



SOLOMON ISLANDS GOVERNMENT

REPORT ON MATTERS ARISING FROM FINANCIAL STATEMENT AUDIT

Isabel Provincial Government

1 October 2013 - 31 March 2014

Reported by:

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## EXECUTIVE OVERVIEW

### Background

The Isabel Provincial Government submitted its financial statements for the financial year ended 31<sup>st</sup> March 2014 to this Office on 26 June 2014 as required under s.39(2) of the *Provincial Government Act 1997*. Isabel Provincial Government is responsible for delivering quality goods and services to its community by carrying out the mandatory functions under the Provincial Government Act 1997 and the devolution order.

An audit pursuant to s.108(3) of the Constitution, s.35(1) of the Public Finance and Audit Act 1978 and s.39(3) of the Provincial Government Act 1997 was conducted on the Isabel Provincial Government accounts and records in order to form an opinion on the financial statement.

### Audit Objectives and Scope

The principal objective of the audit was to review the adequacy of processes for the financial management, accounting and reporting controls managed by the Isabel Provincial Government in terms of compliance with the relevant statutes governing such processes, as well as in order to form an opinion on the reliability of the accounting information incorporated into the financial statements for the year ended 31 March 2014.

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

### Findings

*The audit disclosed that the Isabel Provincial Government has made improvements over its record keeping of revenue and expenditures for the 2013 financial year. However, major reforms over its financial management, accounting or reporting controls, particularly in relation to its revenue, assets and liabilities; as well as continued efforts to improve its expenditure controls, need to be implemented. In addition, all investments and assets are encouraged to be taken up in the IPSAS cash basis financial statements.*

A summary of these audit issues identified is described below.

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

Risk Rating	Description
High	<ul style="list-style-type: none"> <li>• Matters which may pose a significant business or financial risk to the entity; and/ or</li> <li>• Matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity; and/ or</li> <li>• Moderate risk matters which have been reported to management in the past but have not been satisfactory resolved or addressed.</li> </ul>
Moderate	<ul style="list-style-type: none"> <li>• Matters of 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</li> <li>• Matters that may escalate to high risk if not addressed promptly; and or</li> <li>• Low risk matters which have been reported to management in the past but have not been satisfactory resolved or addressed.</li> </ul>
Low	<ul style="list-style-type: none"> <li>• Matters that are isolated , non-systemic or procedural in nature; and/ or</li> <li>• Matters that reflect relatively minor administrative shortcomings and require action in order to improve the entity' s overall control environment.</li> </ul>

- **Executive minutes not dated**

**Risk Rating - Low**

OAG found that the minutes were signed by the premier but they were not dated to provide the exact date that the minutes were signed off. OAG acknowledged the assurance given by the provincial executive to address this issue.

- **Delayed banking of receipted monies**

**Risk Rating - High**

OAG noted that 17% of selected samples for revenue were not banked on daily basis as required in the Financial Management Ordinance 2008. The lack of daily banking of revenue increases the risk of cash not being captured in the bank statement for proper cash management.

- **Lack of receipts issued to market vendors**

**Risk Rating  
- High**

OAG noted that there is no any receipt issued to market vendors as their current practise is that they just listed the vendors name and how much they collected from each of them and forward to revenue collector to receipt the lump sum. This increases the risk that monies collected could be used inappropriately.

- **Bank reconciliations not signed and dated**

**Risk Rating - Moderate**

OAG acknowledged the effort put by Isabel Provincial Government in performing monthly bank reconciliations for most of the bank accounts except that they were not signed and dated by the preparer and reviewer. This increases the risk of errors not detected early, genuineness of the bank reconciliations could be questionable and possibilities of manipulating the figures.

- **No bank reconciliation for general reserve and interest bearing accounts**

**Risk Rating - Moderate**

Audit noted that 50% (3/6) of the selected samples did not have monthly bank reconciliations performed for the audited period. The three bank accounts affected are general reserve account with ANZ, interest bearing account with ANZ and BSP. Audit confirmed that the province recently connect to internet banking which they can now print their bank statement on time and also daily monitor the balance of the three investment account. Lack of bank reconciliation increases the risk of embezzlement, conflict of interest, overspending of approved budget and misstatement of the financial statement.

