dues, the receivable database is updated.

Implications

Lack of proper monitoring of the collection of revenue could result in revenue foregone and this could affect the province on the implementation of its activities as there is lack of fund to cover those expenses.

Recommendation 9

OAG recommends that the IPG:

- Ensure the revenue collector and cashier collect revenue due to the province; and
- Ensure Provincial Treasurer coordinate the collection of revenue.

Executive Response

- *PTR/DTR will ensure the revenue database is monitored and updated on monthly basis.*
- *PTR/DTR will liaise with Lands Officer to update the lands database and forward updated database to the Revenue Officer by 30th June 2017.*
- *The business Registry has been updated to 31st March 2017.*
- *The Liquor license Register has been updated to 31st March 2017.*
- *In-active businesses are struck off the revenue database after 1 year of being dormant.*
- *The uncollected revenue for Business Registry and Liquor licenses were evident due to the adhoc operation of businesses involved.*
- *PTR and DTR will ensure the Revenue Officer and Cashier collect revenue due to the province by performing monthly revenue analysis.*
- *The Province has recently developed an annual revenue strategy that has now been implemented in the current financial year (FY17/18).*

6. Makira Ulawa Provincial Government

Overview

Background

The Makira Ulawa Provincial Government (MUPG) submitted its financial statement for the financial year ended 31 March 2016 to the OAG on 29 December 2016.

MUPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	7,575,066	6,271,227
Capital	4,533,874	2,876,642
total	12,108,940	9,147,869
Payments		
Recurrent	6,876,026	5,849,644
Capital	4,826,604	4,731,932
total	11,702,630	10,581,576
Increase in cash	406,310	-1,433,707
Cash and cash equivalent position	1,807,942	422,550
Less restricted cash balances	663,541	178,763
Cash available for use	1,144,401	243,787
Cash reconciliation		
Opening cash balance	1,401,632	1,974,773
Increase in cash	406,310	-1,433,707
Closing cash and cash equivalent	1,807,942	541,066
Unaccounted for receipts prior year	0	860,566
Closing cash and cash equivalent	1,807,942	1,401,632

Table 10: Summary of financial performance

Conclusion

The OAG completed the audit of MUPG and found that MUPG has poor control over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- Lack of adequate supporting documentation for payments of \$1,204,913.05;
- Lack of segregation of duties over receipting of cash and banking of receipts;
- Assurance over the completeness of business licensing revenue not obtained – MUPG did not proactively seek out new potential payers of business licences or up-date its receivable register;
- Insufficient documents for revenue of \$67,500.00;
- Variance of \$26,999.00 between financial statement and general ledger for revenue;

- No financial statement prepared by MUPIC, the business arm of the Province, and need to consolidate its financial statements to the Province's financial statement;
- Lack of ward development grant reports from each wards for expend of grants;
- Failure to retire special imprest accounts on a timely manner.

As a result the Auditor General was unable to place reliance on the financial statements of MUPG and issued a **disclaimer opinion**.

Key findings

OAG observed that the process to manage and monitor procurement and expenditures, revenue, assets, bank accounts and imprests procedures was inadequately controlled with little or no regard for the requirements of the Financial Management Ordinance 2008, Financial & Store Instructions and Ward Development Authority Ordinance (WDAO) 2006. The audit issues identified are summarised below:

Lack of adequate supporting documentation

Risk Rating: High

Audit found that adequate documentations such as invoices and inspection certificates were not attached to the payment vouchers. These supporting documents are important and required as proof of genuineness of the payment processing. The lack of adequate supporting documentation increases the risk for conflict of interests that will result in the misappropriation of funds, fraud and loss of provincial funds.

Lack of WDGs quarterly reports from wards

Risk Rating: High

OAG found that there was no reporting from wards on usage of the ward development grant monies that were allocated to each MPA's ward. OAG further noted that even when the quarterly reports were not received, the next trenches of ward development grants were issued to the wards. The lack of ward development grants quarterly reports increases the risks of no accountability and transparency, ward development grants may not be used for intended purposes and funds being unaccounted for.

Lack of payslips issued to employees

Risk Rating: Moderate

The issuing of payslips on fortnightly basis is a good practice because it provides for evidence of which a payroll query can be reconciled with Treasury records. Audit noted that no fortnightly payslips were issued unless an employee enquired about his or her payroll and requested a payslip for verification. The lack of payroll payslips increases the risk of duplicate payments, payment of wrong amounts, payroll monies un-accounted for and payroll budget planning complications.

No evidence of segregation of duty when performing bank reconciliation

Risk Rating: High

It was revealed that monthly bank reconciliations were performed but there was lack of evidence to confirm that the bank reconciliations were prepared and reviewed by different officers. Segregation of duties is important as required by Financial Instructions P5 73.5 and Financial Instruction & Stores Instructions 2008, Section 2 sub-section 7 (h). No segregation of duty when performing monthly bank reconciliation increases the risk of errors, manipulation of figures and possible mismanagement of provincial funds.

MUPIC's General Manager might be incompetent**Risk Rating: High**

OAG found that the General Manager of the Investment arm might lack the required competency knowledge and skills to manage the Makira Ulawa Province Investment Corporation (MUPIC). OAG noted the un-availability of required financial records for audit. It is important that records and reports from the investment arm are available to show the operational evidence and performance of the entity for true and fair reporting to the Province. The continuous incompetency of the General Manager increases the risk of non-provision of audited financial statements to the Provincial Accounts for consolidation with the Province's financial statements. In addition, risk of mismanagement of investment funds will be high as no records are available to detect the mismanagement and fraudulent practices within the entity.

Recovery of un-acquitted imprests and advances**Risk Rating: Moderate**

OAG discovered that the finance and treasury division has a robust system of recovering un-acquitted imprests and advances. It was noted that it took time to recover the advances and if not cleared within a fiscal year (FY) then it rolled over to the next FY. The risk is how effective it would be to recover those monies that have been rolled over to the next FY, considering the slow recovery of un-acquitted imprests.

Lack of evidence for proper controls to counter risks over fixed assets management**Risk Rating: High**

Audit found that assets were recorded in the fixed asset register. There was opportunity for improvement in the management of fixed assets such as labelling of assets and methods of disposal of assets. There was lack of necessary internal controls in place to counter risks of theft, loss and abuse of the MUPG's assets.

Accounts payable register not updated**Risk Rating: High**

OAG noted that the accounts payables register maintained by the Province has not been updated. Accounts payable register is important because it can monitor what the Province owes to the suppliers of services or goods. Lack of maintaining up-to-date accounts payables increases the risk of under-stating the payables in the financial statement and could result in duplicate payment.

Lack of accounts receivable register**Risk Rating: High**

Audit discovered that MUP did not keep a proper accounts receivable register. The revenue officer only used the Business Register Master Listing to identify uncollected dues. Section 10 Sub-section 18 (1)(2) of the Financial Instruction & Stores Instruction 2008 requires the revenue officer to provide for a listing of outstanding dues to the Provincial Treasurer by 31 March. This has not been practised as required under this provision. When no receivable register is available, the Provincial Treasurer will be unable to update the Executive on the uncollected revenues. Furthermore, Provincial Government will lose revenues due to no register to properly identified uncollected revenues.

Overall recommendations

OAG's key recommendations are that the MUPG:

- Ensure that when payment is raised for contractors that following documents are available: requisition form, payment voucher, contract agreement which is signed by both parties,

minute of tender award (if possible) and progress report that is certified by independent expertise;

- Ensure that proper checking is done by the accounts officer(s) before payment is made;
- Ensure that Ward Grant Authorities must provide quarterly reports to the provincial accounts on timely basis before asking for next trench of grant;
- Ensure to create a proper filing system for all ward development grants documents and safely stored for review and audit purposes;
- Ensure bank reconciliation is prepared monthly, completed, printed and signed with date for all bank accounts;
- Ensure that there is segregation of duty where monthly bank reconciliation is prepared by an officer (Deputy Treasurer) and reviewed by another officer (Provincial Treasurer);
- Immediately implement 2/99 Makira Ulawa Province Investment Corporation Ordinance 1998;
- Ensure that the Minister of Commerce and Development Planning with the Provincial Executive discuss the need for change of the General Manager of MUPIC for the betterment of the investment arm;
- Ensure assets are clearly labelled as the Province's property;
- Ensure to create proper storage facility to safeguard the assets;
- Ensure to establish the method of disposals to properly dispose of assets;
- Create a robust mechanism to ensure all assets are captured on fixed asset register;
- Ensure a stock-take is done on an annual basis.
- Ensure that a payable officer be recruited to maintain the accounts payable register;
- Ensure that Revenue Office to prepare a receivable register using excel spreadsheet to list the uncollected revenue and;
- Ensure Provincial Accounts Office comply with Section 10 subsection 18 (1)(2) of Financial Instruction & Stores Instruction 2008.

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

Detail audit findings and recommendations

Procurement and expenditure

Lack of adequate supporting documentation

Risk Rating: High

Audit found on review of the expenditure file that adequate supporting documentation such as invoice and progressive report were not presented on file, especially on substantial amounts for approval and payment. There was lack of adequate supporting documentation to support the payments expended. Of the twenty samples tested, audit found four were without invoices and two were without an inspection certificates (progressive report).

In Summary the sub-totals for those are:	Amount
Four invoices not attached	\$ 942,154.45
Two inspection certificates not attached	\$ 262,758.60
Total	\$1,204,913.05

Implications

The lack of adequate supporting documentation increases the risk for conflict of interests that will result in the misappropriation of funds, fraud and loss of provincial funds.

Recommendation 1

OAG recommends that the MUPG:

- Ensure that when payment is raised for contractors that following documents are available: requisition form, payment voucher, contract agreement which is signed by both parties, minute of tender award (if possible) and progress report that is certified by independent expertise and;
- Ensure that proper checking is done by the accounts officer(s) before payment is made.

Executive Response

i) Actions already taken:

(a) A Committee to look into loopholes in the management of Provincial Funds had been established. Its TOR will be expanded to cover checking of larger payments before they are released by the Provincial Treasurer.

(b) Internal transfer of the Project Officer of the Planning Division had been endorsed and catered for in the 2017/2018 budget estimates.

(ii) Actions to be taken:

(a) Recruitment of an Architect/Engineer.

(b) Investigation of the payments highlighted in the OAG Report 2015/2016 and if found to have elements of mismanagement, the following actions will be taken:

- Discipline and remove officers involved.
- Entities and companies implicated will not be permitted to take part in future bid process.

Ward development grant**Lack of ward development grants quarterly reports from wards**

Risk Rating: High

OAG is unable to perform any testing on quarterly reports because senior official from the MUPG finance & treasury division revealed that for the fiscal year 2015/16, the 20 wards have not submitted their quarterly reports as required for the ward development grants. OAG further noted that even when the quarterly reports were not received, the next tranches of ward development grants were issued to the wards. It shows that there is total break-down in controls over management of ward development grants.

Implications

The lack of ward development grants quarterly reports increases the risks of no accountability and transparency, ward development grants may not be used for intended purposes and funds being unaccounted for.

Recommendation 2

OAG recommends that the MUPG:

- Ensure that Ward Grant Authorities must provide quarterly reports to the provincial accounts on timely basis before asking for next tranche of the grant and;
- Ensure to create a proper filing system for all ward development grant documents and safely stored for review and audit purposes.

Executive Response

(i) Action already taken:

(a) Ward Grants have been re-allocated to the Capital Budget (Payments to be made direct to suppliers).

(ii) Actions to be taken:

- (a) Instruction will be issued to the responsible Divisional Head to ensure Chairman, Secretaries and Treasurers of WDAs are trained on how to use the newly devised WDA reporting template.
- (b) WDAs will be advised to submit their quarterly reports to the Provincial Accounts Division in time.
- (c) Accounts Department will be issued with instruction to create a filing system for all Ward Grants documents in the office.
- (d) Responsible Division – Community Governance will be requested to create a filing system for all WCCs & WDAs in the office.

Payroll

Lack of payslips issued to employees

Risk Rating: Moderate

OAG noted during the course of audit that no employees' payslips were printed and issued during pay days. They were only printed on request basis.

Implications

The lack of payroll payslips increases the risk of duplicate payments, payment of wrong amounts, payroll monies un-accounted for and payroll budget planning complications.

Recommendation 3

OAG recommends that the MUPG:

- Ensure to re-introduce the fortnightly payslip printouts.

Executive Response

- The Provincial Accounts Department will be instructed to:
 - (a) Ensure the fortnightly payslip print out is re-activated.
 - (b) Ensure all direct employees have bank accounts.
 - (c) Ensure preparation of employees' fortnight salaries is completed on Wednesday and paid through Bank on Thursday morning

Cash

No evidence of segregation of duty when perform bank reconciliation

Risk Rating: High

OAG reviewed the monthly bank reconciliations of the seven bank accounts held by the Province and acknowledged that the bank reconciliations were performed as required. However, there was no evidence to confirm to OAG that segregation of duty existed when performing the monthly bank reconciliations. OAG was unable to sight the signatures of the preparer and reviewer along with the dates they were performed.

Financial Instruction P5 73.5 states that "*wherever possible, the bank reconciliation must not be done by an officer responsible for issuing cheques or the officer responsible for preparing deposits into the account*". Section 2 subsection 7(h) of the FSI 2008: "*The Provincial Treasurer will verify and sign the bank reconciliation statement.*"

Implications

No segregation of duty when performing monthly bank reconciliation increases the risk of errors, manipulation of figures and possible mismanagement of provincial funds.

Recommendation 4

OAG recommends that the MUPG:

- Ensure bank reconciliation is prepared monthly, completed, printed and signed with date for all bank accounts; and
- Ensure that there is segregation of duty where monthly bank reconciliation is prepared by an officer and reviewed by another senior officer.

Executive Response

- The Provincial Treasurer and his Deputy will be reminded to:
 - (a) Ensure bank reconciliation is done monthly.
 - (b) Ensure monthly bank reconciliation is prepared by the Deputy Treasurer and reviewed by the Provincial Treasurer.

Investment**MUPIC's General Manager is incompetent**

Risk Rating: High

OAG is aware that the current General Manager who manages the Makira Ulawa Provincial Investment Corporation (MUPIC) for the Province has been there for a good number of years. Recommendations already given by OAG for the General Manager to attend training but no improvements were sighted. OAG requested records for verification purposes but no records were made available for review and audit. OAG noted that since the last advisor handed-over the management of the operation of the MUPIC to the General Manager, MUPIC was under-performing. No audited financial statements were provided to Provincial Administration for consolidation with the Province's annual financial statements. Also to date no returns were received by the Province from MUPIC.

Weaknesses identified within MUPIC were as follows:

- No up-dated cashbook;
- No bank reconciliation done;
- No business corporate and strategy plan;
- No proper recording and safekeeping of important documents; and
- No financial statement prepared, audited and sent to Provincial Treasury for consolidation.

Implications

Continuous incompetency showed by the General Manager of MUPIC increases the risk of no audited financial statement given to Provincial Accounts for consolidation to the Province's financial statement. In addition, risk of mismanagement of investment funds will be high as no records are available to detect the mismanagement and fraudulent practices within the entity.

Recommendation 5

OAG recommends that the MUPG:

- Immediately implement 2/99 Makira Ulawa Province Investment Corporation Ordinance 1998; and
- Ensure that the Minister of Commerce and Development Planning with the Provincial Executive discuss the need for change of the General Manager of MUPIC for the betterment of the investment arm.

Executive Response

i) Actions already taken:

- (a) MUPIC Board already decided to replace the General Manager (Ag).
- (b) In June 2016 the Board revoked the appointment of the General Manager (Ag) and was asked to resign on Voluntary basis.
- (c) The General Manager had resigned.
- (d) The post is currently advertised.

Imprest

Recovery of un-acquitted imprests and advances

Risk Rating: Moderate

OAG has identified that MUPG's Finance and Treasury division has an updated special imprest register on manual book and within the MYOB system. From discussions held with senior officials in the division, it was a management strategy to ensure that all imprests were to be retired by the fiscal year to which they came under. Of concern to OAG was the practicality of recovering all outstanding imprests from employees within the fiscal year. OAG noted that there were officers with outstanding multiple imprests in the audited period which was a breach of MUPFMO 2008.

Section 47 (3) of the MUP Financial Management Ordinance 2008 states *"The regular repayment amount will not exceed one third, 1/3, of the gross salary payable to the direct provincial employee within a period."*

Implications

The lack of robust strategy to recover the dues may increase the risks of unrecovered dues, avenue where employees may take advantage of and donors may not provide funding in future.

Recommendation 6

OAG recommends that the MUPG:

- Ensure to establish a robust monitoring strategy to recover all the outstanding advances; and
- Ensure to comply with s47 (3) of the FMO 2008.

Executive Response

Instruction will be issued to the responsible Division to ensure:

- A robust monitoring strategy to recover all dues is established.
- Compliance to FMO Section 47 (3).
(Please note however that 2008 FMO is currently under review by the MPG&IS and Provinces).

Assets

Lack of evidence for proper controls to counter risks over fixed assets management

Risk Rating: High

OAG has reviewed the fixed asset register and has traced some of the purchases such as laptops and canon cameras to it and found it to be satisfactory. OAG noted no evidence of which methods were used for the disposal of assets. Furthermore there was lack of labelling of assets belonging to the province.

Implications

The lack of necessary internal controls in place increases the risk of theft, loss or abuse of MUPG assets.

Recommendation 7

OAG recommends that the MUPG:

- Ensure assets are clearly labelled as the Province's property;
- Ensure to create proper storage facility to safeguard the assets;
- Ensure to establish the method of disposals to properly dispose of assets;
- Create a robust mechanism to ensure all assets are captured on fixed asset register; and
- Ensure to undertake annual stocktake of assets.

Executive Response**(i) Action already taken:**

- (a) An Asset Clerk is already at Post – but was engaged to perform other duties.

(ii) Actions to be taken:

- (a) Capacitate the officer to fully understand what to do.
- (b) Identify a suitable storage facility among the existing ones.
- (c) Establish a Tender Board to decide on disposal of Provincial assets.
- (d) Put in place a Policy on Provincial Assets – wear and tear, maintenance, disposal etc.

Accounts payable**Accounts payable register not updated****Risk Rating: High**

Audit has found from discussions held with senior officials of the Finance and Treasury division that an accounts payable register was maintained but was not updated. The task could not be done due to the vacancy in the post of accounts payable officer. Senior officials of the division were unable to perform the task due to other competing responsibilities and commitments.

Implications

Lack of maintaining up-to-date accounts payable register increases the risk of under-stating the payables in the financial statement and may result in duplicate payments.

Recommendation 8

OAG recommends that the MUPG:

- Ensure that a payable officer be recruited to maintain the accounts payable register.

Executive Response

- The idea of internal shifting of officers within the Division is preferred.
- The officer would be capacitated and his/her Job Description adjusted.

Accounts receivable**Lack of accounts receivable register****Risk Rating: High**

OAG noted that no proper accounts receivable register was kept by the Revenue Office. The Revenue Office depended on the business register master listing to identify uncollected dues. No separate sheets were allocated to Revenue Officers to enable them to fully identify all clients with outstanding dues. The Revenue Office is yet to charge interest on overdue accounts.

Section 10 Subsection 18 (1)(2) of Financial Instruction & Stores Instruction 2008 states:-

- (1) *"By the end of April each year all provincial employees responsible for revenue collection must submit to the Provincial Treasurer a list of all revenue under their responsibility outstanding as at 31st March. These lists must state what action was/will be taken to collect the revenue.*
- (2) *By the end of May each year the Provincial Treasurer must submit to the Provincial Executive a summarised list of all outstanding revenue and proposed course of action. This will be copied to the MPG."*

Implications

When no receivable register is available, the Provincial Treasurer will be unable to update the Executive on the uncollected revenues. Furthermore, Provincial Government will lose revenues due to no register to properly identified uncollected revenues.

Recommendation 9

OAG recommends that the MUPG:

- Ensure that Revenue Office to prepare an accounts receivable register using excel spreadsheet to list the uncollected revenue; and
- Ensure Provincial Accounts Office comply with Section 10 subsection 18 (1)(2) of Financial Instruction & Stores Instruction 2008.

Executive Response

- Accounts and Revenue Officers will be advised and reminded on these legal requirements in quarterly Divisional Staff Meetings.

7. Malaita Provincial Government

Overview

Background

The Malaita Provincial Government (MPG) submitted its financial statement for the financial year ended 31 March 2016 to this Office on 31 December 2016.

MPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	21,957,332	18,349,896
Capital	12,258,322	0
total	34,215,654	18,349,896
Payments		
Recurrent	24,526,560	18,051,635
Capital	3,634,205	390,423
total	28,160,765	18,442,058
Increase in cash	6,054,889	-92,162
Closing cash and cash equivalent position	8,777,807	-87,439
Less restricted cash balances	3,436,553	2,154,788
Cash available for use	5,341,254	-2,242,227
Cash reconciliation		
Opening cash balance	2,722,918	2,674,380
Increase in cash	6,054,889	-92,162
Closing cash and cash equivalent	8,777,807	2,582,218
Prior year adjustments	0	140,700
Closing cash and cash equivalent	8,777,807	2,722,918

Table 11: Summary of financial performance

Conclusion

The OAG completed the audit of Malaita Province (MP) and found that MP has poor control over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- Missing receipts for \$1 million;
- Cashing of revenue cheques received from clients;
- Incompleteness of business licences and fees payers list;
- Lack of surprise survey of cash;
- Designated bank accounts were not used for their purposes;
- Missing payment vouchers \$3,837,750.16;
- Lack of progressive report for contract payments of \$104,844.50;

- Illegal borrowing and no legal agreements existed between province and lenders – a debt of \$4,359,167.00 from unregistered lenders;
- Provincial employees paid at different pay points;
- Imprest register not updated;
- Staff advances not updated;
- Fixed asset register was not updated;
- No accounts payable register kept; and
- Accounts receivable register not updated.

As a result the Auditor General was unable to place reliance on the financial statements of MPG and issued a **disclaimer opinion**.

Key findings

OAG observed that the process to manage and monitor procurement and expenditure, revenue, assets, bank accounts, payroll and imprests procedures was inadequately controlled with little or no regard for the requirements of the FMO 2008 and FSI. The audit issues identified are summarised below:

Missing receipts

Risk Rating: High

OAG was unable to sight and locate receipts with deposit slips for revenue of approximately \$1 million. As a result, OAG was unable to determine the accuracy and completeness of the revenue collected for the financial year. Lack of source documents to verify revenues increase the risk of fraud, misuse of provincial funds, lack of services to the people and personal gain.

Cashing of cheques without depositing them into bank account

Risk Rating: High

OAG discovered that the Provincial Government usually cashed the cheques received from businesses without depositing them into the bank account first before withdrawal was done to meet operational costs. This was a serious breach of section 30(2) of the FMO 2008. Lack of compliance to s30 (2) of FMO 2008 increases the risk of revenue collected not reflected in the bank statement, conflict of interest, fraud and misstatement of the financial statements.

Incompleteness of business licences and fees payers

Risk Rating: High

It was found that MPG have incomplete database of business licences and fees payers listing which made it difficult to know how much should be collected for the fiscal year. Incomplete database of licences and fees payers increases the risk of unreliable revenue figures, accumulation of uncollected revenue, unauthorised officers collecting revenue and embezzlement.

Lack of surprise survey of cash (C/fwd from 2014/15)

Risk Rating: High

OAG noted that the Provincial Treasurer failed to conduct surprise survey of cash as required in section 66 of FMO 2008. Lack of surprise survey of cash increases the risk of embezzlement, theft, missing cash and negligence of duties.

Designated bank accounts were not used for its purpose

Risk Rating: High

OAG found upon the review of bank accounts that deposits and withdrawals made to those bank accounts were not for the purposes they were set up for. This has made it difficult to determine the accuracy and completeness for the transactions occurred in the audited period. The manner of not

using the designated bank accounts for the intended purposes increases the risk of lack of control and monitoring of each bank account for reporting purposes and cash flow for the bank accounts are unreliable.

Missing payment vouchers

Risk Rating: High

It was revealed that the Provincial Government was not complying with the Government Records Management Policy as OAG was not able to locate and examine thirty eight (38) payment vouchers that were worth \$3,837,750.16 to determine their accuracy and completeness. The legitimacy of expenditures was unsubstantiated as there were insufficient documents such as requisition vouchers to confirm verification, approval and authorisation by delegated officers.

Lack of progressive report for contract payments (C/fwd from 2014/15)

Risk Rating: High

As reported from previous audit, OAG continued to note that nine (9) payments totalling \$104,844.50 were paid to contractors but no progress reports were attached to the payment vouchers. This has made it difficult to determine whether the contractors have completed their work as planned and agreed in the contract agreements. Lack of progress reports increases the risk of provincial government making payment for incomplete projects, duplicate payments, conflict of interest, abuse and budget over-run.

Unauthorised borrowing and no legal agreement exist between province and lenders (C/fwd from 2014/15)

Risk Rating: High

During the audit, it was revealed that the Provincial Government still had loans from unauthorised lenders. This was a breach of section 88 and 89 of the FMO 2008. OAG noted that there was no legal agreement between the province and unauthorised lenders. These borrowings were a serious breach of section 40(2) and (6) of the PGA 1997 and section 70 of the Public Financial Management Act 2013 (PFMA). Lack of proper legal document increases the risk of opportunist taking advantage on the province's limited financial resources, conflict of interest, fraud, abuse and political expediency.

Third and fourth quarterly PCDF reports not provided

Risk Rating: High

OAG was unable to examine the third and fourth quarterly PCDF reports as they were not provide even though request were made to the Provincial staff. This has made it difficult to determine the accuracy and completeness of the payments of PCDF for the audited period. Lack of quarterly PCDF reports increases the risk of abuse of funds, misappropriation, conflict of interest and political expediency.

Provincial employees paid at different pay points

Risk Rating: High

It was revealed that of the 23 samples tested 12 samples were with the salaries paid at different pay points. OAG was unable to get explanation from the Provincial Government for the variation of the salaries. The manner in which employees are paid at different pay points increases the risk of over and under paying of employees' salaries.

Lack of supporting documents for dissolution of MCDA

Risk Rating: Moderate

OAG have reviewed the operation of Malaita Chazon Development Authority (MCDA) and was told that the Provincial Executive has dissolved it and transferred it back to the Province. OAG requested

for supporting documents such as minutes of the meeting to verify the decision taken over MCDA but it was not provided. This has made it difficult to determine the reasons for the dissolution of MCDA. Lack of supporting documents to verify such decision by the executive gives doubt to the credibility and resolution by the executive.

Imprest register not updated (C/fwd from 2014/15)

Risk Rating: High

When OAG reviewed the provincial imprest register and noted that the register was not regularly updated. This was a clear breach of section 51 of the FMO 2008. Lack of maintaining proper imprest register increases the risk of inability to monitor the issue of imprests and to enforce officers' accountability of imprests.

Multiple imprest holders

Risk Rating: High

On review of the imprest register, it was discovered that there were multiple imprest holders recorded in the register which indicated that the Provincial Government was not complying with section 55 of the FMO 2008. Multiple imprest holders may result in the delaying for the retirement of imprests or imprest holder will be unable to retire the imprest resulting in loss of provincial funds.

Staff advances register not updated (C/fwd from 2014/15)

Risk Rating: High

OAG notes that the Provincial Government had not updated its staff advances register which made it difficult to determine the accuracy and completeness of advances. OAG was unable to confirm whether the outstanding advances would be recovered in the subsequent fiscal year. Failure to regularly update the advance register increases the risk of misappropriation, conflict of interest, misstatement in the financial reports and funds being used without the approved estimate and appropriate budget.

Fixed asset register was not updated

Risk Rating: High

During the audit, it was revealed that the fixed asset register was not updated and there was need for certain important details to be included in the register. Lack of update and adequate information on the fixed asset register increases the risk of abuse, theft, obsolete and budget over-run.

No accounts payable register kept (C/fwd from 2014/15)

Risk Rating: High

There was no accounts payable register kept by the Provincial Government. The non-existence of accounts payable register increases the risk of payments made to ghost suppliers, duplicate payments, budget over-run and misstatement of the financial statements.

Accounts receivable register not updated

Risk Rating: High

An accounts receivable register was maintained but it was not updated regularly which made it difficult to determine the accuracy and completeness of the accounts receivable balance. Lack of update on receivables register increases the risk of unauthorised officers collecting revenue, businesses operating illegally in the Province, loss of revenue, undesirable decisions being made and misstatement of the financial statements.

Overall recommendations

OAG's key recommendations are that the MPG:

- Ensure that the receipts are properly kept and cash are deposited on time;

- Ensure that the Provincial Treasurer to monitor and access the revenue collection process;
- Ensure that cheques received must be promptly deposited into provincial bank account before withdrawals are made to comply with s30(2) of FMO 2008;
- Failure to comply with s30(2) of FMO 2008 must be dealt with under section 91 and 92 of the FMO 2008;
- Must ensure that database of business licences and fees payers are updated regularly and properly reported in the financial reports;
- Must ensure that Provincial Treasurer or Deputy Provincial Treasurer should conduct regular surprise cash survey as required in s66 of FMO 2008;
- Must ensure to use its appropriate bank accounts for its purpose;
- Ensure to properly file the payment vouchers in a secure location and accessible by authorised persons only;
- Must always comply with the Government Records Management Policy;
- Ensure to always provide the documents for audit when request is made;
- Ensure to attach progress report with other relevant supporting documents to the payment vouchers when payments are made to contractors;
- Make sure proper checking are done by the accounts department before payments are made to the contractors;
- Ensure to fully comply with s88 and s89 of the FMO 2008;
- Ensure to fully comply with s40(6) of the PGA 1997;
- Ensure legal supporting documents are attached with the payment vouchers when payments are made to lenders;
- Ensure that all quarterly reports for PCDF are properly stored in a secure location;
- Ensure to provide the reports for audit when request is made;
- Ensure that the Payroll Officer and Provincial Treasurer properly check, verify for correctness and accuracy before salary payments are made;
- Regularly update the imprest register and immediately establish an effective and efficient system of managing imprests;
- Ensure to comply with s55 of the FMO 2008;
- Must immediately update and monitor the advances register;
- Ensure to regularly update the fixed asset register with inclusion of more information to reflect the actual capital procurement during the fiscal year;
- Ensure that assets are clearly labelled as the Province's property;
- Ensure to create a proper storage facility to safeguard the assets;
- Make sure to establish the method of assets disposal;
- Ensure to create a robust mechanism such as annual stock-take to ensure all assets are captured in the fixed asset register;
- Ensure to immediately establish an accounts payable register and regularly update it; and
- Ensure to regularly update the accounts receivable register.

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

Detail audit findings and recommendations

Revenue

Missing receipts

Risk Rating: High

OAG noted that revenue totally up to \$1 million have no receipts with deposit slips to verify and confirm that related receipts were deposited into the Province's bank account. As a result, OAG was unable to determine the accuracy and completeness of the revenue collected for the audited period.

Implications

Lack of source documents to verify revenue increases the risk of fraud, misuse of provincial funds, lack of services to the people and personal gain.

Recommendation 1

OAG recommends that the MPG:

- Ensure that the receipts are properly kept and cash are deposited on time; and
- Ensure that the Provincial Treasurer to monitor and manage the revenue collection process.

Executive Response

No executive response received within the timeframe given.

Cashing of cheques without depositing them into bank account

Risk Rating: High

Section 30 (2) of the FMO 2008 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."*

During the audit, it was noted that businesses usually issued cash cheques for business licences and fees but the Provincial Government used to cash the cheques to use for operational cost instead of promptly depositing them into bank account before withdrawing them. This is a serious breach of s30 (2) of the FMO 2008.

Implications

Lack of compliance to s30 (2) of FMO 2008 increases the risk of revenue collected not reflected in the bank statement, conflict of interest, fraud and misstatement of the financial statements.

Recommendation 2

OAG recommends that the MPG:

- Ensure that cheques received must be promptly deposited into bank account before withdrawals are made to comply with s30(2) of FMO 2008; and
- Failure to comply with s 30(2) of FMO 2008 must be dealt with as per s91 and s92 of the FMO 2008.

Executive Response

No executive response received within the timeframe given.

Incompleteness of business licences and fees payers

Risk Rating: High

The Provincial Government had business licences and fees database that was incomplete which made it difficult for them to know exactly how much revenue they should collect for the audited period. It is important for the Provincial Government to keep complete database of business licences and fees payers so that accurate and reliable information are disclosed in the financial statements.

Implications

Incomplete database of licences and fees payers' increases the risk of unreliable information on revenue, accumulation of uncollected revenue, unauthorised officers collecting revenue and embezzlement.

Recommendation 3

OAG recommends that the MPG:

- Must ensure that database of business licences and fees payers are updated regularly and properly reported in the financial reports.

Executive Response

No executive response received within the timeframe given.

Lack of surprise survey of cash (C/fwd from 2014/15)

Risk Rating: High

There was no surprise survey of cash being conducted by the Provincial Treasurer or his deputy for the audited period. It is good practice for cash management that the Provincial Treasurer or his deputy should check on the cashier to see that the cash collected are reconciled with the record as stated in s66 of FMO 2008.

Implications

Lack of surprise survey of cash increases the risk of embezzlement, theft, missing cash and negligence of duties.

Recommendation 4

OAG recommends that MPG:

- Must ensure that Provincial Treasurer or Deputy Provincial Treasurer should conduct regular surprise cash survey as required in s66 of FMO 2008.

Executive Response

No executive response received within the timeframe given.

Cash and cash equivalents

Designated bank accounts were not used for its purpose

Risk Rating: High

OAG reviewed the bank accounts and noted that the Provincial Government used its salary account to fund its operation while the main operating account was used to pay salaries of the direct employees. Recurrent revenues were sometimes deposited into multiple accounts such as the PCDF account, salary account and the main account. The same practice was done with withdrawals. OAG noted that deposits and withdrawals in all accounts were not always in line with the purposes of those accounts. This has made it difficult to determine the accuracy and completeness for the transactions that occurred in those accounts.

Implications

The manner of not using the designated bank accounts for their intended purposes increases the risk of lack of control and monitoring of each bank account for reporting purposes and cash flow for the bank accounts are unreliable.

Recommendation 5

OAG recommends that MPG:

- Must ensure to use each appropriate bank account for its intended purposes.

Executive Response

No executive response received within the timeframe given.

Procurement and expenditure

Missing payment vouchers

Risk Rating: High

The Governments Records Management Policy requires all Government Ministries, Provincial Governments and departments to maintain good records management by ensuring that all actions of all public servants carrying out their official duties have been recorded in an official recordkeeping system and the system to be managed so that the information can be found quickly when needed, is secured and cannot be tampered with and not be destroyed before it is no longer needed. However, OAG was unable to locate thirty eight (38) payment vouchers with a total value of \$3,837,750.16 to examine for its accuracy and completeness.

Implications

The legitimacy of expenditure was unsubstantiated as there were insufficient documents such as requisition vouchers to confirm verification, approval and authorisation by delegated officers to substantiate the payments on a specific head allocated on the approved budget. Furthermore, OAG was unable to form an opinion on the accuracy, completeness and validity of the expenditures.

Recommendation 6

OAG recommends that MPG:

- Ensure to properly file the payment vouchers in a secure location and accessible by authorised persons only;
- Must always comply with the Government Records Management Policy; and
- Ensure to always provide the documents for audit when request is made.

Executive Response

No executive response received within the timeframe given.

Lack of progressive report for contract payments (C/fwd from 2014/15)

Risk Rating: High

Nine (9) payments totalling \$104,844.50 were paid to contractors but progress reports were not attached to the payment vouchers. As in any hiring of contractors for security purpose, progress report shows the purpose of the payments, how much was paid and how much is yet to be paid to the contractors. Progress reports are very important document to attach to payment vouchers as it will help the accounting officer to give accurate decision on what amount is due to the contractor.

Implications

Lack of progress reports increases the risk of provincial government making payment for incomplete projects, duplicate payments, conflict of interest, abuse and budget over-run.

Recommendation 7

OAG recommends that the Provincial Government:

- Ensure to attach progress report with other relevant supporting documents to the payment vouchers when payments are made to contractors;
- Make sure proper checking are done by the accounts department before payments are made to the contractors; and
- Ensure detailed records are kept for future reference.

Executive Response

No executive response received within the timeframe given.

No legal agreement exist between province and lenders (C/fwd from 2014/15)

Risk Rating: High

The Provincial Government acquired loans from unauthorized lenders to meet its operational costs. This was a breach of PFMA s70 and s71, PGA s40 and s88 and s89 of the FMO 2008. The interest rate charged by the lenders was 20% each fortnight with a possibility of interest accumulated if the borrowed money was not settled. During the audit, it was revealed that the Provincial Government had a debt of \$4,359,167.00 from the lenders.

Payments issued to lenders were without legal agreements as supporting documents. The only documents attached to them were written A4 paper or stamped invoices from lenders which contained the amount of money the province borrowed with interest. S40 (2) of the PGA states; *A Provincial Executive may borrow temporarily (either by way of overdraft or otherwise) from a Government lender or an authorised lender such sums as may appear to the Executive to be required*

(a) for the purpose of meeting a temporary excess of sums paid out of the Provincial Fund over sums paid into the Fund; or

(b) for the purpose of providing a working balance in the Fund.

Also it further stated in section 40 (6) of the PGA 1997 that; *"Government lender" means the minister and any Government fund the purpose of which include the lending of money to Provincial Executives; and "authorised lender" means any person authorised by the Minister for the purposes of this section.* OAG was unable to obtain evidence to show that the lenders doing business with the Provincial Government were registered in the province and complied with s40(6) of the PGA 1997.

Implications

Lack of proper legal document increases the risk of opportunist taking advantage on the province's limited financial resources, conflict of interest, fraud, abuse and political expediency.

Recommendation 8

OAG recommends that MPG:

- Ensure to fully comply with s88 and s89 of the FMO 2008;
- Ensure to fully comply with s40(6) of the PGA 1997; and
- Ensure legal supporting documents are attached with the payment vouchers when payments are made to lenders.

Executive Response

No executive response received within the timeframe given.

Third and fourth quarterly PCDF reports not provided**Risk Rating: High**

Normally the Provincial Government is required to produce quarterly reports on the usage of the PCDF and submit it to the MPGIS. When the quarterly PCDF report is submitted to MPGIS, a copy must be kept at the Provincial Office for audit and assessment. However, OAG was unable to examine the third and fourth quarterly PCDF reports as they were not provided when requested. This has made it difficult to determine the accuracy and completeness of the payments of PCDF for the audited period.

Implications

Lack of quarterly PCDF reports increases the risk of abuse of funds, misappropriation, conflict of interest and political expediency.

Recommendation 9

OAG recommends that MPG:

- Ensure that all quarterly reports for PCDF are properly stored in a secure location; and
- Ensure to provide the reports for audit when request is made.

Executive Response

No executive response received within the timeframe given.

Payroll**Provincial employees paid at different pay points****Risk Rating: High**

OAG selected 23 samples and performed test to ascertain the rates, correct salaries, additions and deductions. It was revealed that of the 23 samples tested, 12 employees were paid salaries at different pay points. OAG was unable to get explanation from the Provincial Government for the variation of the salaries. No approval documents for the variations were sighted.

Implications

The manner in which employees are paid at different pay points increases the risk of over and under paying of employees' salaries.

Recommendation 10

OAG recommends that the MPG:

- Ensure that the Payroll Officer and Provincial Treasurer properly check, verify for correctness and accuracy before salary payments are made.

Executive Response

No executive response received within the timeframe given.

Investment

Lack of supporting documents for dissolution of MCDA

Risk Rating: Moderate

During the review of the Malaita Chazon Development Authority (MCDA), it was revealed that the Provincial Executive dissolved the operation of MCDA and merged its operations with the Province. OAG requested supporting documents such as minutes of meetings to verify the decision taken to dissolve MCDA but no records were provided. This has made it difficult to determine the reasons for the dissolution of MCDA.

Implications

Lack of supporting documents to verify such decision by the executive calls into questions the credibility of such resolution by the executive. The decision can be challenged which could result in a financial loss if it was successful.

Recommendation 11

OAG recommends that the MPG:

- Ensure that Provincial Executive decisions are recorded in minutes and are kept in a secure manner from thief or loss; and
- Ensure that all Provincial Executive minutes are provided for audit when request is made.

Executive Response

No executive response received within the timeframe given.