- **Need to consolidate Isabel Investment Corporation' s financial statements**

**Risk Rating - High**

OAG acknowledged the effort made by Isabel Investment Corporation (IIC) to produce financial statements since 2012. However, the financial statements need to be audited by a reputable audit firm and submitted to the Provincial Government after its presentation before the board of directors so that the Provincial Government can consolidate it into their financial statements. The lack of consolidation of IIC' s financial statement increases the risk of wastage of provincial funds for unprofitable investment, mismanagement, conflict of interest and misstatement of the financial statements.

- **Outstanding dividends not received**

**Risk Rating - Moderate**

Audit noted that Isabel Development Company (IDC) still yet to pay dividends of \$100,000 to Isabel Provincial Government through its business arm the Isabel Investment Corporation (IIC). This understated the revenue that should be collected by IIC for the Provincial development project. If received the amount should be disclosed in the financial statement of the Province for the benefit of stake holder. This deficiency increases the risk of legal action taken against the Provincial Government by suppliers, poor accountability to rural people and misstatement of the financial statements.

- **Lack of investment documents maintained or filed**

**Risk Rating - Moderate**

It was revealed that there is lack of record keeping for the investment activities of the Provincial Government. There is no record of documents such as declaration of dividends, MOU and contracts except for 2012/2013 financial statement. This increases the risk that audit cannot confirmed the existence of these investments.

- **Lack of supporting documents**

**Risk Rating - High**

OAG identified that 22 of the 25 samples of expenditure with a total value of \$638,450 were without adequate supporting documents. This has made it difficult for OAG to ascertain the completeness of the payments. The non-availability of adequate supporting documents particularly receipt or cheque butt for direct deposit increases the risk of misappropriation,

payment made to ghost supplier, no accountability and transparency in the payment process.

- **Lack of segregation of duties**

**Risk Rating - Moderate**

There is lack of segregation of duties noted for one payment voucher of \$51,280.75 that was paid to a construction firm. It was noted that the same person that prepared the certificate of completion for the contracted work also approved the completion of work which is not a good and acceptable practice for the payment process. This increases the risk of conflict of interest, unauthorised payments, payments made to ghost suppliers, loss of provincial funds and no accountability.

- **Poor control over retirements of ward development grants**

**Risk Rating - Moderate**

Audit continues to note the weakness of retiring illegitimate documents for the ward development grants. However acknowledges the province for taking another step to control the expending of this fund. The formulation of the ward development committee to undertake the role of ensuring ward development grants are spent for its intended purpose shows the management adherence to accountability of these public funds. Lack of control over WDG increases the risk of manipulation, misappropriation and failure to implement community projects.

- **Double and advance payment of payroll**

**Risk Rating - Moderate**

It was identified that two cheques were raised respectively from the special and main account for April 1 2013 pay period. Explanation sought during the exit meeting points out the reason for incurring two transactions for one purpose and that is to cater for managing the closing bank balances for the main account as at the end of the financial year. However, the action taken to incur both transactions consequently resulted in double payment, thus overstated the employee payment account for the period ending 31/3/2014. Additionally, a cheque was raised in advance for April 1 2014 pay period, which again resulted in the overstatement of the 2013/14 employee payment account. This deficiency increases the risk of inconsistency, undetected errors and intended misappropriation of provincial funds.

- **Changes to accounting treatment of unretired imprest and advance**

**Risk Rating – High**

The change in accounting policy that enhances the change of accounting treatment to certain provincial accounts requires better understanding of the risks associated to such change. OAG noted that imprests and advances have now been expensed, thus requires non-disclosure of these accounts as assets. Consequently, expensing imprests and advances would allow provincial officers to reluctantly retire and surely establish poor control if staff understand how these accounts were accounted for in the books of the province. Further to that, the change was not consistent with other provinces, thereby fail to report consistently with established framework for all provinces. This increases the risk of unaccountability and misrepresentation of the financial report to users and decision makers of the province.