Imprest

Imprest register not updated (C/fwd from 2014/15)

Risk Rating: High

The issue of un-updated imprest register was raised in the last audit report and again in this report. OAG reviewed the provincial imprest register and noted that the first four months transactions were not recorded in the register. They only commenced the recording of imprest issued to officers from August to the end of the financial year. This was a clear breach of s51 of the FMO 2008 where it states “*Imprests must be paid back to the Provincial Government immediately that the necessity for it ceases. All disbursements out of imprests must be accurately recorded and at any time the total disbursements, as supported by vouchers and so on, plus the cash remaining must agree with the imprest amount.*”

Implications

Lack of maintaining proper imprest register increases the risk of inability to monitor the issue of imprests and to enforce officers' accountability of imprests.

Recommendation 12

OAG recommends that the MPG:

- Regularly update the imprest register and immediately establish an effective and efficient system of managing imprests.

Executive Response

No executive response received within the timeframe given.

Multiple imprest holders

Risk Rating: High

On review of the Special Imprest Register (SIR), OAG analysis has revealed that the register contains multiple imprest holders. This means that the same officer has an outstanding imprest to retire but has been issued with another special imprest.

The FMO 2008 requires on Part VII - Making of Advances and Imprests, s55 on Outstanding Imprests that: "*No imprest may be advanced to a Provincial employee or member where a previous imprest is still outstanding*".

Implications

Multiple imprest holders may result in the delaying for the retirement of imprests or imprest holder will unable to retire the imprest resulting in loss of provincial funds.

Recommendation 13

OAG recommends that the MPG:

- Ensure to comply with s55 of the FMO 2008.

Executive Response

No executive response received within the timeframe given.

Staff advances

Staff advances register not updated (C/fwd from 2014/15)

Risk Rating: High

The staff advances register was not updated which made it difficult to determine the accuracy and completeness of the advances. OAG was unable to confirm whether or not the outstanding advances given as staff advances would be recovered in the subsequent financial year.

Implications

Failure to regularly update the advance register increases the risk of misappropriation, conflict of interest, misstatement in the financial reports and funds being used without the approved estimate and appropriate budget.

Recommendation 14

OAG recommends that MPG:

- Must immediately update the advances register;
- Ensure to properly monitor the staff advance register; and
- Make sure consultation is made with parties involved for recovery purposes within a timely basis.

Executive Response

No executive response received within the timeframe given.

Assets

Fixed asset register was not updated

Risk Rating: High

OAG noted that the Provincial Government has a fixed asset register but it was not updated to capture the assets procured and disposed during the financial year. Furthermore, OAG noted that

certain important details were not entered in the register which made it difficult to locate the assets during the audit. The Provincial Government needs to enter the assets' details such as:

- serial number;
- asset number;
- original cost;
- purchase order number;
- asset location;
- date of acquisition;
- asset condition;
- due date for replacement;
- sales proceed of the asset;

For good practice, it is important that they are made available for audit trail but most importantly for management to confirm what assets they have been acquiring within a fiscal year.

Implications

Lack of update and adequate information on the fixed asset register increases the risk of abuse, theft, and holding of obsolete assets.

Recommendation 15

OAG recommends that the MPG:

- Ensure to regularly update the fixed asset register with inclusion of more information to reflect the actual assets acquired during the fiscal year;
- Ensure that assets are clearly labelled as the Province's property;
- Ensure to safeguard the assets;
- Make sure to establish the method of assets disposal; and
- Ensure to create a robust mechanism such as annual stock-take to ensure all assets are captured in the fixed asset register.

Executive Response

No executive response received within the timeframe given.

Accounts payable

No accounts payable register kept (C/fwd from 2014/15)

Risk Rating: High

OAG was unable to obtain any accounts payable register as the Provincial Government relied on the general ledger data obtained from MYOB to provide them with the information. The MYOB system was not a trusted tool to obtain such information as control around the system was very weak.

Having an up to date accounts payable register would enable the Provincial Government to reconcile the records with information obtained from MYOB system.

Implications

The non-existence of accounts payable register increases the risk of payments made to ghost suppliers, duplicate payments, budget over-run and misstatement of the financial statements.

Recommendation 16

OAG recommends that the MPG:

- Ensure to immediately establish an accounts payable register and regularly update it; and
- Ensure that the Provincial Treasurer has access to it to properly monitor the payables and regularly update the Executive.

Executive Response

No executive response received within the timeframe given.

Accounts receivable**Accounts receivable register not updated****Risk Rating: High**

An accounts receivable register was maintained by the Provincial Government but it was out of date and could not be relied upon. It is important that the accounts receivable register is regularly updated so that the Provincial Government can determine how many businesses still owe them for the financial year and proper information is appropriately disclosed in the encouraged note on the financial statements.

Implications

Lack of an up to date accounts receivable register increases the risk of unauthorised officers collecting revenue, businesses operating illegally in the Province, loss of revenue, undesirable decisions being made and misstatement of the financial statements.

Recommendation 17

OAG recommends that the MPG:

- Ensure to regularly update the accounts receivable register; and
- Ensure the Provincial Treasurer to monitor and closely engaged in the updating process.

Executive Response

No executive response received within the timeframe given.

8. Rennell and Bellona Provincial Government

Overview

Background

The Rennell and Bellona Provincial Government (RBPG) submitted its financial statements for the financial year ended 31 March 2016 to the OAG on 22 June 2016.

RBPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	3,578,190	2,682,124
Capital	0	0
total	3,578,190	2,682,124
Payments		
Recurrent	3,582,695	2,676,127
Capital	0	0
total	3,582,695	2,676,127
Increase in cash	-4,505	5,997
Closing cash and cash equivalent position	2,434	6,940
Less restricted cash balances	0	0
Cash available for use	2,434	6,940
Cash reconciliation		
Opening cash balance	6,940	943
Increase in cash	-4,505	5,997
Closing cash and cash equivalent	2,435	6,940
Prior year adjustments	0	0
Closing cash and cash equivalent	2,435	6,940

Table 12: Summary of financial performance

Conclusion

The OAG completed the audit of Rennell and Bellona Province (RBP) and found that RBP has significantly poor control over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- Discrepancies on balances and notes for Statement of Cash Receipts and Payments;
- Related party transactions not disclosed;
- Not all receipt books were available for review;
- Lack of security over provincial money collected;
- Lack of database for licences and fees payers (carried forward from 2014/15);
- Lack of evidence for collection of outstanding revenue;
- No payment vouchers and supporting documents;
- Incomplete requisitions, payment vouchers and unsupported payments;

- Discrepancies in payments;
- MYOB accounting system not in operation (carried forward from 2014/15);
- Lack of monitoring of ward assistance grants;
- Lack of documentation for imprests and advances (carried forward from 2014/15);
- Payroll budget not fully utilized and lack of payroll documentation;
- Rennell and Bellona Development Authority (RBDA) yet to be fully operational (carried forward from 2014/15)
- Lack of asset register (carried forward from 2014/15)
- Lack of accounts payable register (carried forward from 2014/15)

As a result the Auditor General was unable to place reliance on the financial statements of RBP and issued a **disclaimer opinion**.

Key findings

OAG observed that the process to manage and monitor procurement and expenditure, revenue, assets, bank accounts and imprests procedures was inadequately controlled with little or no regard for the requirements of the FMO 2008 and FSI. The audit issues identified are summarised below:

Discrepancies on balances for Statement of Cash Receipts and Payments

Risk Rating: High

There are several discrepancies on the total receipts, total payments and other payment (Repair/maintenance) in the face of the Statement of Cash Receipts and Payments as related to the trial balance and general ledger provided during the audit. The existence of discrepancies on the balances of the statement of cash receipts and payments increases the risk of manipulation of figures, conflict of interest, undesirable decisions made, incompetency and misstatement of the financial statements.

Discrepancies on the notes to the Statement of Cash Receipts and Payments

Risk Rating: High

There were numerous discrepancies in the notes for cash and cash equivalent, other grants and aid from SIG, wages, salary and employee benefits, allowances and grants, other operating payments, other payments and authorisation date. Discrepancies in the notes to the financial statement increase the risk of unethical behaviour, manipulation of figures, incompetency and misstatement of the financial statement.

Related party transactions not disclosed

Risk Rating: High

RBPG made several payments to Horizon Pub & Restaurant which was owned by the spouse of one of the MPAs. However, the Provincial Government did not properly disclose the information under related party transactions as required in IPSAS 20. Furthermore, there could be several related party transactions not disclosed in the financial statement. Lack of related party disclosure increases the risk of conflict of interest, nepotism, negligence, political expediency, corruption and misconduct.

Need to adopt the new reporting format

Risk Rating: Moderate

The MPGIS gave a directive in 2016 for all the provincial governments to adopt a new reporting format for 2015/16 fiscal year but RBPG submitted their financial statement using the old reporting format to OAG. Using of old reporting format increases the risk of confusion among the users, inconsistency and incompetency.

Lack of documentation for revenue rates charged by the province (C/fwd from 2014/15)**Risk Rating: High**

OAG was unable to review the revenue rates charged by the Province as there was no documentation available during the audit to confirm that the rates have been approved by the full assembly. The lack of documentation for rates charged increases the risk of unlawful acts to the businesses, loss of revenue, conflict of interest, unauthorised collection of revenue and misconduct.

Not all receipt books were available during the time of audit**Risk Rating: High**

The Provincial Government was only able to provide one receipt book to OAG even though request was made for all the receipt books that were used during the financial year. OAG was aware that there a number of unauthorised officers and MPAs collected revenue from operating businesses in the name of the Province. Non-availability of receipt books led OAG issue a disclaimer on the financial statement as revenue figures presented in the financial statement could not be relied on.

Lack of security of provincial money collected**Risk Rating: High**

OAG noted that there was lack of security over provincial revenue that were collected from businesses as no strong safe or Chubb was located in the Provincial Office. Weak control over the security of provincial money increases the risk of theft, embezzlement, abuse and misuse.

Lack of database for licences and fees payers (C/fwd from 2014/15)**Risk Rating: High**

The province had no database for licences and fees payers during the financial year. OAG was unable to determine the accuracy and completeness of revenue transactions. Non-existence of database for licences and fees revenue of the Province increases the risk that the Province could lose huge amount of revenue through uncollected licences and fees as no records were available to prove that licences and fees were been paid by businesses operating in the Province.

Lack of evidence for collection of outstanding revenue**Risk Rating: High**

There was no evidence to prove that outstanding revenue from past fiscal years was collected in the audited fiscal year. There was no effective and efficient revenue collection strategy in the Province. Lack of strong revenue collection strategy increases the risk of unauthorised officers collecting revenue without the knowledge of the Provincial Government, loss of revenue, negligence and services to rural people are not provided.

No payment vouchers and supporting documents sighted**Risk Rating: High**

OAG found that 10% (6/60) of the selected samples with a total value of \$117,463.18 were missing in the payment folders for the year which made it difficult to determine the accuracy and completeness of the transactions. The legitimacy of expenditures were unsubstantiated as there were insufficient documents such as requisition vouchers to confirm verification, approval and authorisation by delegated officers.

Incomplete requisition, payment vouchers and unsupported payments**Risk Rating: High**

It was identified that 90% (54/60) of the payment sample worth \$1,747,608.20 had incomplete requisitions and/or payments where there is no supervisor's certification and date, no payment voucher number, proper suppliers' name, no account code and no cheque number written on the

payment vouchers. It was noted that 28% (17/60) of the payment sample with total value of \$712,000.00 were without supporting documents. Incomplete requisitions and payments vouchers increase the risk of conflict of interest, abuse of payment process, political expediency and fraud.

Difference of date between cashbook and payment voucher

Risk Rating: High

There were discrepancies between the dates of payments in the cashbook and payment vouchers for 31 of the payment sample with a total value of \$759,015.20 where some payments by cheques were made before they were entered in the cashbook or vice versa. Non-compliance to payment process increases the risk of fraud, misconduct, abuse, misappropriation of provincial funds, political expediency and conflict of interest.

Discrepancies in payments

Risk Rating: High

It was found that four (4) of the payment sample with a total value of \$131,000.00 had discrepancy such as contract agreements did not match the amounts paid to the suppliers. The existence of discrepancies in payments increases the risk of misappropriation, conflict of interest, fraud and misstatement of financial statements.

MYOB system not in operation (C/fwd from 2014/15)

Risk Rating: High

The province's MYOB accounting system was not operational. The lack of an accounting system such as MYOB rendered the province impotence in the management of its accounting system.

Lack of monitoring of ward development grants

Risk Rating: High

There was poor control over the monitoring of ward assistance funds to the MPAs which resulted in the unequal distribution of the ward assistance funds for during the financial year. The lack of strong control on the monitoring of ward assistance fund increases the risk of MPAs not able to fully implement their activities for their wards, misappropriation of the funds, conflict of interest and misstatement of the financial statements.

Lack of segregation of duties over bank reconciliation preparation

Risk Rating: High

There was no segregation of duties in the performance of bank reconciliations. There was no evidence to show that the Provincial Treasurer reviewed the bank reconciliations. In the absence of an independent and competent officer checking the bank reconciliations, there is a significant risk of fraud and material error occurring in the accounts and this may go undetected.

Lack of documentation for imprests and advances (C/fwd from 2014/15)

Risk Rating: High

OAG was unable to determine whether the imprests and advances issued during the year were cleared at the end of the financial year and if un-acquitted imprest and advances were correctly disclosed because there was lack of paper trail at the Provincial Office. Lack of record keeping and documentation for imprests and advances increases the risk of misleading information to users, misappropriation of provincial funds, conflict of interest, fraud and misstatement of the financial statements.

Special imprest register not maintained (C/fwd from 2014/15)**Risk Rating: High**

The Provincial Government did not maintain a special imprest register to properly record the imprests issued and retired for the audited period. The lack of special imprest register increases the risk of un-acquitted imprests accumulating to uncontrollable level, misappropriation, abuse, conflict of interest, loss of provincial funds, budget over-run and misstatement of the financial statements.

Payroll budget not fully utilized**Risk Rating: High**

OAG have performed an analytical review of the payroll and discovered that the payroll budget was not fully utilized as anticipated. This indicated that the Provincial Government was not prioritising the payroll for its direct employees. Lack of fully utilizing payroll budget increases the risk of conflict of interest, political expediency, undisciplined workforce, work plan not implemented and accumulation of debts for the Provincial Government to settle in future.

Lack of payroll documentation**Risk Rating: High**

Audit was unable to perform a review of payroll documents and supporting documentation due to lack of paper trail for payroll at Provincial Office. The Personnel Officer was not available during the audit. Lack of payroll documentation increases the risk of incorrect rates and deductions being made to legitimate employees for work performed and inclusion of non-bona fide persons in the payroll.

RBDA yet to be fully operational (C/fwd from 2014/15)**Risk Rating: High**

The Rennell & Bellona Development Authority (RBDA) was not fully operational even though its board was appointed in 2012. In addition, the Provincial Government was not providing adequate support to RBDA's operation. 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 the Executive.

Lack of asset register (C/fwd from 2014/15)**Risk Rating: High**

There was no asset register at the Provincial Office which made it difficult to verify the value of the assets and their locations. It was difficult to determine the effectiveness of management of assets. Non-existence of assets register increases the risk of abuse, misuse, theft, budget over-run and undervaluing of assets in the financial statements.

Lack of accounts payable register (C/fwd from 2014/15)**Risk Rating: High**

OAG could not rely on the balance of the accounts payable that appeared in the financial statement due to lack of accounts payable register at the Provincial Office. There was no MYOB system to capture and generate a accounts payable balances. Lack of payable register increases the risk of obligations not met, payments made to ghost suppliers, loss of provincial funds, budget over-run and misleading information for critical management decisions.

Overall recommendations

OAG's key recommendations are that the RBPG:

- Ensure that adjustments are made to the discrepancies noted in financial statement when formulating 2016/17 financial statement;
- Ensure to properly maintain the cashbook and general ledger so that it is easy to post to trial balance, financial statement and notes;

- Provide a draft financial statement with trial balance, general ledger and cashbook to OAG to review for any adjustment before the final statement is signed off;
- Must always comply with IPSAS 20 in disclosing related parties transactions in the financial statements for accountability and transparency in the management of public funds;
- Ensure that the revenue rates charged by the Province are disseminate to the public through notice board;
- Must ensure that used and unused receipt books should be kept in a safe location from unauthorised officers or public;
- Ensure to obtain a strong safe or chubb to keep the money collected and important documents;
- To comply with s14 of the Rennell and Bellona Province Business Licences Ordinance 2015;
- Ensure the business register is made available to OAG when audit is conducted;
- Must ensure to establish an effective and efficient revenue collection strategy;
- Must always comply with the Government Records Management Policy;
- Must ensure to properly monitor the ward assistance fund in order for MPAs to receive their allocation within the financial year;
- Ensure that bank reconciliations are reviewed, dated and signed off by the supervisor or Provincial Treasurer;
- Must make the special imprest register available to audit team when requested;
- Must prioritize payroll of direct employees in each fiscal year;
- Ensure the board review the function of RBDA and re-establish a framework with related resources for the development of RBDA;
- Must immediately establish an asset register;
- Must immediately establish an accounts payable register;

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

Detail audit findings and recommendations

Financial reporting

Discrepancies on balances for Statement of Cash Receipts and Payments

Risk Rating: High

OAG have examined the statement of cash receipts and payments for the year ended 31st March 2016 and noted discrepancies in the following area:

- The total receipts on page 1 of the statement showed \$3,578,190 but OAG identified \$3,584,187 from the trial balance and general ledger provided during the audit. This is a difference of \$5,997. OAG noted that the discrepancies could be related to the misposting of business licences and export licences in the general ledger and trial balance to the notes and face of the statement.
- The total payments on page 1 of the statement showed \$3,582,696 but OAG found that \$3,581,753 was from trial balance and general ledger. This is a difference of \$943 and the discrepancies could be related to misposting of amounts in note 9, 10, 11 and 14 from the general ledger to trial balance.
- OAG noted that note 14 should appear in page 1 of the statement for Other Payment (Repair/Maintenance) whereas it was omitted for the signed statement of cash receipts and payments.

In addition, OAG noted that the signed 2015/16 financial statement was submitted on 22 June 2016 but the cashbook, general ledger and trial balance was provided for audit on 9 September 2016 after

several requests were made by OAG. This could imply that the financial statement was created when the general ledger and trial balance was not yet created.

Implications

The existence of discrepancies on the balances of the statement of cash receipts and payments increases the risk of manipulation of figures, conflict of interest, undesirable decisions made, incompetency and misstatement of the financial statements.

Recommendation 1

OAG recommends that the RBPG:

- Ensure that adjustments are made to the discrepancies noted when formulating 2016/17 financial statement;
- Ensure to properly maintain the cashbook and general ledger so that it is easy to post to trial balance, financial statement and notes; and
- Provide a draft financial statement with trial balance, general ledger and cashbook to OAG to review for any adjustment before the final statement is signed off.

Executive Response

No Executive response received within the timeframe given.

Discrepancies on the notes to the Statement of Cash Receipts and Payments

Risk Rating: High

During the audit of the statement of cash receipts and payments for the year ended 31st March 2016, OAG found several discrepancies and they are:

- OAG discovered that note 2. Cash and cash equivalent on page 2 showed a credit balance of \$5,997. The bank confirmation from Bank South Pacific disclosed another bank account number 4000908410 under RBP with a credit balance of \$999,479.54. This means that the total balance of cash and cash equivalent as at 31st March 2016 should be \$1,005,476.54 CR. This was not fully disclosed in note 2.
- On page 4 of the statement, note 6. Other Grants and Aid for SIG - Service Grants of \$1,434,683 was missing.
- On page 4 of the statement, note 9. Wages, Salary and Employee Benefits was missing or omitted.
- Note 10. Allowances and Grants (Appointed Members) on page 4 showed Ward Development Grant of \$462,950 but OAG discovered from Trial Balance and general ledger that the balance was \$320,000. This is a difference of \$142,950 which is material in nature. Furthermore, Appointed Members Allowance disclosed the balance of \$180,000 but OAG was unable to verify the balance from the Trial balance and general ledger as it was not clearly classified.
- Note 11. Other Operating Payments have disclosed \$150,000 for 2nd Appointed Day Celebration but OAG was unable to sight the amount in the cashbook, general ledger and trial balance.
- Note 14. Other Payments have disclosed \$95,000 for HQ Building Maintenance and \$120,000 for HQ & Sub-Station Clearing but OAG sighted \$95,100 and \$160,000 respectively in the trial balance and general ledger.
- Note 16. Authorisation Date on page 5 of the statement did not state the date "20 June 2016" as the date for publication by Premier and Provincial Treasurer.