- **Incomplete supporting documents**

**Risk Rating – Moderate**

It was discovered that payments to SINPF and Inland Revenue lacks complete supporting documents such as receipts from the recipients as a proof that they have received the payments. This increases the risk of misappropriation and misconduct by public officers.

- **Weak control over asset register (C/fwd from 2011)**

**Risk Rating – High**

OAG continue to note that there is weak control over the asset register where the assets procured for the audited period were not fully recorded which is difficult to determine the accuracy and existence of those assets. Furthermore, it was noted that the Provincial Government does not have an asset management policy in place. The lack of control increases the risk of abuse, misuse, theft of assets, overspending of approved budget for asset procurements and loss of provincial funds.

### **Conclusion**

The audit of the Provincial Government's accounts and records disclosed similar shortcomings in the procedures and practices in the management of revenue, expenditure, imprests, ward development grants, bank accounts and assets as highlighted in the 2013/14 interim audit report.

OAG acknowledges that the Provincial Government has been continually addressing the recommendations highlighted in the 2012/13 audit report



and 2013/14 interim report. Some improvements were made on the maintenance of proper filing system for payment voucher records. Despite these improvements, the absence of significant information on line items such as investments and assets understates these line items on the financial statements. This increases the risk of misstatement in financial reports used for decision making over the allocation of limited financial resources.

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

### **Overall Recommendations**

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

- The Provincial Government Executive must ensure to record all ordinary and extra ordinary meetings with the signing and dating of them by relevant officers;
- The Provincial Government must comply with FMO 2008 in doing daily banking of revenue;
- Ensure to sign and date the bank reconciliations by the preparer and reviewer and also to attach the cashbook copies;
- Make sure that monthly bank reconciliation is performed for all bank accounts;
- Ensure to request for bank statements from the banks on monthly basis in order to perform bank reconciliations;
- Ensure that the financial statements of Isabel Investment Corporation are audited by reputable audit firm and submitted for consolidation;
- Ensure to liaise with IDC for the outstanding dividends to be paid;
- Disclose the dividends in its financial statements;
- Ensure that appropriate officer must thoroughly check the acquittals from MPAs before the next tranche of grants is released;
- Make sure to properly record the details of the WDG in the register;
- Ensure that manual register must reconcile with MYOB system data;
- Make sure that officers are not given multiple imprests;
- Ensure that all imprests are retired on time;
- Ensure that reminder letter is issued to imprest holder on timely basis;
- Ensure that asset register contains all the loopholes identified;

- Make sure to regularly update the asset register and;
- Ensure to establish an asset management policy.

## AUDIT FINDINGS AND RECOMMENDATIONS

### *1.0 Executive minutes*

#### *1.1 Executive minutes not dated*

**Risk Rating - Low**

Similar issue was noted from the second phase of audit. All minutes from October 2013 to March 2014 although they were signed by the premier but they were not dated. OAG acknowledges that the provincial executive were aware of this issue and made prompt response in prior report to address this insignificant administrative matter to the best they could so as to provide complete and accurate record to executive.

#### **Implications**

Lack of dated on the executive minutes is an insignificant administrative issue but can lead to significant matters if this little controls were ignored overtime, therefore increases the risk of manipulation of minutes and the minutes could be not genuine.

#### **Recommendation 1**

OAG recommended that:

- The Provincial Government Executive must ensure to record all ordinary and extra ordinary meetings with the signing and dating of them by relevant officers and;
- The executive minutes are properly filed in a secured location from public access.