Implications

Discrepancies in the notes to the statement increase the risk of unethical behaviour, manipulation of figures, incompetency and misstatement of the financial statements.

Recommendation 2

OAG recommends that the RBPG:

- Ensure that corrections are made prior to formulating 2016/17 financial statement; and
- Must exercise care and diligence when preparing the financial statements and notes.

Executive Response

No Executive response received within the timeframe given.

Related party transactions not disclosed

Risk Rating: High

IPSAS 20 Related Parties Disclosure is to ensure that financial statements disclose the existence of related-party relationships between the entity and its related parties. This information required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. During the audit of the 2015/16 financial statement OAG noted that the RBPG made several payments to Horizon Pub & Restaurant which was owned by the spouse of one of the MPA. There could be several related party transactions not disclosed in the financial statement. OAG was not able to get an explanation from the Provincial Government for not disclosing the related party transactions in the notes to the financial statements.

Implications

Lack of related party disclosure increases the risk of conflict of interest, nepotism, negligence, political expediency, corruption and misconduct.

Recommendation 3

OAG recommends that the RBPG:

- Must always comply with IPSAS 20 in disclosing related parties transactions in the financial statements for accountability and transparency in the management of public funds.

Executive Response

No Executive response received within the timeframe given.

Need to adopt the new reporting format

Risk Rating: Moderate

MPGIS directed all provincial governments to use a new reporting format for IPSAS Cash Basis in 2016 after a workshop was conducted in Tulagi. RBPG submitted their financial statement in June in the old reporting format.

Implications

Using of old reporting format increases the risk of confusion among the users, inconsistency and incompetency.

Recommendation 4

OAG recommends that the RBPG:

- Must adopt the new reporting format as directed by MPGIS.

Executive Response

No Executive response received within the timeframe given.

Revenue

Lack of documentation for revenue rates charged by the province (C/fwd from 2014/15)

Risk Rating: High

OAG could not perform the review of revenue rates charged to confirm that the rates have been approved by the Provincial Government Assembly (PGA) due to the fact that there was lack of paper trail in place at the Rennell and Bellona Provincial Office. There was lack of Executive and Provincial Assembly minutes to confirm if the rates were discussed and approved by the PGA.

Implications

The lack of documentation for revenues rates charged increases the risk of unlawful acts to the businesses, loss of revenue, conflict of interest, unauthorised collection of revenue and misconduct.

Recommendation 5

OAG recommends that the RBPG:

- Ensure that the revenue rates charged by the Province are disseminate to the public through notice board; and
- Ensure that a copy of the rates is properly kept in a secure place for audit and other purposes.

Executive Response

No Executive response received within the timeframe given.

Not all receipt books were available during the time of audit

Risk Rating: High

OAG requested for all the receipt books used during the 2015/16 fiscal year but only one receipt book was provided for audit. OAG was aware that there were a number of unauthorised officers and MPA that collected revenue from operating businesses in the name of the Province.

Section 73 (l) of FMO 2008 states;

"To see that all books of account, registers, records and so on are maintained in accordance with Financial Instructions and Stores Instructions, and posted and kept up-to-date, when not in use, are kept in safe custody;"

Implications

Non-availability of receipt books led to OAG not being able to give an audit opinion but only issue disclaimer on the financial statement as no audit trail existed due to non-availability of receipt books to support the revenue figures presented in the financial statement.

Recommendation 6

OAG recommends that the RBPG:

- To comply with s73 (l) of the FMO 2008; and
- Must ensure that used and unused receipt books should be kept in a safe location from unauthorised persons.

Executive Response

No Executive response received within the timeframe given.

Lack of security over provincial money collected

Risk Rating: High

The Provincial Government did not have an unmovable strong safe in the Provincial Office to properly store the money collected from businesses prior to depositing them. The security of provincial money in the Province is a grave concern that needs addressing by the Provincial Government.

Implications

Weak control over the security of provincial money increases the risk of theft, embezzlement, abuse and misuse.

Recommendation 7

OAG recommends that the RBPG:

- Ensure to obtain a strong safe to keep the money collected and important documents.

Executive Response

No Executive response received within the timeframe given.

Lack of database for licences and fees payers (C/fwd from 2014/15)

Risk Rating: High

No records were kept by the revenue office to monitor the number of businesses operating in Rennell and Bellona Province (RBP) for 2015/16 fiscal year. It was noted that revenue officers were not able to collect the revenue as MPA for those wards already collected the revenue on behalf of the Province. Reporting of the collected revenue to Revenue Officer depended entirely on the actions of the MPA.

S14 of Renbel Business Licences Ordinance (BLO) 2015 states: "**Register of business licences**"

(1) *The Provincial Treasurer shall keep a register of all:*

(a) *Applications for a business licence;*

(b) *Decisions made in respect of each application; and*

(c) *Licences issued under this Ordinance.*

(2) *The register must be open for public inspection during normal working hours at the place where it is kept.*

Implications

Non-existence of a database for licences and fees payers of the Province increases the risk that the Province could lose huge amount of revenue through non collection and collection by unauthorised persons.

Recommendation 8

OAG recommends that the RBPG:

- To comply with s14 of the BLO 2015; and
- Ensure the business register is made available to OAG when audit is conducted.

Executive Response

No Executive response received within the timeframe given.

Lack of evidence for collection of outstanding revenue

Risk Rating: High

There was no evidence to indicate that outstanding revenue from past fiscal years was collected during the audited period. This implied that the Provincial Government did not have an effective and efficient revenue collection strategy.

Implications

Lack of strong revenue collection strategy increases the risk of unauthorised officers collecting revenue without the knowledge of the Provincial Government, loss of revenue, negligence and services to rural people not provided.

Recommendation 9

OAG recommends that the RBPG:

- Must ensure to establish an effective and efficient revenue collection strategy; and
- Ensure to properly classify the outstanding revenue for accurate reporting to stakeholders.

Executive Response

No Executive response received within the timeframe given.

Procurement and expenditure

No payment vouchers and supporting documents sighted

Risk Rating: High

10% (6/60) of the selected sample of payment documents worth \$117,463.18 were missing in the payment folders for the year. With no payment vouchers and supporting documents located, OAG was unable to do any further audit test for completeness and accuracy.

Implications

The legitimacy of expenditure was unsubstantiated as there were insufficient documents such as requisition vouchers to confirm verification, approval and authorisation by delegated officers.

Recommendation 10

OAG recommends that the RBPG:

- Ensure to properly file the payment vouchers in the folder and store in a secure location;
- Must always comply with the Government Records Management Policy; and
- Ensure to always provide the documents for audit when request is made.

Executive Response

No Executive response received within the timeframe given. However, OAG received comments from Provincial Treasurer that all payment vouchers and requisitions were provided for audit but OAG still maintained the issue noted above from its testing and working papers.

Incomplete requisition, payment vouchers and unsupported payments

Risk Rating: High

OAG discovered that 90% (54/60) of the payment sample with total value of \$1,747,608.20 had incomplete requisitions and/or payments where there were no supervisor's certification and date, no payment voucher number, no proper suppliers' names, no account codes and no cheque numbers were written on the payment vouchers. In addition, OAG noted that 28% (17/60) of samples with total value of \$712,000.00 were without supporting documents for the payments made during the audited period. This lack of adequate information on the requisitions and payment vouchers made it difficult to determine accuracy of the transactions.

Implications

Incomplete requisitions and payments vouchers increase the risk of conflict of interest, abuse of payment process, political expediency and fraud.

Recommendation 11

OAG recommends that the RBPG:

- Ensure that requisitions and payment vouchers must be filled up properly and certificated by the authorise officer before payments are made; and
- Ensure that supporting documents such as invoices, budget breakdowns, letters and contract agreements are attached with the requisitions and payment vouchers.

Executive Response

No Executive response received within the timeframe given. However, OAG received comments from Provincial Treasurer that all payment vouchers and requisitions were provided for audit but OAG still maintained the issue noted above from its testing and working papers.

Difference of date between cashbook and payment voucher

Risk Rating: High

During the audit, it was revealed that there are discrepancies between the dates of payments in the cashbook and payment vouchers for 31 samples with a total value of \$759,015.20. OAG noted that some payments through cheques were made before they were entered in the cashbook or vice versa. This is a clear indication that the payment process is not followed by the Provincial Government.

Implications

Non-compliance to payment process increases the risk of fraud, misconduct, abuse, misappropriation of provincial funds, political expediency and conflict of interest.

Recommendation 12

OAG recommends that the RBPG:

- Ensure that the payment procedures are complied with where the date of transaction is entered in the cashbook and the date is also written on the cheque when payment is made.

Executive Response

No Executive response received within the timeframe given.

Discrepancies in payments

Risk Rating: High

OAG noted that four (4) samples worth \$131,000.00 have discrepancy such as contract agreement did not match the amount paid to the suppliers which indicated that there was weak control over the payment process.

Implications

The existence of discrepancies in payments increases the risk of misappropriation, conflict of interest, fraud and misstatement of financial statements.

Recommendation 13

OAG recommends that the RBPG:

- Ensure that the amount in the invoices or quotations are paid accordingly;
- Ensure that proper checking is conducted by the supervisor before payment is made; and
- Refer to relevant authorities for further investigation of the discrepancies.

Executive Response

No Executive response received within the timeframe given.

MYOB system not in operation (C/fwd from 2014/15)

Risk Rating: High

There was no accounting recording system such as the MYOB in place at RBP Finance Office. There used to be an accounting system in place some time ago. The Provincial Government requested MYOB system to be installed and a training package to come with it. They were using excel spread sheet to record the transactions with manual records and filing system in place for audit purposes.

Implications

The lack of a computerised accounting system such as MYOB rendered the Province inefficient in the recording and processing of financial transactions.

Recommendation 14

OAG recommends that the RBPG:

- Immediately liaise with MPGIS to put in place a computerised accounting system such as MYOB;
- To consider including training package for MYOB system for finance staff; and
- To regularly monitor the system so that maintenance support is provided.

Executive Response

No Executive response received within the timeframe given.

Ward development grant**Lack of monitoring of ward development grants**

Risk Rating: High

There was poor control over the monitoring of ward assistance funds to the MPAs. RBPG budgeted \$400,000 towards ward assistance fund for the financial year which meant that each MPA was entitled to receive \$40,000 for the year. Four MPA received more than \$40,000; one MPA received exactly \$40,000 and five MPA received less than \$40,000.

Implications

The lack of strong control over the monitoring of ward assistance fund increases the risk of MPA not able to fully implement their activities for their wards, misappropriation of the funds, conflict of interest and misstatement of the financial statements.

Recommendation 15

OAG recommends that the RBPG:

- Must ensure to properly monitor the ward assistance fund in order for MPAs to receive their allocation within the financial year.

Executive Response

No Executive response received within the timeframe given.

Bank accounts

Lack of segregation of duties over bank reconciliation preparation

Risk Rating: High

There was lack of segregation of duties in the preparation of the bank reconciliations as only the electronic copies. There was no evidence that the bank reconciliations were reviewed by the Provincial Treasurer.

Implications

The absence of an independent and competent officer checking the bank reconciliations increases the risk of fraud and material error occurring in the accounts.

Recommendation 16

OAG recommends that the RBPG:

- Ensure that bank reconciliations are dated and signed off by the preparer;
- Ensure that bank reconciliations are reviewed, dated and signed off by the supervisor; and
- Ensure a register of reconciliations is prepared to ensure all accounts are reconciled and reviewed at least on a monthly basis.

Executive Response

No Executive response received within the timeframe given.

Imprests and advances

Lack of documentation for imprests and advances (C/fwd from 2014/15)

Risk Rating: High

Record keeping and documentation of transactions are very important internal controls for effective and efficient operation of the Provincial Government. OAG was unable to determine whether the imprests and advances issued during the year were cleared at the end of the financial year and if un-acquitted imprest and advances were correctly disclosed because there was lack of paper trail at the Provincial Office.

Implications

Lack of record keeping and documentation for imprests and advances increases the risk of misleading information to users, misappropriation of provincial funds, conflict of interest, fraud and misstatement of the financial statements.

Recommendation 17

OAG recommends that the RBPG:

- Ensure to properly keep the records and documents for imprests and advances in a secure location; and
- Ensure that responsible officer understand his/her duties under Part X of PFMO 2008.

Executive Response

No Executive response received within the timeframe given.

Special imprest register not maintained (C/fwd from 2014/15)

Risk Rating: High

OAG was unable to confirm that the RBPG maintained a special imprest register as there was lack of paper trail in place at the Provincial Office and even though they responded in previous audit report that it was established. There was lack of record filing system for imprests.

Implications

The lack of special imprest register increases the risk of un-acquitted imprests accumulating to uncontrollable level, misappropriation, abuse, conflict of interest, loss of provincial funds, budget over-run and misstatement of the financial statements.

Recommendation 18

OAG recommends that the RBPG:

- Must immediately establish a special imprest register or if it was already established , it must be regularly updated;
- Ensure that the responsible officer must understand his/her duties under Part X of PFMO 2008; and
- Must make the special imprest register available to audit team when requested.

Executive Response

No Executive response received within the timeframe given.

Payroll

Payroll budget not fully utilized

Risk Rating: High

The budget for payroll of RBPG was not fully utilized as anticipated. Most of the line items have differences between budget and actual within the range of 44% to 79%. This indicated that the Provincial Government did not put priority on its direct employees' payroll but rather on other expenditures. If the Provincial Government was unable to settle the payroll and other obligations associated with payroll for 2015/16 then it would affect the 2016/17 budget. Table 5 below shows the difference noted for the payroll.

GL Account Number	GL Account Name	Budget	Actual	Difference	Percentage
6-1202	Salary & Wages - Sports	\$24,971.00	\$5,163.00	\$19,808.00	79%
6-0302	Salary & Wages - Administration	\$106,651.00	\$59,973.18	\$46,677.82	44%
6-0402	Salary & Wages - Finance	\$35,267.00	\$15,998.84	\$19,268.16	55%
6-2402	Salary & Wages - Police	\$104,100.00	\$58,735.20	\$45,364.80	44%
6-0602	Salary & Wages - Communication	\$26,504.00	\$12,452.80	\$14,051.20	53%

Table 13: List payroll items for 2015/16 fiscal year

Implications

Lack of fully utilizing payroll budget increases the risk of conflict of interest, political expediency, undisciplined workforce, work plan not implemented and accumulation of debts for the Provincial Government to settle in future.

Recommendation 19

OAG recommends that the RBPG:

- Ensure to fully utilize the payroll budget for the fiscal year;
- Ensure that any outstanding payroll should be budgeted for in the next fiscal year under debt servicing; and
- Must prioritize payroll of direct employees in each fiscal year.

Executive Response

No Executive response received within the timeframe given.

Lack of payroll documentation

Risk Rating: High

OAG was not able to perform a review on payroll documents and supporting documentation due to lack of paper trail for payroll at the Provincial Office. The responsible person who was assigned by the Management for payroll preparation and processing was not available during the audit. There were payment vouchers for payroll but no data for the fortnightly payments were available for verification purpose. The lack of proper payroll documentation has made it difficult to determine the occurrence, completeness and accuracy of the transactions.

Implications

Lack of payroll documentation increases the risk of incorrect rates and deductions being made to legitimate employees for work performed and inclusion of non-bona fide persons in the payroll.

Recommendation 20

OAG recommends that the RBPG:

- Ensure to keep the payroll documents in a secure location; and
- Ensure that the Payroll Officer is available during audits in future.

Executive Response

No Executive response received within the timeframe given.

Investment

RBDA yet to be fully operational (C/fwd from 2014/15)

Risk Rating: High

Rennell and Bellona Development Authority (RBDA) appointed a new board in 2012 to oversee the operation of the investment arm of the Provincial Government. The RBDA was not fully operational due to lack of support from RBPG. The Provincial Government used to operate a ship that was managed by a private firm but the ship was out of service and got washed ashore in Honiara. OAG was not able to confirm other entities that could be owned by the Provincial Government due to lack of financial documentation and other records.

Implications

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

Recommendation 21

OAG recommends that the RBPG:

- 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 within the timeframe given.

Property, plant and equipment

Lack of asset register (C/fwd from 2014/15)

Risk Rating: High

There was no asset register at the Rennell and Bellona Provincial Office. Lack of assets register has made it difficult for OAG to verify the assets, valuations, locations and how effective the controls over assets were. The lack of supporting documentations for assets has made it impossible to verify if they were valued consistently and appropriately. OAG noted from previous audit that there were a few boats and plot of land somewhere but was unable to confirm the consistency of what was revealed due to lack of paper trail.

Implications

Non-existence of assets register increases the risk of abuse, misuse, theft of assets, budget over-run and undervaluing of assets in the financial statements.

Recommendation 22

OAG recommends that the RBPG:

- Must immediately establish an asset register;
- Ensure to properly keep the supporting documents of property, plant and equipment in a secure location; and
- Ensure that the responsible officer must understand his/her duties under Part X of PFMO 2008.

Executive Response

No Executive response received within the timeframe given.

Accounts payable

Lack of accounts payable register (C/fwd from 2014/15)

Risk Rating: High

OAG could not verify the balances of the accounts payable that were reflected in the balance sheet because there was lack of paper trail for the payable records. There was no computerised accounting system such as MYOB to capture the accounts payable that would generate a proper balance sheet.

Implications

Lack of payable register increases the risk of obligations not met, payments made to ghost suppliers, loss of provincial funds, budget over-run and misleading information for critical management decisions.

Recommendation 23

OAG recommends that the RBPG:

- Must immediately establish an accounts payable register;
- To regularly update the register;
- Ensure that the responsible officer must understand his/her duties under Part X of PFMO 2008; and
- To provide the register to OAG for audit when request is made.

Executive Response

No Executive response received within the timeframe given.

9. Temotu Provincial Government

Overview

Background

The Temotu Provincial Government (TPG) submitted its financial statements for the financial year ended 31 March 2016 to the OAG on 16/12/2016.

TPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	4,491,887	6,627,113
Capital	4,175,978	1,634,252
total	8,667,865	8,261,365
Payments		
Recurrent	4,357,630	4,306,553
Capital	4,032,344	3,534,457
total	8,389,974	7,841,010
Increase in cash	277,891	420,355
Closing cash and cash equivalent position	1,145,910	868,019
Less restricted cash balances	261,836	244,040
Cash available for use	884,074	623,979
Cash reconciliation		
Opening cash balance	868,019	447,664
Increase in cash	277,891	420,355
Closing cash and cash equivalent	1,145,910	868,019
Prior year adjustments	0	0
Closing cash and cash equivalent	1,145,910	868,019

Table 14: Summary of financial performance

Conclusion

The OAG completed the audit of Temotu Province (TP) and found that TP has weak control over the management of its resources. The province did not fully comply with relevant Acts, Instructions and Ordinances during the financial year. The main issues that the OAG has identified leading to this conclusion were:

- Financial management system, MYOB, not in operation;
- Unrealistic budget estimates for revenue;
- Revenue not properly recorded amounting to \$8,667,865.22;
- Material amount of deposits not verified for \$608,113.70;
- Absence of supporting documents for payments totalling \$4,032,343.67;
- Lack segregation of duty (Limited number of staff);

- Asset register not properly updated; and
- Increase in debt due to borrowing from unauthorised lenders of \$515,000.

As a result the Auditor General was unable to place reliance on the financial statements of TP and issued a **disclaimer opinion**.

Key findings

OAG observed that the process to manage and monitor procurement and expenditures, revenue, assets, bank accounts and imprests procedures was inadequately controlled with little or no regard for the requirements of the FMO 2008 and FSI. The audit issues identified are summarised below:

Incomplete business register

Risk Rating – High

OAG reviewed the business register and noted that the register was incomplete. When tracing the data and amounts on the register to the cash book data and amounts of the main account, the total amounts and data were not reconciled. There was no proper control over revenue collection and recording of revenue.

Unrealistic recurrent revenue estimates

Risk Rating – High

Analysis was done on the revenue estimates for each division and it showed that the province was unable to collect a total of \$981,208.55 of revenue which was 21% of the total recurrent revenue estimate.

Unverified deposits

Risk Rating – High

No specific receipt numbers and detailed description of the deposit were given in the cashbook. The business register was not updated therefore audit was unable to confirm reconcile deposits or to identify which provincial clients the each deposit belonged to.

Lack of segregation on duty of payments

Risk Rating – High

OAG noted lack of segregation of duties for a requisition form where the same person signed as the applicant and divisional head authorizing officer.

Seconded officer claimed over-time and annual leave return airfares

Risk Rating – High

OAG noted that a seconded officer claimed over-time and return air fares for her annual leave. The MPGIS should be responsible for the expenses incurred by the seconded officers working at the provinces.

Inconsistency in labels for pay periods

Risk Rating – Low

Through the review of pay periods, auditor noted that certain pay periods contained the same name as the previous pay-period name. This gives rise to the uncertainty of which pay-period label is actually correct.

Term-deposit and ANZ bank account

Risk Rating – High

A term-deposit account held in ANZ bank had no signatories to the account. This was confirmed by the Provincial Treasurer. The account was created but the signatories were yet to be determined.

The Province shifted its recurrent bank account from ANZ to BSP bank. This was due to difficulty faced by the Province when banking with ANZ as the ANZ bank agency operations in Lata was not reliable.

Cashier responsibilities

Risk Rating - High

There was no segregation of duties in the accounts department of the province when processing of payments or receipting of revenue. The Cashier did both the payment processes and receipting processes.

No financial statement given by the Temotu Development Authority

Risk Rating - High

Temotu Development Authority (TDA) did not prepare any financial statement for consolidation with the provincial government 2015/16 financial statement.

Bank reconciliation not done for TDA bank accounts

Risk Rating - High

TDA did not reconcile its four bank accounts.

Poor management over special imprest

Risk Rating - High

The Province did not account for special imprests issued to its officials.

Obsolete asset register

Risk Rating - High

The Temotu Province (TP) maintained an inventory register which was obsolete.

Lack of creditors' listing

Risk Rating - Moderate

Temotu Province Treasury did not maintain a register for its accounts payable.

Lack of receivable register

Risk Rating - Moderate

The Province failed to maintain an asset register.

Borrowing of funds from un-authorised lenders

Risk Rating - High

The Province borrowing from un-authorised lenders totalled to \$515,000.00 for 2015/16 fiscal year. For 2014/15 fiscal year, the amount borrowed from un-authorised lenders was \$230,000.00.

Financial information system (MYOB) not in operation

Risk Rating - High

TPG computerised financial system MYOB was not operational since January 2016. The financial statement figures were derived from the Cash book.

Overall recommendations

OAG's key recommendations are that the Temotu Province:

- Ensure PTR or delegated officer should update the business register on a regular basis by establishing effective accounting procedures to monitor fees and licences to ensure they (clients) pay their dues in full and on time;

- Ensure all deposit should reconcile with the cash book and clearly identify who deposit the amount and for what purpose;
- Ensure during preparing of the annual budget for the Province, proper assessment needs to be conducted on the revenue sources;
- Ensure effective internal controls over the revenue collection processes;
- Ensure the employing Ministry is responsible for over-time and annual leave expenses of their officers in the Province. Ensure that the executive liaises with the seconded officers employing Ministry to clarify expenses to be committed to the Provincial funds.
- Ensure to appoint the signatories to Term-Deposit account as soon as possible to comply with s34 of the FMO 2008;
- Transfer remaining balances of ANZ account to BSP recurrent account and close the bank account;
- Undertake regular surprise cash check on the Cashier;
- Ensure the executive liaises with the MPGIS to recruit new Provincial Secretary and Deputy Provincial Treasurer;
- Ensure to comply with s15(3a) and s15(4) of the Temotu Province Development Authority Ordinance (TPDAO);
- To action s15(7) of the TPDAO to improve the performance of the TDA;
- Ensures bank reconciliation is prepared monthly, completed, printed and signed off for all bank accounts;
- Ensure to comply with TP FMO 2008 Part VII sections 51, 53, 55 and 56 in order to properly manage special imprests;
- Ensure the province updates its asset register on a regular basis;
- Have a proper system for the management of its PPE which complies with FMO and FSI;
- Ensure to liaise with MPGIS to get the financial management system (MYOB) for the province;
- Ensure to keep and update regularly an accounts receivable register;
- Ensure to fully comply with s70 of PFMA, s40 (6) of the PGA 1997 and s88 and s89 of the FMO 2008 and cease the practice of borrowing of funds from unregistered individual lenders at usurious interest rates; and
- Maintains an accounts payable register.

Detail audit findings and recommendations

Revenue

Incomplete business register

Risk Rating: High

OAG reviewed the business register and noted that the register was incomplete. When tracing the data and amount on the register to the cash book records of the main account, the total amount and data inputted was not reconciled. OAG noted that no proper control existed over the revenue collections and recording of revenue.

Implications

Lack of updated revenue register increases the risk that revenue figures shown on the financial statement may have been understated.

Recommendation 1

OAG recommends that the Province:

- Ensure to update the business register by establishing effective accounting procedures to monitor fees and licences;
- Ensure that business register and cash book are reconciled; and
- Ensure all deposits are reconciled with the cash book and clearly identify who deposited the amounts and for what purpose.

Executive Response

The Executive acknowledge OAG Findings in respect to 2015-2016 Financial Statements

- *Prior receiving this draft report the new executive and recruitment of New Revenues Officers are already execute the recommended Procedures of business register for 2017-2018 FY.*
- *The management currently also executing receipting of revenues, recording and depositing of revenues procedures. This happens through in orientation and house training and pinning up of receipting procedures and depositing procedures besides revenue officers desk.*
- *The Recruitment of a new Revenue officer, Posting of a New Advisor greatly assist the Province addressing the above issue by assisting the Provincial Treasurer rectify the above situation*
- *Currently, Business Register and revenue register both paid direct to the Treasury or directly deposit into TPG recurrent account is up to date.*

Executive Approach

- *We will ensure that we maintain our current work procedures on **business registration and cash book** in line with OAG recommendations.*

Unrealistic recurrent revenue estimates

Risk Rating: High

The recurrent revenue estimate for 2015/16 financial year was not realistic. Analysis was done on the revenue estimates for each division and the province was unable to collect a total of \$981,208.55 of the revenue budget which was 21% of the total recurrent estimate. This was also the case in prior years.

Implications

Lack of existence of proper budgetary process undermines the credibility of the recurrent revenue budget and will result in the Province unable to achieve its divisional work plans for the fiscal year.

Recommendation 2

OAG recommended that the Province:

- Ensure during preparing of the annual budget for the Province, proper assessment need to be conducted on the revenue sources;
- Ensure effective internal controls over the revenue collection processes; and
- Ensure differences exist between the budgeted figures and the actual figures should be within a range of 5% above or 5% below the budgeted figures.

Executive Response

The Province acknowledges the OAG finding under the issue of Revenue. This findings is an implication of incomplete business register and revenue registration of the issue number 1 above. They usually form the bases of annual budget estimate.

TPG CURRENT OPERATION

- *TPG has an effective and up to date business registration for 2017-2018 FY and it captured active and non-active business in Temotu Province.*

- *Current Revenue Sourcing Policy revised 2016 clearly stated **procedures** and **timeframe** to collect different sources of revenue that includes Business License, Rentals and other sources of revenues.*
- *The Management will continue to maintain an up to date business registration and effectively execute revenue sourcing policy currently enforce at the movement.*

Unverified deposits

Risk Rating: High

OAG noted that from the recurrent revenue account that there were 25 deposits worth \$608, 113.70 that could not be verified. There were no receipt numbers and detailed descriptions of the deposits given in the cashbook. Audit was unable to reconcile the deposits with the register because the business register was not updated.

Implications

The non-proper recording of deposits will make it difficult to verify the deposits. This can lead to non-detection of errors and fraud.

Recommendation 3

OAG recommends that the Province:

- When receipting of revenue ensure to record the receipt number and customer description in the receipt and the cashbook; and
- Ensure to issue provincial official receipts for all revenues collected.

Executive Response

The Management acknowledge the OAG Findings under the Issue of REVENUE.

Revenue Deposited

- *In fact, our Cash book record contains the following well detail information: Date of Payment, Receipt Voucher Number, and Received from, Particulars, Receipt number and Amount Paid.*
- *Our BSP Deposit book stated the total amount deposit and break down details against receipt number and deposit slip is attached.*
- *Verification for particulars of details of revenue deposited can be captured from the cash book of revenues data with the Cashier and Daily revenue receipting data with the revenue officer.*
- *Verification for total amount deposited can be verified from the Bank statement and Bank Reconciliation.*

Official Receipt

With the issue of official receipts, TPG is bound always to issue official receipt printed by Global Company in Honiara, However, unforeseen circumstances like delay by the company to send us in a timely manner. When such situation arises.

For the interest of the Province, the Management resort to issuing general standard receipt bearing Temotu Provincial Government official Stamp at least before transfer the detail to an official receipt when receive from the Printing Supplier.

2017-2018 FY APPROACH

TPG will continue updating the current Cash book of revenue kept the Cashier and daily receipting kept by the revenue Officer and made available for OAG when requested.

TPG will ensure availability of TPG official receipt is printed and send over to Lata by Global Printing Company in a timely manner. We will closely monitor our current stock as to place early order when stock reduces.

Procurement and expenditure

Lack segregation of duties on payments

Risk Rating: High

Through the review of some payment vouchers, Audit noted some lack of segregation of duties as per the requisition form where the same person signed as per the applicant as well as the authorizing officer. Although the payment amounts may be not substantial, for good management control this does not show good practice.

Implications

Lack of segregation of duties may create an avenue for:

- 1) Misuse of authority, and loss of provincial funds;
- 2) Bad management controls and monitoring of office procedures; and
- 3) Provincial employees may not be practising good work ethics and behaviour.

Recommendation 4

OAG recommends that the Province:

- Revisit the Organisation structure and Job description of officers and identify who should do what and when; and
- For good practice adopted the practice for segregation of duties.

Executive Response

The Executive do acknowledge the OAG Findings on the issue of Payments and Procurements. It was a careless approach been practiced in the past years. However, It was no longer practiced now after training conducted by Treasurer last year.

2017-2018 FY Management Approach:

- *The Expenditure clerk notified to closely monitoring requisition from Heads of Divisions to ensure it is properly filled and endorse by authorised office bearers.*
- *Therefore requisitions of such nature were always returning to concern divisions to properly fill up before resubmitted.*
- *The Provincial Minister of Finance send a memo to the Premier dated 31st May 2017 for executive endorsement on Payment Process in line with the FMO ethical practice.*
- *Provincial Employees been selected to attend IPAM Training -19th -20th July 2017 held at Lata based on Developing Work Place Procedures and Ethics and Governance address unethical practice and understand workplace procedures.*

Seconded Officer claimed over-time and annual leave return airfares

Risk Rating: High

Audit noted that a seconded officer claimed over-time and return air fares for her annual leave. Refer below the findings noted as per issue raised.

Head Sub-head	Detail	Amount (\$)	Cheque No.
6-1184	Preparation of 2016/17 FY Budget estimates	3,000.00	1332471
6-0169	Return airfares for PTR Hon/Lata	3,354.00	1332770

Implications

Lack of confirmation to recover could result in:

- 1) misuse and loss of Provincial funds;
- 2) an avenue that may lead to abuse of position; and
- 3) lack of compliance to due process.

Recommendation 5

OAG recommends that the Province:

- Ensure employing ministries are responsible for overtime expenses and annual leave expenses of their officers in the Provinces; and
- Ensure that the executive liaises with the seconded officers employing Ministries clarify expenses to be committed to the Provincial funds.

Executive Response**Overtime of Seconded Officers**

The executive do acknowledge for rising this issue, an issue previously raise by the executive government with the MPGIS. The explanation given by the Ministry through the executive was that if any of our seconded staff perform overtime duties then his/her over time can be paid by the host province thus the executive make appropriation under Administration, Finance and Planning code sundry payments, approved by executive before finally endorsed by the Assembly each FY. This appropriation is to cater if any time incurred by Provincial Secretary, Provincial Treasurer and Chief Planning Officer when need arise.

Leave Cost

MPGIS is responsible for their (seconded Officers) Leave Passage. However, there are situation that the Ministry delay in facilitating their payment in time schedule despite they submit in time. As a province we have our Annual work Plan and as a Province we have to allow them on Holiday when we see appropriate for them at the right time in line with our Programs. When delay from the Ministry we have to resort them by meeting their leave passage and seeking Ministry for Refund to the Province. Thus every year we have to at least for convenience of delivering services we have to provide provision to cater when such situation arise.

Payroll**Inconsistency in labels for pay periods**

Risk Rating: low

Through the review of pay periods, OAG noted that certain pay periods contain the same name as the previous pay-period names. This gives rise to the uncertainty of which pay-period label is actually correct. Below in table is the in-consistency in labels for pay-periods.

PAY PERIODS	
Doc show	Content show
Sep II	Sep (I) 2015
Jan I	Jan (2) 2016
Feb I	Jan (2) 2016

This is important to be checked thoroughly for consistency of labels for ease and accuracy for audit trail.

Implications

Lack of consistency in the labels for certain pay-periods can result in:

- 1) lack of audit trail which further results in lack of assurance in the supervisor's oversights;
- 2) payment of the same period twice;
- 3) misuse and loss of Provincial monies;
- 4) non bona fide employees may be paid for wages/salaries; and
- 5) lack of controls and monitoring over the payroll processing resulting in over/under payments.

Recommendation 6

OAG recommends that the Province:

- To fix this in-consistency; and
- Ensure preparer and reviewer of the payroll do a sign-off to confirm the thorough checking of the payroll sheet each pay period.

Executive Response

*The executive do acknowledge the issue raised by OAG. When verifying with the soft copy we have with the payroll officer, she confirms that it was a minor mistake when updating the **SALARY AUTHORITY PAYMENT FORM** to reflect each **Month and Pay Period (PP)**. The management through the payroll has taken note of the above issue. She will ensure such small mistake is not repeated in the near future.*

Cash

Term-Deposit and ANZ bank account

Risk Rating: High

Section 34 (1) of the Temotu FMO 2008 stated, “The Accounting Officer will decide on cheque signatories but, in all cases, cheques must include the signatures of both the Provincial Secretary and the Provincial Treasurer or his or her authorised deputies.”

The term-deposit account lacked signatories to the account. The Provincial Treasurer confirmed that the account was created but the signatories were not yet determined. The account has an ending balance of \$215, 871.89 for 2015/16 financial year.

The Province shifted their operating bank account from ANZ to BSP recurrent account. This was due to difficulty faced by the Province when banking with ANZ as ANZ agent no longer operating in Lata. The ANZ account was left dormant for most of the financial year and needed to be closed.

Implications

Lack of signatories to the bank account opens an avenue for the access of the bank account by unauthorized persons.

Recommendation 7

OAG recommends that the Province:

- Ensure appoint signatories to the term deposit account as soon as possible to comply with section 34 of the FMO 2008; and
- Transfer remaining balances of ANZ account to BSP recurrent account and close the bank account.

Executive Response

Term Deposit

The executive do acknowledge the OAG highlighting the issue.

- *To response, the term deposit account was opened since Temotu Provincial Government operating BSP as an Agent.*
- *The initial internal transfer of \$200, 0000 in 2012 from the recurrent account (8400220806) to term deposit account (4000311144) is for security cover over BSP Lata Agent.*

ANZ

The Province did not shift from the reasons as highlighted by your office, TPG have an account with ANZ and also BSP formally NBSI. ANZ never at any time operate an agent here in Lata except an ATM Machine. The reason why Temotu still kept that account because that is where Temotu province teachers basic rate come through as appear in the bank statement.

TPG Approach

- *We will be working to address the necessary requirements as recommended by OAG*

Cashier responsibilities

Risk Rating: High

OAG noted during the audit that there was no existence of segregation of duties within the accounts department of the province when processing of payments or receipting of revenue collected. Audit observed that the Cashier was involved in payment processes and also in receipting processes. OAG understand that due to limited officers available in the accounts section, the provincial accounts resort to such practices.

Implications

Lack of existence segregation of duties within the payment and receipt processes may result in high risk of provincial funds be mismanaged or susceptible to fraudulent practices.

Recommendation 8

OAG recommends that the Province:

- To review the establishment and address the shortage of personnel in the accounts section;
- Undertake regular surprise cash checks on the cashier; and
- Ensure executive liaises with the MPGIS to recruit new Provincial Secretary and Deputy Treasurer.

Executive Response

The executive acknowledge for raising the issue, the cashier based on his JD is not directly responsible for receipting of revenues. However, there are situation arise like the absence of the revenue officer from work or revenue officer is on tour or attend training, These are situations that gave demand the involvement such officer to step in.

The executive must admit here that even the cashier has been perform that role during the termination of the revenue officer until the recruitment an assistance revenue officer April this year. Currently in line with OAG recommendation the cashier is no longer allowed to perform such role since the Appointment of our new revenue officer.

2017-2018 Management Approach

The Management now directed the Cashier not to play the role of the revenue officer as he will be responsible for receiving revenue and banking.

Investment

No financial statement provided by Temotu Development Authority

Risk Rating: High

OAG noted that the Temotu Development Authority (TDA) did not prepare any financial statement that should be provided to the TPG. Section 15(3a) of the TPDAO 2008 states; *"The Authority shall prepare and submit to the Executive within three months after the end of each financial year a report on the authority together with the detailed profit and loss account showing classifications of revenue and expenditure, a balance sheet and such other statements of account as the Executive may*

require." Section 15(4) of the TPDAO 2008 further states: *"The Premier shall sign the annual report and statements of account on behalf of the Executive and transmit them to the Auditor General within nine months after the end of the financial year."* Section 15(7) of the TPDAO clearly states the penalties for non-compliance.

Implications

Lack of preparing the financial statements by the TPDA to consolidate in the Provincial Financial Statement for 2015/16 financial year will affect the disclosure requirements of the TPG and could result in OAG issuing a disclaimer on the Provincial Financial Statement.

Recommendation 9

OAG recommends that the Province:

- Ensure to comply with s15(3a) and s15(4) of the TPDAO; and
- To action s5(7) of the TPDAO to improve the performance of the TDA.

Executive Response

This one of the ongoing issue annually raise in previous assessment since 2010 and continuously appear. Despite frequent executive meeting appointing board members to work closely with interim General Manager but nothing eventuate for reasons not known to the executive.

2017-2018 Management Approach

- *In our recent Provincial Executive 04 of 2017. The executive resolve to assist the TDA*
 - *Management at least produce FS in a recognized standard.*
 - *Advisement of the General Manager and Accountant positions by 2017-2018.*
 - *TPG to step and assist the production of Financial Statements are produce based on IPSAS*
- *TPG is anticipating with our current approach we will help assist TDA to produce FS*

Bank reconciliation not done for Temotu Development Authority

Risk Rating: High

TDA operated four (4) bank accounts; however, it has very poor control over its cash. Incomplete bank reconciliations made it difficult to identify un-presented cheques and outstanding deposits and to determine the opening and closing cash balances for the year. TDA did not perform all of its bank reconciliations for the year.

Implications

No bank reconciliation performed by the TDA increases the risk of errors not detected earlier and is vulnerable to fraud plus mismanagement.

Recommendation 10

OAG recommends that the Province:

- Ensures bank reconciliation is prepared monthly, printed and signed for all bank accounts; and
- Ensure an officer who performs the bank reconciliation is different from the officer who reviews the bank reconciliation.

Executive Response

This issue is also directly related to the previous issue under TDA FS. Bank reconciliation is part of the whole Financial Statement. Therefore there is no Bank reconciliation as lack of Accountant recruited by the TDA management and TDA Board as clearly specified in the ordinance.

2017-2018 Management Approach:

In our recent Provincial Executive 04 of 2017. The executive resolve to step in and assist the TDA Management to produce FS in a recognized standard. TPG is anticipating with our current approach we will help assist TDA to produce FS.

Imprest and advances

Poor management over special imprest

Risk Rating: High

Part VII – Making of Advances and Imprests of the TP FMO 2008 s51 for Requirement to Retire Imprest Accounts and s55 for Outstanding Imprests require good management practice over imprests.

Audit noted that un-acquitted imprests were a going concern for the Province. Refer table below for the weaknesses identified and assessed for FY 2015/16.

Weakness	Number of people	Amount	Remarks
Unretired imprests	10	\$322,395.00	Some have multiple imprests
Multiple imprest holders	7	\$334,845.00	Multiple imprest holders

Section 53 (4) of the Temotu FMO 2008 states *“The Provincial Treasurer is responsible for ensuring that an imprest is accounted for within one week of its necessity ceasing.”*

Implications

Lack of managing un-acquitted imprests can result in misuse and loss of Provincial money.