#### **Executive Response**

*The recommendation was noted for compliance in future that Minutes would be signed and dated by responsible officers straight after confirming minutes by Executive at its next meeting.*

*Procurement of filing cabinet would be made soon to store Executive minutes in PS and Premier's Office.*

## *2.0 Revenue*

### *2.1 Delayed banking of receipted monies*

**Risk Rating - High**

OAG noted that 17% (5/30) of selected samples for revenue were not banked on timely basis. Financial Management Ordinance 2008 requires the Provincial Government to bank the monies collected from the businesses on daily basis. Below are the details of revenue collected and was delayed in banking.

<b>Receipt</b>	<b>Date</b>	<b>Description</b>	<b>Amount</b>	<b>Comments</b>
12653	8/10/2013	Revenue Officer	\$ 40,600.50	Collection for 2 weeks before deposit. Start from 25/9/2013 - 7/10/2013
12686	15/11/2013	Revenue Officer	\$ 25,868.00	Collection from 7 /11/2013 - 14/11/2013 before deposit on the 15/11/2013. This is two week collection period.
12720	16/01/2014	Revenue Officer	\$ 30,621.00	Collection from 20/12/2013 to 10/01/2014 before deposit on the 15/01/2014 which is two week collection period.
12730	7/02/2014	Revenue Officer	\$ 10,235.00	Collection from 29/01/2014 to 7/02/2014 before deposit on the 7/02/2014 which is two weeks collection period.
12741	26/02/2014	Revenue Officer	\$ 30,933.00	Collection from 7/02/2014 to 26/02/2014 before deposit on the 26/02/2014 which is three week collection period.
			<u>\$ 138,257.50</u>	

### *2.2 Lack of receipt issued to market vendors*

**Risk Rating - High**

OAG noted that there is no any receipt issued to market vendors. Their current practise is that they just listed the vendors name and how much they collect from each of them before forward to revenue collector to receipt the lump sum.

## Implications

Lack of daily banking increases the risk of cash not being captured in the bank statement for proper cash management, or monies could be used by officers and only deposit the revenue when staff pay back what they borrow. Also lack of receipt increases the risk that revenue received could be used inappropriately.

### Recommendation 2

OAG recommended that:

- The Provincial Government must comply with FMO 2008 in doing daily banking of revenue.

## Executive Response

*The banking of revenue was usually done on fortnightly basis, however, we will comply with the recommendation, therefore, will be done the banking daily.*

*There will be receipt books ordered to comply with the recommendation at hand for issuing of receipts to market vendors.*

### *3.0 Bank accounts*

#### *3.1 Bank reconciliations not signed and dated*

**Risk Rating - Moderate**

OAG acknowledged that the Provincial Government performed monthly bank reconciliations for most of the bank accounts except for the general reserve account that it maintained for the audited period. In the previous audit, it was noted that the bank reconciliations were not signed and dated by the preparer and reviewer and this issue still remain the same for October to March 2014.

## Implications

Lack of signing by responsible officer's increases the risk of errors not detected early, genuineness of the bank reconciliations could be questionable and possibilities of manipulating the figures in the bank reconciliations.

### Recommendation 3

OAG recommended that the Provincial Government:

- Ensure to sign and date the bank reconciliations by the preparer and reviewer and
- Make sure that monthly bank reconciliation is performed for all bank accounts.

## Executive Response

*This has be taken note of to ensure bank reconciliations for all bank accounts are performed on monthly basis and that the preparer and reviewer to date and sign off documents.*

### *3.2 No bank reconciliation for general reserve and interest bearing accounts*

**Risk Rating - Moderate**

Audit noted that 3 of its investment account did not have monthly bank reconciliations performed by the Provincial Government for the audit period. The three bank accounts are general reserve account with ANZ, interest bearing account with ANZ and interest bearing account with BSP. However the Province recently connected to internet banking which made it possible to print bank statement on time and also to daily monitor the balance of the investment accounts.

## Implications

None performing of monthly bank reconciliation for those investment account increases the risk of embezzlement, conflict of interest, overspending of approved budget and misstatement of the financial statement.

**Recommendation 4**

OAG recommended that the Provincial Government:

- Ensure to immediately start perform bank reconciliations for these three accounts;
- Continue to perform monthly bank reconciliations for all accounts and;
- Make sure to file the bank reconciliations in secured folders and stored away from public access.

**Executive Response**

*This is well noted. The Executive shall ensure that the three accounts are reconciled properly by making arrangements to collect the statements from the bank on a timely manner. A special file shall be opened to ensure the documentations are filed on a monthly basis.*

**4.0 Investment****4.1 Need to consolidate IIC' s financial statements****Risk Rating - High**

OAG has acknowledged the effort made by the Provincial executive to engage an Accounting firm to prepare IIC financial statement and an auditor to audit the accounts. However, OAG will continue to raise this issue to remind the Province to have IIC financial statement audited before consolidated it in the Provincial financial statement. With the disclosure of the investment activities in the Provincial Government' s financial statements, it can enable the rural people and stakeholders to know whether the investment is profitable or not.

**Implications**

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

**Recommendation 5**

OAG recommended that the Provincial Government:

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

**Executive Response**

*Being a repeated audit query, the Executive shall make a decision on how to handle this investment but in the meanwhile, the province shall solicit the services of an external accounting firm to:*

- ✓ *do the accounts of the investment corporation using proper accounting standards*
- ✓ *consolidate the accounts with that of the provincial accounts in the financial statement using proper accounting standards*
- ✓ *carry out an audit of the investment corporation before onward submission to OAG.*

**4.2 Outstanding dividends not received**

**Risk Rating - Moderate**

OAG confirmed with the Province that they should receive dividend worth of \$100,000 through IIC for 2013 year ended but up to October 2014 the dividend is yet to be received. This is a revenue loss for the Province if not collected. It was noted that Isabel Provincial Government really want 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 suppliers taking the Provincial Government to court for not meeting its obligations, poor accountability to the rural people and misstatement of the financial statements.

**Recommendation 6**

OAG recommended that the Provincial Government:

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

**Executive Response**

*The Executive recently received verbal assurance from IDC Management for a payment of \$50,000.00 into IPG Accounts, thereafter would be disclosed in IPG Financial statements.*

**4.3 Lack of investment documents maintained or filed**

**Risk Rating - Moderate**

OAG noted that there are lack of investment documents maintained or filed that clearly stated the operation of IIC on behalf of the Province. Also there are no records or documents regarding IDC declaration of dividend being filed except for 2012/2013 financial statement which was submitted to OAG by the Treasurer.

**Implications**

Lack of documentation maintained or filed regarding these investment increases the risk that audit cannot confirmed the existence of these investment.

**Recommendation 7**

OAG recommended that the Provincial Government:

- Ensure any correspondence or documentation regarding IIC, IDC or any investment must be filed accordingly for accountability and transparency and also for audit purpose and future reference.

**Executive Response**

*There was a suggestion from Executive Heads to open files for IIC, IDC and any investments for future audit purposes and references.*



## 5.0 Expenditure

### 5.1 Lack of supporting documents

Risk Rating - Moderate

OAG identified 22 of the 26 selected samples were without sufficient supporting documents. The twenty-two payment vouchers are worth \$638,450.50. This has made it difficult to ascertain the completeness of the payments. Receipt particularly is a fundamental source documents that proves completeness to all payment transactions. Also cheque butts, should the payments are made as direct deposit to suppliers has to be attached to payment vouchers.

Table below shows the payment vouchers that lack adequate supporting documents.

ID #	Date of payment	Memo	Amount paid
1354560	26/3/2014	Solomon Sheet steel	\$137,650.00
1354599	31/03/2014	ECE Assistance	\$120,136.00
1602723	11/03/2014	Azimuth Survey	\$82,410.00
851383	13/12/2013	Dara Jay	\$64,936.00
1327509	28/01/2014	SIEA	\$46,585.83
1354507	25/03/2014	AW Construction	\$51,280.00
1422635	26/04/2013	Helena Goldie College	\$45,940.00
1602700	7/03/2014	SIEA	\$40,896.60
851387	31/03/2014	Manevetula n Other	\$24,620.00
1354541	27/03/2014	Lili Sport Shop	\$12,996.00
1525936	3/12/2013	FGK Construction	\$11,000.00
1327740	27/3/2014	Tong Corporation	\$173,999.55
1327750	28/3/2014	Top-Timbers Ltd	\$45,628.39
1327741	27/03/2014	Tong Corporation	\$178,218.56
933398	24/12/2013	Solomon Sheet steel	\$95,340.00
1327713	12/02/2014	Solomon Sheet steel	\$142,970.40
1327742	28/03/2014	Solomon Sheet steel	\$35,082.20