Recommendation 11

OAG recommends that the Province:

- Ensure comply with TP FMO 2008 Part VII sections 51, 53 and 55; and
- Seriously consider corrective measures to recover un-acquitted imprests as required by s56 of the TP FMO 2008.

Executive Response

The executive do acknowledge the issue raised, this is one of the repeated issues raised by previous audit reports. There are currently measures taken by the executive to ensure imprests are retired in time in compliance with the FMO.

Practically in the past, there was lack of work procedures and organization in place to oversee issuing and retiring of imprest by imprest Holders. As a result, those with multiple imprests do not really reflect the true records as they already retired but not cleared by the treasury divisions.

2017-2018 Management Approach:

1. Reminders were sent to imprest holders to retire for previous Financial Years.
2. Imprest issued this FY 2017-2018 were properly monitored to ensure early retirement.
3. Imprest Clearance form is already located to be signed by Imprest holders and cleared by the PTR.
4. Currently, those with unretired imprest were no longer issued with imprest.
5. TPG through the finance division will continue to remind imprest holders to retire or resort to various sections that deals with recovery of imprest and working very hard to ensure imprest issued for FY 2017-2018 were retired in time.

Assets

Obsolete asset register

Risk Rating: High

TP maintained an inventory register but it was obsolete. The FMO 2008 **Part X – Appointment, Duties and Responsibilities of Staff Charged with Accounting Tasks** spells out what is required of responsible officers. Section 73 (l) provides the duties of provincial employees: To see that all books of account, registers, records and so on are maintained in accordance with Financial Instructions and Stores Instructions, and posted and kept up-to-date, when not in use, are kept in safe custody.

Implications

Lack of appropriate and proper management over the property, plant & equipment can result in misuse and loss assets and properties.

Recommendation 12

OAG recommends that the Province:

- Ensure the Province continuously update its asset register; and
- Establish a robust system over the management of PPE.

Executive Response

The executive acknowledge the OAG for highlighting this issue. This was surely been appear from previous audit report but nothing materialized. However, to update the OAG,

2017-2018 Management Approach

- *Currently the executive is revising the draft Asset Management Policy 2015. Surely, it will be finalized before the next audit.*
- *TPG's purchased and donated asset will be captured in the asset registry kept by the finance division.*
- *Moreover, the executive is working closely with the Ministry of Lands-Land Valuation Section to conduct land valuation by later this year of early 2018.*

Accounts payable

Lack of creditors listing

Risk Rating: Moderate

Audit has noted that Temotu Province Treasury did not maintain a register for its payables. A payables register is important to keep track of the dues to settle.

Implications

Without a payables register, TP will be uncertain over its financial obligations.

Recommendation 13

OAG recommends that the Province:

- Maintains an accounts payable register to manage its financial obligations; and
- Create a register in excel spread sheet to record all the accounts payable balances of the province.

Executive Response

The Management Acknowledge for raising the issue:

Current Situation

- *The issue as of today's date is already up to date, both in Arch files and excel spread sheet.*
- *It is kept by the expenditure clerk.*
- *With the assistance of the Advisor posted to Temotu, it helps direct employees address this issue.*
- *The Management will ensure the expenditure record is always updated.*

Accounts receivable

Lack of receivable register

Risk Rating: Moderate

No accounts receivable register was kept by the Province. It is very important to have a accounts receivable register to reconcile the license holders, fee payers and other revenues so that the Provincial Government can determine how many businesses still owe them for the financial year.

Implications

Lack of accounts receivable register will render the Province unable to identify the likely amount of revenues the province should collect which lead to risk of understatement or overstatement of revenue figures in the financial statement.

Recommendation 14

OAG recommends that Province:

- Ensure Accounts Division of the Province formulate an accounts receivable register to capture all uncollected revenue; and
- Understand that even if IPSAS cash basis is adopted and that only cash receipts and payments is of concern, the PG should maintain a fee payers data base, license holders data base and ensure to reconcile them in order to determine the amount still owed to the Province.

Executive Response

Thank you for raising this issue, this issue always raised during previous auditing.

Management Current Situation

- *The issue as of today's date is already up to date, both in hard files and excel. It is kept by the revenue officer.*
- *With the assistance of the Advisor posted to Temotu, it help direct employees address this issue.*
- *The Management will ensure that Fee payers and license holders database is updated.*

Executive matters

Borrowing of funds from un-authorised lenders

Risk Rating: High

Section 88 of the FMO 2008 states: *"No funds are to be borrowed for any reason or from any source unless they comply with Section 40 of the Provincial Government Act 1997"*.

OAG uncovered that the total amount the Province borrowed from the un-authorised lenders were totalled to \$515,000.00 for 2015/16 fiscal year. For 2014/15 fiscal year, the amount borrowed from un-authorised lenders was \$230,000.00. This amounts show that for 2015/16 fiscal year, the Province doubled the amount borrowed from un-authorised lenders compared to prior year. With a 20% interest to charge on the amount when repayment to the lenders, Province will have to pay the lenders a total amount of \$618,000.00. It was confirmed during the exit meeting that for the past years it was a common practice of provincial government borrowing funds from private individuals [businesses operating within the provincial capital] for short periods of time to cover urgent funding needs whilst awaiting a replenishment of funds from the National Government.

It is further stated in s89 of the FMO 2008 that “For the purpose of section 88, an authorised lender refers to a regulated entity under the Credit Union Act or the Financial Institutions Act”. OAG was very concerned with the manner in which the Provincial Government was doing business with the unauthorised lenders which was a clear breach of s88 of the FMO 2008.

Implications

The practice of accepting usurious borrowing rates increases the risk of loss of provincial funds, poor service delivery to rural people as the funds are derived to service the loans, conflict of interest, provincial workers are not paid on timely basis, political expediency, abuse of power, misconduct and unethical behaviour.

Recommendation 15

OAG recommends that Province:

- Ensure to fully comply with s70 of PFMA, s40 (6) of the PGA 1997 and s88 and s89 of the FMO 2008; and
- Should immediately cease the practice of borrowing of funds from unregistered individual lenders at usurious interest rates.

Executive Response

This is one of the challenge issue the executive must admit here, the executive resort to this arrangement in order to meet Salary of employees. The executive is fully aware of the above sections of the Act but to access to such legal borrowing is not convenient for Provincial governments because stringent requirement attached and time.

Thus Province has to borrow from business houses who held money lending license within Temotu Province.

Current Approach

The executive just approve and endorse the creation of a New Account to cater for Salary, and other staff benefits as an approach to do away with borrowing.

Financial information system not in operation

Risk Rating: High

TPG computerised financial system MYOB was not in operation since January 2016. This was confirmed by the Temotu Province Treasurer on 27/02/2017 during our entry meeting. The financial statement figures were derived from the cashbook figures only.

Implications

The reliance on the cashbook to formulate the financial statement figures increases the risk of errors, mismanagement and fraudulent activities which will materially misstate the figures presented in the financial report and the province will be issued with a disclaimer opinion by OAG as a result.

Recommendation 16

OAG recommends that the province:

- Ensure MYOB system is installed and in operation to reduce material misstatement of figures within the financial statement;
- Liaise with MPGIS to acquire the financial management system (MYOB) for the province; and
- Ensure to record and input the financial data on a daily basis, all formats should align with the MYOB coding to ensure a smooth transition when the system is in operation.

Executive Response

- *The executive acknowledge the issue raise, this is an issue that go beyond our control. We have raised this issue with the Ministry of Provincial and even the Ministry delay with the engagement of the MYOB consultant since 2015.*
- *Now 2017 the Ministry just engaged a consultant for installed MYOB for three Provinces including Temotu Province.*

2017-2018 Management Approach

- *Management is currently liaising with the MYOB consultant to travel to Lata, Temotu Province to install the MYOB as schedule for August 2017.*
- *Management will ensure that all Finance Staff attend the two weeks training by the MYOB consultant.*

10. Western Provincial Government

Overview

Background

The Western Provincial Government (WPG) submitted its financial statements for the financial year ended 31 March 2016 to the OAG on 21 December 2016 and amended financial statements on 19 January 2017.

WPG is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the PGA 1997 and devolution orders.

Summary of financial performance

Statement of cash receipts and payments for year ended 31 March 2016		
	31/03/2016	31/03/2015
Receipts		
Recurrent	19,452,161	20,500,910
Capital	10,596,659	9,378,313
total	30,048,820	29,879,223
Payments		
Recurrent	17,471,895	19,868,348
Capital	6,435,540	9,736,552
total	23,907,435	29,604,900
Increase in cash	6,141,385	274,323
Closing cash and cash equivalent position	6,870,505	2,371,415
Less restricted cash balances	46,707	11,633
Cash available for use	6,823,798	2,359,782
Cash reconciliation		
Opening cash balance	729,120	2,085,461
Increase in cash	6,141,385	274,323
Closing cash and cash equivalent	6,870,505	2,359,784
Prior year adjustments	0	-1,630,664
Closing cash and cash equivalent	6,870,505	729,120

Table 15: Summary of financial performance

Conclusion

The OAG completed the audit of WPG and found that WPG has some issues over the management of its resources. The main issues that the OAG has identified leading to this conclusion were:

- Discrepancy in reconciliation of cash movement of \$220,972;
- Missing receipt vouchers valued at \$339,000;
- Variance of \$294,552 between financial statement and trial balance for recurrent expenses;
- Budget overspent by Office of the Premier;
- No report of Western Province delegation's trip to Fiji;
- No proper receipts from suppliers;
- No contract agreement and work progress certificate report sighted;

- Lack of monitoring of ward assistance fund;
- Non-consolidation of WPIC's financial statement into WPG's financial statement;
- Weak control over special imprests;
- Un-acquitted imprests;
- Issuing of multiple imprests;
- No annual stock take performed; and
- Lack of accounts receivable register.

As a result the Auditor General issued a **qualified opinion** on the financial statements of WPG.

Key findings

OAG observed that the process to manage and monitor procurement and expenditure, revenue, assets, bank accounts and imprests procedures was inadequately controlled which breached some of the requirements of the FMO 2008 and Financial and Store Instructions (FSI). The audit issues identified are summarised below:

Amended financial statement was received late

Risk Rating: Moderate

WPG submitted its 2015/16 financial statement on 20 December 2016 and it was noted that there were errors which needed adjustment before it could be audited so they were given time to fix it before 31 December 2016. However, the amended financial statement was received on 19 January 2017 which was a breach of s39 (2) of the PGA 1997 and s96 of the FMO 2008. Non-compliance increases the risk of conflict of interest, manipulation of figures and poor planning.

Discrepancy in reconciliation of cash movement

Risk Rating: High

It was found that there was discrepancy in the reconciliation of the cash movement for the 2014/15 fiscal year which needed proper adjustment. OAG was unable to verify the balances for the net payments due to variations in cash movement for 2014/15 and 2015/16 fiscal years. Lack of proper reconciliation of cash movement increases the risk of misappropriation, abuse, misuse, poor recording of cash and incompetency.

Inconsistency of the notes

Risk Rating: Moderate

There is inconsistency in the numbering of the notes on the face of the statement to the notes to the financial statement. Furthermore, there are errors in the notes that require adjustment in the formulation of 2016/17 financial statement. Lack of consistency in the notes increases the risk of misleading the users of the financial statements.

Discrepancies on balances for Statement of Cash Payments

Risk Rating: Moderate

There is discrepancy on the total payments for repair and maintenance in the face of the Statement of Cash Receipts and Payments as related to the trial balance and general ledger provided during the audit. The existence of discrepancy on the balances of the statement of cash receipts and payments increases the risk of manipulation of figures, conflict of interest and misstatement of the financial statement.

Inconsistency in the reporting of the executive meeting minutes**Risk Rating: Low**

It was noted from the review of the executive meeting minutes that 9% of the minutes did not capture the number of absent executive members. This caused difficulty in verifying the allowances paid to the executive members for those meetings. There is no conformity in the reporting of minutes and thus will lead to risk of information being distorted and misrepresented.

Missing receipt vouchers**Risk Rating: High**

OAG found that 13% (4/30) of the receipts selected valued at \$339,000.00 were missing at the time of audit. As a result OAG was unable to determine the accuracy and completeness of the revenue collected for the audited period. The missing receipt vouchers increases the risk that funds could be mismanaged.

Discrepancy in the receipt amount**Risk Rating: Moderate**

One (1) receipt has a difference of \$228,800.00 where the general ledger has the amount of \$1,031,550.00 while the receipt recorded \$1,260,350.00. The discrepancy in receipt amount and the ledger amount increases the risk of total receipts being understated and fraud could occur.

Budget overspent by Office of the Premier**Risk Rating: High**

Audit conducted analytical review of expenditure against the budget and found that the Office of the Premier has overspent its budget by \$1,276,339.87 while other business units underspent their budget allocations. The overspending of budget increases the risk of political expediency, conflict of interest, misappropriation, abuse of office, misconduct and programmes not implemented by other business units.

No report of Western Province delegation's trip to Fiji**Risk Rating: High**

Western Province (WP) delegation went to PNG and Fiji on November and December 2015 which costed \$800,000.00 to hold discussions with stakeholders, however, no report for the trip to Fiji was provided to OAG upon request. Lack of report for the Fiji trip increases the risk of purpose of the trip not met, misappropriation, conflict of interest and budget over-run.

No proper receipts from suppliers**Risk Rating: High**

Audit noted that 7% (4/60) of sample selected did not have proper receipts from the suppliers attached with the imprest retirements. This has made it difficult to determine whether the imprests were used for its intended purposes. The lack of proper and genuine receipts increases the risk of misappropriation, conflict of interest and misstatement of the financial statements.

No contract agreement and work progress certificate report sighted**Risk Rating: High**

Two samples with a total value of \$806,686.52 did not have contract agreements and work progress certificate reports. This has made it difficult to determine accuracy and completeness of the transactions. Lack of proper supporting documents increases the risk of payment made to uncomplete work, misuse of public funds, budget over-run, conflict of interest and misstatement of the financial statements.

No counter sign for amendment**Risk Rating: Moderate**

OAG discovered that 3% (2/60) of sample selected were without counter sign off by officers who did the changes to the amounts paid for electricity and ward assistance funds. Lack of counter sign for amendment of amount increases the risk of conflict of interest, manipulation of figures, fraud, misconduct and wrong payments made to the suppliers.

No cheque number written on payment voucher**Risk Rating: Moderate**

Two (2) payments samples worth \$63,000.00 did not have any cheque numbers written on the payment vouchers. The absence of cheque number on the payment voucher increases the risk of fraud, misuse of funds, conflict of interest and misconduct in office.

Lack of detail specific information**Risk Rating: Moderate**

Three (3) payment samples with a total of \$76,500.00 lacked detailed specific information on the payment vouchers and ward assistance fund forms. Lack of detailed specific information increases the risk of false reporting, misappropriation, fraud and no developments in the wards.

Lack of monitoring of ward assistance fund**Risk Rating: High**

There was lack of management over the monitoring of ward assistance funds to the MPA. The PG budgeted \$3,250,000.00 towards ward assistance fund. Each MPA was entitled to receive \$125,000.00 during fiscal year. There was unfair distribution of ward assistance funds due to poor control over the monitoring of WAF. The lack of strong control on the monitoring of ward assistance fund increases the risk of MPA not able to fully implement their activities for their wards, misappropriation of the funds, conflict of interest and misstatement of the financial statements.

Ward assistance form needs improvement**Risk Rating: Moderate**

OAG reviewed the ward assistance form and found that there was a need to improve the form in order to capture the amounts and purposes that MPA applied for. It will make reporting by the Province much easier to the stakeholders. Lack of improving the WAF form increases the risk of misleading reports to the stakeholders, unrealistic budget and WAF used for unintended purpose.

No timesheet for casual workers**Risk Rating: Moderate**

There was no timesheets for casual workers provided by division heads to SAO and Payroll Officer to verify the legitimacy of the payments. Lack of timesheet for casual workers increases the risk of payroll budget over-run, conflict of interest, abuse, unauthorised payments and ghost workers.

Need for proper monitoring of staff attendance by supervisors**Risk Rating: Moderate**

There was slackness in the attendance of provincial staff to their duties at their work stations as some were seen doing other private tasks during official hours. This indicated that there was lack of proper monitoring by supervisors.

Bank reconciliation not signed-off by supervisors**Risk Rating: Moderate**

Audit identified two (2) instances where the Supervisor did not signed-off on the bank reconciliation sheets to certify that he has checked the work of the preparer. This was a breach to s2 (7) (h) of the

FISI 2008. Lack of signing-off as a verifier increases the risk of tempering with the amount, negligent of duty and mismanagement of funds.

Non-consolidation of WPIC's balances into WPG's financial statement

Risk Rating: High

Audit noted that no consolidation of the balances of Western Province Investment Corporation (WPIC) was made to the WPG financial statement so it would not show a true and fair view of the financial position of the Province to the stakeholders. Lack of consolidation increases the risk of misstatement of the financial statement and giving the wrong information to the stakeholders.

Weak control over special imprests

Risk Rating: High

OAG discovered that special imprests for direct employees and MPAs have increased from prior year to current year which indicated that WPG was not properly managing the special imprests. Poor control over special imprests increases the risk of misappropriation of funds, abuse, conflict of interest, budget over-run and misstatement of the financial statements.

Un-acquitted imprests

Risk Rating: High

Seven (7) samples selected for special imprests were not acquitted after end of 2015/16 financial year. A sample of staff advances was not acquitted or recovered. Lack of control over advances and imprests increases the risk of misappropriation, conflict of interest, fraud, political expediency, negligence of duties and misstatement of the financial statements.

Issuing of multiple imprests

Risk Rating: High

Some provincial employees and MPA with outstanding imprests were still issued with new imprests. This was a clear breach of s55 of PFMO 2008. The lack of proper management of imprests increases the risk of misappropriation, conflict of interest and misstatement of the financial statement.

No annual stocktake performed

Risk Rating: High

No annual asset stocktake was performed by the Provincial Government which made it difficult for them to determine the status of their assets. They were unable to determine which assets were obsolete and required replacements. Lack of annual stocktake increases the risk of theft of assets, misuse, budget over-run and misstatement of the financial statements.

Asset register needs to be updated

Risk Rating: Moderate

The PG has an asset register that did not fully disclose the value, location, disposal value and date of acquisition of each asset. The asset register was not updated during the year 2015/16. There was no asset management policy to guide them on how, when, where, what to procure and how to dispose off the assets. Lack of monitoring the provincial government's assets may lead to ineffective budget planning. 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.

Procurement Officer needs training on asset management

Risk Rating: Moderate

It was identified that the Procurement Officer lacks asset management skills to properly manage the assets of the Province, hence it is suggested that the Provincial Government with the assistance from the MPGIS to provide some trainings to him. Lack of capacity building on asset management

increases the risk of assets not properly monitored, assets are being abused and misused and assets are procured unnecessarily which leads to budget over-run.

Need to settle outstanding creditors on timely basis

Risk Rating: Moderate

As at 31 March 2016, it was discovered that WPG had several creditors with outstanding bills. The outstanding creditors were not disclosed in notes to the financial statement. Non-settlement of the creditors' bills on a timely basis increases the risk of services not rendered to the Province, funds allocated for creditors used for other purposes, and budget for next financial year will be needed to cater for debt servicing.

Lack of accounts receivable register

Risk Rating: High

There is no proper accounts receivable register kept for the province. This was a breach of s10 (18) (1) (2) of the FISl 2008. When no accounts receivable register is available, the Provincial Treasurer will be unable to update the Executive on the uncollected revenues. The PG will lose revenues due to no register to properly identified uncollected revenues and revenue could be collected by unauthorised officers.