1327713	12/02/2014	Solomon Sheet Steel	\$193,986.00
1327708	7/02/2014	Solomon Sheet Steel	\$149,865.00
933393	12/12/2013	LKP Hardware	\$113,470.00
933393	12/12/2013	LKP Hardware	\$43,600.00
1354563	27/3/2014	Solomon Sheet Steel	\$120,591.00
		<b>Total</b>	<b>\$638,540.50</b>

Inclusive are payments from PCDF funding that were made to prominent businesses in Honiara but still fail to provide receipts to the province as support document for the completeness of those lumpsum transactions.

### Implications

The non-availability of adequate and complete supporting documents increases the risk of misappropriation, payment made to ghost supplier, no accountability and transparency in the payment process.

### Recommendation 8

OAG recommended that the Provincial Government:

- Ensure that sufficient documents are attached with the payment voucher before the cheque is released;
- To ensure signed and stamped receipts from suppliers, contractors and other recipients were attached to Payment vouchers to confirm completeness of transaction;
- Or ensure to attach cheque butts to direct deposits from IPG account to suppliers, particularly businesses such as Solomon Sheet steel, Lee kwo kwin and others operating in Honiara and;
- Where source documents are withheld within other departments, treasurer or other accounting officers have to promptly advice and or collect the documents and attached to payment vouchers.

## Executive Response

*This query is well noted. As indicated, the executive shall coordinate well with the Provincial Secretary to ensure payments are not raised without proper documentations in order to ensure compliance.*

### ***5.2 Lack of segregation of duties***

**Risk Rating - Moderate**

One payment of the same nature was sighted by audit with the value of \$58,170. As stated in the prior audit executive response, the non-segregation occurs because of staffing issues. However, such contravenes financial guidelines and policy regarding segregation of duties hence should not be entertained.

### **Implications**

The lack of segregation of duties increases the risk of conflict of interest, unauthorised payments, payments made to ghost companies, loss of provincial funds and no accountability.

### **Recommendation 9**

OAG recommended that the Provincial Government:

- Ensure that proper segregation of duties is complied with in the certification and payment process.

## Executive Response

*This was done and should not be an issue for future audit queries.*

### ***6.0 Ward development grants***

#### **6.1 Poor control over retirement of ward development grants**

**Risk Rating - High**

OAG acknowledges the province for its response and initiatives on implementing ward development committee as the watch dog over the

disbursement of this fund. Going forward this is an appreciative measure that enhances accountability. However, audit still notes deficiency as that of the prior audit report regarding retirements. Though fully retired, OAG cannot form reasonable conclusion on the supporting documents as true representation of the grants expenditure for the community projects.

### Implications

Without a documented guideline this item have been over the years was spent as according to the decision of the executive or MPs. That increases the risk of manipulation, misappropriation and failure to implement community projects.

### Recommendation 10

OAG recommended that the Provincial Government:

- To ensure WDC is effective in their role so as to be an example for other provinces, to demonstrate accountability and transparency to the people of Isabel province, the national government and all tax payers;
- To ensure reports on community projects are independently performed and supported with adequate and reliable document and;
- To ensure reports and supporting documents are securely filed.