Overall recommendations

OAG's key recommendations are that the WPG:

- Ensure to properly keep the records of cash transactions for the fiscal year;
- Ensure to properly reconcile the movement of cash and cash equivalent for each fiscal year;
- Ensure that filing of receipt vouchers are maintained at a high standard;
- Ensure receipts are provided to OAG for audit;
- Ensure that the Office of the Premier spends its funds according to the approved budget;
- Ensure that any program or activity not budgeted for should be taken up in the supplementary appropriation budget for that fiscal year;
- Must ensure that when delegations are going on overseas trip, there should be a report produced and presented to the Executive or Assembly after the trip;
- Ensure that a copy of the report should be made available to OAG for audit;
- Must ensure that proper and genuine receipts are provided when imprests are retired;
- Must ensure that contract agreement and work progress report and other supporting documents should be attached with the requisition and payment voucher when making payment to contractor;
- Must ensure to properly monitor the ward assistance fund in order for MPAs to receive their allocation within the financial year;
- Must ensure that WPIC financial statements are prepared and audited;
- Ensure to consolidate the balances in the Provincial Government financial statement;
- Must strongly control the special imprests with strict instruction for proper planning and budgeting of trips to Honiara or elsewhere when carrying out the official duties;
- Ensure to write-off the outstanding imprests of the two deceased officers after the Assembly's approval;
- Ensure to liaise with Ministry of Lands, Housing & Survey and Ministry of Finance & Treasury to recover the imprest from the Lands Officer through salary deduction;
- Follow up with other officers to recover their outstanding imprests and advance;
- Comply with s55 of FMO 2008 and stop issuing of multiple imprests to officers and elected members with outstanding imprests;

- Must undertake annual stock take of its assets in order to have true value and condition of the assets;
- Ensure that Revenue Office to prepare a receivable register using excel spreadsheet to list the uncollected revenue and;
- Ensure Provincial Accounts Office comply with Section 10 subsection 18 (1)(2) of FSI 2008.

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

Detail audit findings and recommendations

Financial reporting

Amended financial statement was received late

Risk Rating: Moderate

The PG submitted their financial statement on 20 December 2016 to OAG; however, it has some errors that needed adjustment so they were given time to fix it and to re-submit it before 31 December 2016. The amended financial statement was received on 19 January 2017 which was 19 days after due date as required in s39 (2) of the PGA 1997 and s96 of the FMO 2008.

Implications

Non-compliance with s39 (2) of the PGA and s98 of FMO 2008 increases the risk of conflict of interest, manipulation of figures and poor planning.

Recommendation 1

OAG recommends that WPG:

- Ensure to comply with s39 (2) of the PGA and s96 of the FMO.

Executive Response

The Executive take note of OAG concern regarding non-compliance with section 39 (2) of the Provincial Government Act 1997 and section 96 of the Provincial Financial Management Ordinance 2008 and wish to make the following responses:

1. *The original Financial Statement was submitted on time in compliance with section 39 (2) of the Provincial Government Act 1997 and section 96 of the Provincial Management Ordinance 2008*
2. *The required amendments were not communicated by OAG to the Treasurer as expected hence the delay. It was only when our Provincial Secretary visited OAG office that he was informed of the required amendments*
3. *The Treasurer acted upon the advice received from the Provincial Secretary and identified and rectified the error in the cash movement on the understanding that we have duly complied with provisions of the PGA 1997 and PFMO 2008.*

Executive resolved to take the following action:

4. *That the PG agreed to comply with section 39 (2) of the Provincial Government Act 1997 and section 96 of the Provincial Financial Management Ordinance 2008.*
5. *That the 2016/2017 FS be prepared in good time so that any amendments can be made and submitted prior to 31st December*

Discrepancy in reconciliation of cash movement

Risk Rating: High

The 2015/16 amended financial statement had discrepancy in the reconciliation of the cash movement where the closing balance of cash and cash equivalent for 2014/15 was \$2,580,755 whereas the cash available for use for the same period was \$2,359,783. This was a difference of \$220,972. The net payments due to cash movements for 2014/15 and 2015/16 fiscal year were \$639,643 and (\$2,161,690) respectively. OAG was unable to verify the amounts from the general ledger and trial balance.

Implications

Lack of proper reconciliation of cash movement increases the risk of misappropriation, misuse and poor recording of cash.

Recommendation 2

OAG recommends that WPG:

- Ensure to properly keep the records of cash transactions for the fiscal year; and
- Ensure to properly reconcile the movement of cash and cash equivalent for each fiscal year.

Executive Response

The Executive take note of OAG concern regarding lack of proper reconciliation of cash movement and agreed with the OAG recommendation and WPG will:

1. *Ensure to properly keep the records of cash transactions for the fiscal year and;*
2. *Ensure to properly reconcile the movement of cash and cash equivalent for each fiscal year.*

Executive resolved to take the following action:

3. *That the Provincial Treasurer and Deputy Provincial Treasurer must ensure to rectify the error*
4. *That the Provincial Treasurer and Deputy Provincial Treasurer must ensure to work backwards in order to identify the error and make adjustment to the movement of cash and the net payments due to movement of cash when preparing the 2016/2017 FS*

Inconsistency of the notes

Risk Rating: Moderate

OAG noted from page 2 of the statement of cash receipts and payments that there is inconsistency in the numbering of the notes for items in the capital expenditure, Un-acquitted imprest and un-acquitted staff advances to the notes to the financial statement. In note 2 Cash - there is need to insert the fiscal years to make it more readable to the users when comparing the current year with the prior year. OAG also noted the following discrepancies:

- On page 5, note 5. Other Grants and Aids – the statement about budget support of \$7,871,526 was carried forward from previous years and this needs to be deleted.
- Note 10. Travel & Transport – Staff travel and transport disclosed \$553,291.00 but OAG found that the trial balance is \$335,578 where there is a discrepancy of \$217,713.00.
- Note 11. Other Operating Costs: Replacement of tools & equipment was \$62,022.00 but OAG only found \$44,193.00 in the trial balance. Furthermore, evaluation & monitoring shows \$58,123.00 but the trial balance has the figure of \$59,773.00. These show discrepancies of \$17,829.00 and \$1,650.00 respectively.
- Note. 13 Capital Expenditure on Asset Development Project, there are discrepancies for Korovou and Boro Fishery Centre – solar system to the figures that needs correction.

- Note 15. Authorisation date where the name of the Provincial Secretary is not matching to the signatory's name.
- Note 17. Staff advance – Direct employees shows \$1,672.66 but the trial balance and general ledger shows \$3,457.84 for leave, special and salary advances.

Implications

Lack of consistency and discrepancies in the notes increases the risk of misleading the users that could end up in undesirable decisions are made, unethical behaviour, manipulation of figures, incompetency and misstatement of the financial statements.

Recommendation 3

OAG recommends that WPG:

- Ensure that corrections are made prior to formulating 2016/17 financial statement; and
- Must exercise care and diligence when preparing the financial statements and notes.

Executive Response

The Executive take note of OAG concern regarding inconsistency and discrepancies in the notes and will ensure to reduce the risk of misleading the users that could end up in undesirable decisions are made, unethical behaviour, manipulation of figures, incompetency and misstatement of the financial statements.

The Executive will also ensure:

1. *That corrections are made prior to formulating 2016/17 financial statement and;*
2. *Must exercise care and diligence when preparing the financial statements and notes.*

Executive resolved to take the following action:

3. *That the Provincial Treasurer and Deputy Treasurer must ensure to make correction prior to formulating 2016/17 financial statements and notes*
4. *That the Provincial Treasurer and Deputy Treasurer must exercise care and diligence when preparing the financial statements and notes.*

Discrepancy on balances for Statement of Cash Payments

Risk Rating: Moderate

OAG have examined the statement of cash payments for the year ended 31st March 2016 and noted that the balance for Repair and Maintenance is \$429,989.00 while the trial balance is \$506,828.00 which shows a discrepancy of \$76,838.00 and it is immaterial.

Implications

The existence of discrepancies on the balances of the statement of cash receipts and payments increases the risk of manipulation of figures, conflict of interest, undesirable decisions made, incompetency and misstatement of the financial statements.

Recommendation 4

OAG recommends that the WPG:

- Ensure that adjustments are made to the discrepancy noted when formulating 2016/17 financial statement;
- Ensure to properly maintain the cashbook and general ledger so that it is easy to post to trial balance, financial statement and notes; and
- Provide a draft financial statement with trial balance, general ledger and cashbook to OAG to review for any adjustment before the final statement is signed off.

Executive Response

The Executive take note of OAG concern regarding the existence of discrepancies on the balances of the statement of cash receipts and payments increases the risk of manipulation of figures, conflict of interest, undesirable decisions made, incompetency and misstatement of the financial statements.

The Executive agreed with OAG recommendation and will:

- 1. Ensure that adjustments are made to the discrepancy noted when formulating 2016/17 financial statement;*
- 2. Ensure to properly maintain the cashbook and general ledger so that it is easy to post to trial balance, financial statement and notes and;*
- 3. Provide a draft financial statement with trial balance, general ledger and cashbook to OAG to review for any adjustment before the final statement is signed off.*

Executive resolved to take the following action:

- 4. That the PG must have a MYOB software in place so that all Treasury staff to access and use it*
- 5. That the PTR and DPTR must plan and program preparation of the 2016/17 FS prior to submission*
- 6. That the Cashier must make daily update on the cash book*
- 7. That a data entry officer must be recruited to promptly input data into the MYOB software in a timely manner*
- 8. That the PTR and DPTR must provide in good time the draft financial statement to OAG to enable review before sign off.*

Executive minutes

Inconsistency in the reporting of the executive meeting minutes

Risk Rating: Low

OAG noted in the review of the executive meeting minutes for the audited period that 9% (1/11) of the minutes does not capture the number of absent executive members. Therefore, there is inconsistency in the recording of the minutes. This may cause difficulty in verifying the allowances paid to the executive members.

Implications

There is no conformity in the reporting of minutes and thus will lead to risk of information being distort and misrepresented.

Recommendation 5

OAG recommends that WPG:

- Ensure that there is consistency in recording of minutes throughout the financial year.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure signed and filed minutes are produced by responsible officers and will be made available to auditors in the future.

The Executive resolved to take the following actions

- *All executive minutes must be signed two weeks after the meeting or before the start of the next meeting at the latest*
- *All signed executive minutes must be kept in hard copies (2 files – PS office and EPS) and in soft copies (PS and EPS computers)*

- *Executive resolutions must be distributed to relevant authorities or divisions not later than two days after being signed by the Chairman and the Secretary of the meeting*
- *In the absence of the Chairman, the Deputy Premier or any Executive member appointed to Chair the meeting shall sign the minutes.*
- *In the absence of the Secretary, someone appointed by the Executive to take minutes of the meeting shall sign the minutes*

Revenue

Missing receipt vouchers

Risk Rating: High

OAG noted from the examination of 30 samples that 4 receipt vouchers amounting to \$339,900.06 were missing at the time of the audit. This has made it difficult to determine the accuracy and completeness of the revenue collection for the audited period.

Implications

The missing receipt vouchers increases the risk that OAG cannot determine the genuineness of the records, it could lead to tempering of receipts which means funds are being mismanaged and misappropriated.

Recommendation 6

OAG recommends that WPG:

- Ensure that filing of receipt vouchers are maintained at a high standard; and
- Ensure receipts are provided to OAG for audit.

Executive Response

The Executive take note of the OAG recommendation and will ensure to maintain appropriate filing, records and transactions posted to GL are adequately supported with receipts. 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

- *Treasury division to include details of receipts in the accounting software on every transaction*
- *All payments received must be properly receipted and the carbon copy must be properly filed*
- *All receipts must be provided to OAG for audit*
- *A monthly review by the senior accountant revenue officer or the deputy treasurer of all revenue records must be done*

Quarterly revenue reports to be presented to the Executive

Discrepancy in the receipt amount

Risk Rating: Moderate

OAG discovered from the examination of the receipt vouchers that one (1) receipt has a discrepancy amount of \$228,800.00. The general ledger has the amount of \$1,031,550.00 while the amount on the receipt was \$1,260,350.00. There was no explanation for the discrepancy from the Provincial Government.

Implications

The discrepancy in receipt amount and the ledger amount increases the risk of total receipts being understated and fraud occurring.

Recommendation 7

OAG recommends that WPG:

- Must ensure that a procedure of receipting revenue and posting to ledger is properly carried out by the responsible officer.

Executive Response

The executive take note of the OAG recommendation and made the following response:

1. Total amount receipted \$1,260,350.00 as per receipt
2. Amount deposited \$1,031,550.00 as per Cash Book
3. The discrepancy of \$228,800.00 referred to was cash on hand and kept in the strong room and deposited later as thus:

Total Receipted	<u>\$1,260,350.00</u>
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Deposited as per Cash Book	\$1,031,550.00
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Deposit to Special A/C	\$ 151,400.00
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Deposit as per Cash book dated 2/4/15	\$ 15,200.00
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Deposit as per Deposit Slip dated 21/4/15	<u>\$ 62,200.00</u>
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Total Deposited	<u>\$1,260,350.00</u>
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4. The later deposits were on different dates/times; This happened because some of the cheques collected were post-dated therefore deposited upon advice from the paying companies
5. Details of deposits can be provided during your next audit

Procurement and expenditure**Budget overspent by Office of the Premier**

Risk Rating: High

OAG conducted analytical review of the expenditure versus budget for the audited period for the business units and noted that Office of the Premier has overspent its budget by \$1,276,339.87 while the other business units underspent their budget. Refer to table 16 below for detail of the analytical review of budget versus actual for 2015/16 fiscal year.

Business Unit	2015/16 Budget	2015/16 Actual	Variance
201 Office of the Premier	2,788,466	4,064,806	1,276,340
416 General Investment Servicing	806,033	808,992	2,959
Other business units	27,837,128	18,575,256	-9,261,872
Total	31,431,627	23,449,053	-7,982,574

Table 16: budget vs actual in 2015/16 fiscal year

Implications

The manner of overspending of budget increases the risk of political expediency, conflict of interest, misappropriation of public funds, abuse of office, misconduct and programmes and activities not implemented by other business units.

Recommendation 8

OAG recommends that WPG:

- Ensure that the Office of the Premier spends its funds according to the approved budget and;
- Ensure that any program or activity not budgeted for should be taken up in the supplementary appropriation budget for that fiscal year.

Executive Response

The Executive noted OAG recommendations and will ensure:

- *That the Office of the Premier spends its funds according to the approved budget and*
- *That any program or activity not budgeted for should be taken up in the supplementary appropriation budget for that fiscal year*

The Executive resolved to take the following actions

- *Treasury division to closely monitor spending of divisions through commitments section*
- *Treasury division commitment section must provide funds available against divisional codes/subheads requests/requisition before Accounting Officer authorizes payments*
- *Any overruns from subheads must be halted pending virement, supplementary or advice from the Finance Advisory Committee*
- *Treasury to provide divisions with monthly budgetary control report so that variances are detected and corrected*
- *A monthly review by the Deputy Treasurer of all expenditure records must be done*
- *Monthly/Quarterly reports must be presented to the Executive*

No report of Western Province delegation's trip to Fiji

Risk Rating: High

OAG discovered that Western Province delegation has undertaken trips to PNG and Fiji on November and December 2015 which cost \$800,000 to hold discussions with stakeholders. OAG asked for the report of those trips but was only provided with report of PNG's trip by the Provincial Secretary. It is important that when Provincial Government delegations are taking overseas trips that they must provide a report of the trip for accountability and transparency as they are using public funds for those trips.

Implications

Lack of report for the Fiji trip increases the risk of purpose of the trip not met, misappropriation of public funds, conflict of interest, wastage of funds, abuse of public funds and budget over-run.

Recommendation 9

OAG recommends that WPG:

- Must ensure that when delegations are going on overseas trip, there should be a report produced and presented to the Executive or Assembly after the trip; and
- Ensure that a copy of the report should be made available to OAG for audit.

Executive Response

The Executive take note of the recommendation by OAG and will ensure:

- *Any future overseas trips are budgeted and approved by Executive or Assembly*
- *That a report of the overseas trip must be furnished to the Executive after the trip*
- *The report of the Fiji trip and any future overseas trip will be made available to OAG for audit*

No proper receipts from suppliers

Risk Rating: High

OAG noted that 7% (4/60) of the sample selected does not have proper receipts from the suppliers attached with the imprest retirements. OAG was very concerned with one of the four payments which lacked proper receipts from the retirement of \$800,000 that was used for the

delegation's trip to PNG and Fiji as no genuine receipts for accommodation, food allowance, clothing allowance, transportation and communication was sighted during the audit.

Implications

The lack of proper and genuine receipts increases the risk of misappropriation of public funds, abuse of funds, wastage of funds, conflict of interest and misstatement of the financial statements.

Recommendation 10

OAG recommends that WPG:

- Must ensure that proper and genuine receipts are provided when imprests are retired.

Executive Response

The Executive noted the OAG concern and recommendation and will take the following action in order to obtain genuine receipts and decreases the risk of misappropriation of public funds, abuse of funds, wastage of funds, conflict of interest and misstatement of the financial statements.

1. Obtain genuine receipts from suppliers
2. Attach the receipts when retiring of imprests

The Executive resolved to take the following actions

3. Imprest Holders must obtain genuine receipts from suppliers according to the purposes of the amount applied
4. Imprest Holders must retire the imprests with genuine receipts

No contract agreement and work progress certificate report sighted

Risk Rating: High

OAG discovered during the audit that 13% (2/15) of sample selected with a total value of \$806,686.52 does not have contract agreement and work progress certificate report. It is a requirement for construction payments that contract agreement and work progress report should be attached with the requisition and payment voucher before payment is made to the contractor, however this was not the case for the two payments noted above.

Implications

Lack of proper supporting documents increases the risk of payment made to uncomplete work, misuse of public funds, budget over-run, conflict of interest and misstatement of the financial statements.

Recommendation 11

OAG recommends that WPG:

- Must ensure that contract agreement and work progress report and other supporting documents should be attached with the requisition and payment voucher when making payment to contractor.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure contract agreement and work in progress report and other supporting documents are attached with the requisition and payment voucher when making payment to contractors in the future.

The Executive resolved to take the following actions

1. Officers responsible must ensure that the procurement process must be upheld at all times before making payments

2. *Procurement officer and Senior Planning must attached proper and relevant supporting documentation before raising requisition*
3. *Chief Planning officer must ensure that all proper and relevant supporting documentations are attached before signing*
4. *Accounting Officer must ensure all relevant documentations are met and attached before authorizing the requisition for payment*

No counter sign for amendment

Risk Rating: Moderate

It was discovered during the audit that 3% (2/60) of sample selected were without counter sign off by officer(s) who did the changes to the amounts paid for electricity and ward assistance funds. It is good accounting practice that when someone made amendment to amount on the requisition and payment voucher that he or she must counter sign or put his or her initial to show that he or she is responsible for the amendment.

Implications

Lack of counter sign for amendment of amount increases the risk of conflict of interest, manipulation of figures, fraud, misconduct and wrong payments made to the suppliers.

Recommendation 12

OAG recommends that WPG:

- To ensure that officers must put their initials when making changes to the amounts on the requisitions and payment vouchers prior to payments are made to the suppliers.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure that responsible officers must put their initials when making changes to the amounts on requisitions and payment vouchers prior to payments are made to suppliers in the future.

The Executive resolved to take the following actions

1. *Officers responsible must ensure to put their initials when making changes to the amounts on requisitions and payment vouchers prior to payments*
2. *Authorizing officers must verify that any changes to the requisitions and payment vouchers are properly initialled by responsible officers before signing or authorizing the payment*

No cheque number written on payment voucher

Risk Rating: Moderate

It was noted that two (2) samples that was worth \$63,000.00 does not have any cheque number written on the payment vouchers when payment was made for the audited period. Normally when requisition and payment voucher are prepared and approved by the Provincial Secretary, the officer responsible for the rising of the cheque for payment should write down the cheque number on the payment voucher for reference and audit purposes.

Implications

The absence of cheque number on the payment voucher increases the risk of fraud, misuse of funds, conflict of interest, misconduct in office and stale cheques.

Recommendation 13

OAG recommends that WPG:

- Must ensure that cheque number is written on the payment voucher when payment is made to the supplier.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure that responsible officers must not forget to write cheque number on the payment voucher when payment is made to the supplier in the future.

The Executive resolved to take the following actions

1. *The Cashier must ensure to write cheque number on the payment voucher when making payment to the supplier*
2. *Authorizing officers must verify that a cheque number is written on the payment voucher when making payment to the supplier before signing or authorizing the payment*

Lack of detail or specific information

Risk Rating: Moderate

OAG found during the audit that three (3) samples with a total value of \$76,500.00 were lacking detailed or specific information on the payment vouchers and ward assistance fund forms. It was noted that one payment was for caucus meeting but there is no detail information about the duration and purpose for the meeting. Furthermore, for the other two payments, the MPA does not indicate any purpose on the WAF form for the ward assistance fund but was paid the fund while another MPA ticked other purpose box on the WAF form but did not specified the reason for applying for the ward assistance fund.

Implications

Lack of detail or specific information increases the risk of false reporting, misused of funds, misappropriation of public funds, fraud, no development in the wards and communities and wastage of limited financial resources.

Recommendation 14

OAG recommends that WPG:

- Must ensure that Member of Assembly should properly complete the WAF form for ward assistance fund before approval is given by the responsible officer(s) and;
- Ensure that any meetings that executive want to hold must clearly state the purpose, duration and venue of the meetings and such documents must be attached with the requisition and payment voucher for the payment of allowances and other costs.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure that detail information on caucus meetings and properly filled WAF form for Ward Assistance Fund is made before approval by responsible officers.

The Executive resolved to take the following actions

1. *That WAF form for Ward Assistance Fund must be properly and completely filled prior to approval by responsible officers*
2. *That any caucus meetings that executive want to hold must clearly state the purpose, duration and venue of the meetings and such documents must be attached with the requisition and payment voucher for the payment of allowances and other costs.*

3. *Authorizing officers must ensure that the above is complete and satisfied before signing or authorizing the payment*

Ward assistance fund

Lack of monitoring of ward assistance fund

Risk Rating: High

During the audit, OAG discovered that there is poor control over the monitoring of ward assistance funds to the MPAs. Western Provincial Government budgeted \$3,250,000.00 towards ward assistance fund for the audited period which meant that each MPA is entitled to receive \$125,000.00 per financial year. However, OAG did an analytical review of the ward assistance fund and noted that one MPA received more than \$125,000.00; eight MPAs received exactly \$125,000.00 and 17 MPAs received less than \$125,000.00. This is a clear breach of good governance where there is no equal share of ward assistance funds to the MPAs.

Implications

The lack of strong control on the monitoring of ward assistance fund increases the risk of MPAs not able to fully implement their activities for their wards, misappropriation of the funds, conflict of interest and misstatement of the financial statements.

Recommendation 15

OAG recommends that WPG:

- Must ensure to properly monitor the ward assistance fund in order for MPAs to receive their allocation within the financial year.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure that a strong control on the monitoring of ward assistance fund to reduce the risk of MPAs not able to fully implement their activities for their wards is achieved.

The Executive resolved to take the following actions

1. *Assembly division and Treasury must ensure to properly monitor the ward assistance fund in order for MPAs to receive their allocation within the financial year.*
2. *Treasury division must provide WAF monthly YTD transactions to Assembly office for monitoring purposes in order to fairly and equitable distribute the fund to each ward within the financial year*

Ward assistance form needs improvement

Risk Rating: Moderate

OAG noted that WAF form has two parts where part A consist of the name of the honourable member, ward name, ward number, amount applied, quarter and funds available while part B is for the purpose which includes education, medical, community (e.g. deaths, weddings, fundraising etc.), youth, women, church, agriculture, fisheries, tourism and other. Each MPA has to tick a box to indicate the purpose for applying for WAF. However, OAG suggested that there should be another column in part B for the amount of each purpose applied for so that it will make reporting by the Finance and Treasury Division much easier for the stakeholders.

Implications

Lack of improving the WAF form increases the risk of misleading reports to the stakeholders, unrealistic budget and WAF used for unintended purpose.

Recommendation 16

OAG recommends that WPG:

- Improve the ward assistance fund form to properly capture the usage of the fund for better reporting to stakeholders.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure to improve the ward assistance fund form to properly capture the usage of the fund for better reporting to stakeholders.

The Executive resolved to take the following actions

1. *That Assembly office to review the Ward Assistance Application form in order to properly capture the usage of the fund for better reporting to stakeholders.*
2. *MPAs are required to retire their acquittals for the usage of the fund through the office of the Assembly*

Payroll**No timesheet for casual workers**

Risk Rating: Moderate

During the audit it was discovered that there are no timesheets for casual workers provided by the Heads of Division to Senior Administration Officer and Payroll Officer which could verify the legitimacy of the payments. It is good practice that timesheet are maintained for casual workers and attendance book are used for Provincial Government workers.

Implications

Lack of timesheet for casual workers increases the risk of payroll budget over-run, conflict of interest, abuse, unauthorised payments and ghost workers.

Recommendation 17

OAG recommends that WPG:

- Must ensure that timesheets are maintained for casual workers and proper attendance books are kept in each division.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure that timesheets are maintained for casual workers and proper attendance books are kept in each division

The Executive resolved to take the following actions

1. *Those divisions engaging casual workers must maintain timesheets and*
2. *Divisional Heads must ensure to keep proper attendance record of staff in their divisions*
3. *The Senior Administration Officer and Payroll Officer must ensure to oversee that this is done*

Need for proper monitoring of staff attendance by supervisors

Risk Rating: Moderate

It was revealed during the audit that there is slackness in the attendance of provincial staff to their duties in their work stations as some can be seen doing other private tasks during official hours instead of working for the Provincial Government. There is administrative requirement for attendance books to be maintained in each division but sometimes officers just signed in the books

in the mornings and left the work station without informing the supervisors on where and what they are doing which indicate that there is weak control over the staff attendance to work.

Implications

Poor monitoring of staff attendance by management increases the risk of public funds are wasted on unproductive staff, programs are not fully implemented as expected, incompetency by supervisors and abuse of official hours.

Recommendation 18

OAG recommends that WPG:

- Must ensure that supervisors properly monitor the staff attendance to work and report any continuous breach of work attendance to relevant authority for disciplinary actions.

Executive Response

The Executive agreed on the audit findings and recommendations and will ensure that supervisors properly monitor the staff attendance to work and report any continuous breach of work attendance to relevant authority for disciplinary actions.

The Executive resolved to take the following actions

1. *Heads of divisions are required to take the lead in ensuring the attendance to their respective divisions are upheld*
2. *That supervisors (HODs) must properly monitor the staff attendance to work and report any continuous breach of work attendance to the Provincial Secretary for disciplinary actions*

Cash

Bank reconciliation not signed-off by Supervisor

Risk Rating: Moderate

Audit noted in the examination of the monthly bank reconciliations that there were two (2) instances where the Supervisor did not signed-off on the sheets to certify that he has checked the work of the preparer of the bank reconciliations. The first instance was with its SIG Project Account # 4988256 (ANZ) for the month of December 2015 and the second was with PCDF Account # 4549445 (ANZ) for the month of May 2015. It is important that Supervisor must always check the monthly bank reconciliations and sign-off with date on it as evidence that the internal control over bank account is there and strong.

According to Section 2 subsection 7(h) of the Financial Instruction & Store Instruction 2008 states "*The Provincial Treasurer will verify and sign the bank reconciliation statement.*"

Implications

Lack of signing-off as a verifier or reviewer increases the risk of tempering with the amount, negligent of duty and mismanagement of funds.

Recommendation 19

OAG recommends that WPG:

- Ensure bank reconciliation is prepared monthly by the preparer and checked by the reviewer or supervisor with sign-off before it is filed in a secured location from public.

Executive Response

The Executive noted the audit findings and recommendations and will ensure that bank reconciliation is prepared monthly by the preparer and checked by the reviewer or supervisor with sign-off before it is filed in a secured location from public

The Executive resolved to take the following actions

1. *That this occurred from an oversight by the Supervisor*
2. *That the Treasurer (Reviewer) and the Deputy Treasurer (Preparer) must ensure signing the Bank Reconciliations before filing*

Investment

Non-consolidation of WPIC's balances into WPG's financial statement

Risk Rating: High

OAG noted that the Western Province Investment Corporation balances were not consolidated into the Provincial Government financial statement. This does not show the true and fair picture on the financial position of the province as required by IPSAS cash basis reporting framework. Furthermore, the people of Western Province would not know whether WPIC is operating profitable or not.

Implications

Lack of consolidation increases the risk for misstatement of the financial statement and giving the wrong information to the stakeholders.

Recommendation 20

OAG recommends that WPG:

- Must ensure that WPIC financial statements are prepared, audited and;
- Ensure to consolidate the balances in the Provincial Government financial statement.

Executive Response

- *The Executive agreed with the audit findings and recommendations and will ensure WPIC financial statements are prepared, audited and;*
- *Must ensure to consolidate the balances in the Provincial Government financial statement*

The Executive resolved to take the following actions

1. *That WPIC Financial Statement must be prepared and audited*
2. *That WPIC balances must be consolidated with WPG FS by the Treasurer and Deputy Treasurer and submitted to OAG for audit*

Imprests and advances

Weak control over special imprests

Risk Rating: High

During the review of the special imprest for current year against the prior year, it was noted that there is weak control over the special imprests for the direct employees and MPAs. OAG discovered that special imprests for direct employees and MPAs have increased from prior year to current year which indicate that Western Provincial Government is not properly managing the special imprests. In 2014/15 FY, \$59,859.50 was issued to direct employees and in 2015/16 FY it was \$127,054.00. In addition, \$50,346.00 was issued to MPAs in 2014/15 FY but in 2015/16 FY it increased to \$194,303.00. OAG also discovered that MPAs usually got their special imprests for official work in

Honiara and while in Honiara, they would request for additional funds which indicated that there is lack of proper planning for trips to Honiara.

Implications

Poor control over special imprests increases the risk of misappropriation of funds, abuse, conflict of interest, budget over-run and misstatement of the financial statements.

Recommendation 21

OAG recommends that WPG:

- Must strongly control the special imprests with strict instruction for proper planning and budgeting of trips to Honiara or elsewhere when carrying out the official duties.

Executive Response

The Executive agreed with OAG recommendation and would ensure to:

- Properly plan and budget for Honiara trips on official duties
- Control issuing and proper management of imprests
- Make proper acquittals at the right time
- Review the collection procedures for outstanding imprest accounts

The Executive resolved to take the following actions

	<i>Elected officials</i>	<i>Direct employees</i>	<i>Seconded officers</i>
<i>Still in service with WPG</i>	<p><i>Control & Manage</i></p> <ul style="list-style-type: none"> • Not allowed to hold imprests if travelling with a delegation (except when travelling alone) • Imprest issued to be in compliance with approved parliamentary entitlements <p><i>Imprest acquittal</i></p> <ul style="list-style-type: none"> • The deputy treasurer to issue appropriate written reminder to the official one month after due date • The deputy treasure to issue second reminder one month after the first reminder and copy to MPGIS and MoFT <p><i>Collection procedures</i></p>	<p><i>Control & Manage</i></p> <ul style="list-style-type: none"> • Treasurer & HOD to screen applications to ensure official does not have un-acquitted imprest • PS and Treasurer to screen the reasonability of the amount applied for • No imprest to be issued for non-official and fully funded trips <p><i>Imprest acquittal</i></p> <ul style="list-style-type: none"> • The deputy treasurer to issue appropriate written reminder one month after due date • The deputy treasure to issue second reminder one month after the first reminder and copy to PS, PTR and HOD in question <p><i>Collection procedures</i></p>	<p><i>Control & Manage</i></p> <ul style="list-style-type: none"> • Treasurer to screen applications to ensure official does not have un-acquitted imprest • PS and Treasurer to screen reasonability of the amount applied <p><i>Imprest acquittal</i></p> <ul style="list-style-type: none"> • The deputy treasurer to issue appropriate written reminder one month after due date • The deputy treasure to issue second reminder one month after the first reminder and copy to PS, PTR, line Ministry and MoFT

	<ul style="list-style-type: none"> • The report on the 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 installments payable before 31st March of the current year 	Collection procedures <ul style="list-style-type: none"> • Any outstanding imprest shall be fully recovered from the officers salary on agreed installments before 31st March of the current year
Out of Service (WPG) but still working elsewhere	<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 		
Out of Service (WPG) and not working elsewhere	Control & Manage <ul style="list-style-type: none"> • Issuing of imprests to officials not working for the WPG is not to be encouraged in any circumstances Imprest acquittal <ul style="list-style-type: none"> • Appropriate written reminder to be made Collection procedures (for outstanding imprests) <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 		
Deceased	Collection procedures (for outstanding imprests) <ul style="list-style-type: none"> • Report to the Executive for recommendation to the Assembly for possible “bad-debt” declaration 		

Un-acquitted imprests

Risk Rating: High

OAG discovered that after the financial year of 2015/16, there are some un-acquitted imprests from the sample selected. It was revealed that four direct employees have outstanding imprests with a total value of \$33,173 and one employee was deceased and another was unemployed. Furthermore, it was found that three seconded officers have un-acquitted imprests with a total value of \$93,322 and one of them was deceased and another was transferred back to Honiara. Also OAG noted that one direct employee has outstanding advance.

Implications

Lack of control over advances and imprests increases the risk of misappropriation of provincial funds, conflict of interest, fraud, political expediency, negligence of duties, loss of provincial monies and misstatement of the financial statements.

Recommendation 22

OAG recommends that WPG:

- Ensure to write-off the outstanding imprests of the two deceased officers after the Assembly’s approval;
- Ensure to liaise with Ministry of Lands, Housing & Survey and Ministry of Finance & Treasury to recover the imprest from the Lands Officer through salary deduction and;
- Follow up with other officers to recover their outstanding imprests and advance.

Executive Response

The Executive agreed with the OAG concern and recommendation will ensure to:

- 1. Write-off the outstanding imprests of the two deceased officers after the Assembly's approval;*
- 2. Ensure to liaise with Ministry of Lands, Housing & Survey and Ministry of Finance & Treasury to recover the imprest from the Lands Officer through salary deduction and;*
- 3. Follow up with other officers to recover their outstanding imprests and advance*

The Executive resolved to take the following actions

- 4. The Provincial Secretary, Treasurer and Deputy Treasurer must prepare a paper to the Executive and apply for write-off for deceased outstanding imprests*
- 5. Provincial Secretary to liaise with Ministry of Lands, Housing & Survey and Ministry of Finance & Treasury to recover the imprest from the Lands Officer through salary deduction and;*
- 6. Deputy Treasurer to follow up with MPAs and other officers to recover their outstanding imprests and advance*

Issuing of multiple imprests

Risk Rating: High

OAG observed that there are provincial employees and members of assembly that still have outstanding imprests but yet were issued with new imprests. This is a clear breach of section 55 of PFMO 2008 which states no imprests may be advanced to a provincial employee or members of assembly with un-acquitted imprests.

Implications

The lack of proper management of imprests increase the risk of misappropriation of provincial funds, wastage of funds, conflict of interest, potential loss of revenue through interest charges and misstatement of the financial statement.

Recommendation 23

OAG recommends that WPG:

- Comply with section 55 of PFMO 2008 and stop issuing of multiple imprests to officers and elected members with outstanding imprests.

Executive Response

The Executive agreed with OAG recommendation to comply with section 55 of PFMO 2008 and stop issuing of multiple imprests to officers and elected members with outstanding imprests

The Executive resolved to take the following actions

- 1. Treasurer, Deputy Treasurer and Cashier must update imprest register so as to capture multiple imprest holders for both officers and elected members*
- 2. Provincial Secretary to take action in accordance with section 55 of PFMO 2008*

Assets

No annual stock take performed

Risk Rating: High

During the audit, OAG discovered that there is no annual stock take performed by Western Provincial Government which made it difficult for them to determine the status of their assets. In addition, they were unable to determine which assets are obsolete and needs replacement.

Implications

Lack of annual stock take increases the risk of theft of assets, misuse, loss of assets, budget over-run and misstatement of the financial statements.

Recommendation 24

OAG recommends that WPG:

- Must undertake annual stock take of its assets in order to have true value and condition of the assets.

Executive Response

The Executive agreed with OAG recommendation that WPG must undertake annual stock take of its assets in order to have true value and condition of the assets so as to reduce the risk of theft of assets, misuse, loss of assets, budget over-run and misstatement of the financial statements.

The Executive resolved to take the following actions

1. *That the procurement officer to plan and budget for annual stock take of provincial assets*

Asset register needs to be updated

Risk Rating: Moderate

OAG acknowledges that the Provincial Government 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 2015/16 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 25

OAG recommended that WPG:

- 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 assets;
- Should regularly update the asset register and;
- Ensure to establish an asset management policy as soon as practical.

Executive Response

The Executive agreed with OAG recommendation that WPG 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 assets;*
- *Should regularly update the asset register and;*
- *Ensure to establish an asset management policy as soon as practical.*

The Executive resolved to take the following actions

1. That planning division and works division to assist the procurement officer updating the asset register.
2. Procurement officer must capture purchases of new assets and register them
3. Finance Advisory Committee to assist Planning division in the establishment of an asset management policy

Procurement Officer needs training on asset management

Risk Rating: Moderate

It was noted during the audit that the Procurement Officer lacks asset management skills so OAG suggest that the Provincial Government should provide some trainings on asset management with the assistance of Ministry of Provincial Government and Institutional Strengthening to enhance his capacity to perform to his potential.

Implications

Lack of capacity building on asset management increases the risk of assets not properly monitored, assets are being abused and misused and assets are procured unnecessarily which leads to budget over-run.

Recommendation 26

OAG recommends that WPG:

- Liaise with MPGIS to provide training on asset management to the Procurement Officer and other relevant officers.

Executive Response

The Executive agreed with OAG recommendation and go in line with provision of training for the procurement officer and other relevant officers on asset management.

The Executive resolved to take the following actions

1. That planning division to liaise with MPGIS for the training of the procurement officer.

Accounts payable

Need to settle outstanding creditors on timely basis

Risk Rating: Moderate

During the audit it was revealed that Western Provincial Government have several creditors with outstanding bills as at 31 March 2016 which will be disclosed when the financial statement is prepared. However, OAG want Western Provincial Government to settle the outstanding creditors such as SIEA, Gizo Hotel and Island Sun Newspaper on timely basis so that their services can be continuously provided to the Province. Furthermore, OAG noted that the outstanding creditors were not disclosed in the Province's financial statement.

Implications

Non-settlement of the creditors' bills increases the risk of services not rendered to the Province, funds allocated for creditors used for other purposes, incompetency and budget for next financial year will need to cater for debt servicing.

Recommendation 27

OAG recommends that WPG:

- Monitor its creditors and settle their bills on timely basis and;

- Must always disclose creditors in the encourage notes to the financial statement.

Executive Response

The Executive agreed with OAG recommendation for WPG to:

1. Monitor its creditors and settle their bills on timely basis and;
2. Must always disclose creditors in the encourage notes to the financial statement

The Executive resolved to take the following actions

3. *That the deputy treasurer to monitor and must update creditors and their timely settlement*
4. *Treasurer must ensure to disclose creditors in the encouraged notes to the financial statement.*

Accounts receivable

Lack of accounts receivable register

Risk Rating: High

OAG found that no proper accounts receivable register is kept by the Revenue Officer or Provincial Treasurer. Revenue Officer depends on the business register master listing to identify uncollected dues; however, no separate sheets are allocated to him to enable him to fully identify all clients with outstanding dues. Also Revenue Officer is yet to practise the aging of interest charges to those clients that have lengthened dues with the Province.

Section 10 Subsection 18 (1)(2) of Financial Instruction & Stores Instruction 2008 states;-

- (1) *"By the end of April each year all provincial employees responsible for revenue collection must submit to the Provincial Treasurer a list of all revenue under their responsibility outstanding as at 31st March. These lists must state what action was/will be taken to collect the revenue.*
- (2) *By the end of May each year the Provincial Treasurer must submit to the Provincial Executive a summarised list of all outstanding revenue and proposed course of action. This will be copied to the MPG."*

Implications

When no accounts receivable register is available, the Provincial Treasurer will be unable to update the Executive on the uncollected revenues. Furthermore, Provincial Government will lose revenues due to no register to properly identified uncollected revenues and/or revenue is collected by unauthorised officers.

Recommendation 28

OAG recommends that WPG:

- Ensure that Revenue Office to prepare a receivable register using excel spreadsheet to list the uncollected revenue and;
- Ensure Provincial Accounts Office comply with Section 10 subsection 18 (1)(2) of Financial Instruction & Stores Instruction 2008.

Executive Response

The Executive agreed with OAG recommendation for WPG to:

- *Ensure that Revenue Office to prepare a receivable register using excel spreadsheet to list the uncollected revenue and;*

- *Ensure Provincial Accounts Office comply with Section 10 subsection 18 (1)(2) of Financial Instruction & Stores Instruction 2008.*

The Executive resolved to take the following actions

- *The Senior Revenue Officer must update business licence register for the province in excel spreadsheet*
- *The Senior Revenue Officer and other revenue officers plan and budget for revenue registration tour in the province in order to capture all operators so that to assist the PG in its registration, collection and budget forecasts*