### Executive Response

*There is a committee created from each ward to facilitate the ward development funds, thus the MPA will no longer take the ward development grant as imprest as usually done, the Ward Development Committee is responsible for implementing & reporting the funds issued. Reporting templates would be provided to WDC in future.*

### 7.0 Payroll

#### 7.1 Double and advance Payroll Payment

**Risk Rating - Moderate**

Audit identified two payments for April 1 2013 pay period. Cheque # 851377 was paid from special account for \$40,694.27 on 03/04/2013 and cheque # 1422544 was paid from main account for \$40,694.27 on 09/04/2013. The

payment from special account was made as an advance and was later reimbursed by the cheque from main account. Both payments as stated above were paid for April 1 2013 pay period. OAG noted such as a deficiency that results in double payment which overstated the employee cost for financial year ending 31/3/2014.

In addition, cheque # 1354600 was paid on the 31/3/2014 for pay period covering April 1 2014 pay period. This falls in the new financial year therefore was incorrectly disclosed in the current year which again results in an overstatement of the employee account for the year ending 31/3/2014.

### Implications

The roll over issue creates setbacks and over lapping transactions, which results in inconsistency and can likely result in undetected errors and or intended misappropriation of provincial funds.

### Recommendation 11

OAG recommended that the Provincial Government:

- To ensure proper compliance check was performed on all payroll payments prior to payout;
- To ensure that, accounting officers are aware of the roll over date and account correctly for the year end transactions and;
- To ensure not to entertain advancing from other account unless the main account was operating on O/D, approval has to be sought from the provincial secretary as the accounting officer to incur such transactions.

### Executive Response

*The special account is a suspense account as far as the Isabel Provincial accounts is concern and is not incorporated with the other accounts of the Isabel Province.*

*These transactions were fully explained and the accounting officer was aware of the transaction made, there is no double payment of salary, however, we will comply with the recommendations made and will put effort to improve on the salary section during the roll over period.*

*Take note and prepare closing of financial transactions properly.*

## ***7.2 Incomplete supporting documents***

**Risk Rating - Moderate**

OAG also noted that payments to SINPF and Inland Revenue lacks complete supporting documents. In ensuring accountability, all payment related transactions should be supported by receipts. Such was not the case for Isabel province and though it was not a high risk issue, it is of good practice to obtain such fundamental source document to prove to other parties and users that payments were made and receipted by recipients.

### **Implications**

Without receipts it was likely that distortion of legitimate transactions along the process can occur. Consequently such can result in misappropriation and misconduct by public officers.

### **Recommendation 12**

OAG recommended that the Provincial Government:

- Ensures transactions are supported with all relevant source documents and filed accordingly;
- For the purpose of accountability and completeness of the procurement procedure, responsible officers to obtain receipt upon releasing and confirming with other parties that payment have gone through and;
- Where collection of receipt is an issue, management needs to note and advice provincial employees when visiting Honiara to call at the agencies and request those documents.

### **Executive Response**

*Noted for actioning as recommended by OAG.*

## *8.0 Un-acquitted imprests and advances*

### *8.1 Changes to accounting treatment of unretired imprest and advance*

**Risk Rating - High**

Prior years' unretired imprests and advances were disclosed as asset accounts. However the current adopted treatment for these accounts was to expense upon payment without having to report the unretired imprest and advances as at the end of each financial year in the notes to the financial statement. Consequently, the treatment though captures IPSAS requirement, fails to address the complete recognition of the account if imprest or advances were not fully retired or repaid as at the end of each financial year.

#### **Implications**

The measure taken to adopt the treatment of expensing imprest and advance enhances the risk of unaccountability and misrepresentation of the financial report to users and decision makers of the province.

#### **Recommendation 13**

OAG recommended that the Provincial Government:

- To relook at the treatment for these accounts and how effective that will become if no proper control was in place to account for the unretired imprests and advances;
- To improve the current control over these accounts by preparing separate reports of the unretired imprests and advances as at the end of each financial year;
- Ensure that all records pertaining imprests and advances are properly filed and reported when required and;
- Ensure that the province decision of changing the accounting treatment for imprests and advances were adopted and accepted by other provinces.

#### **Executive Response**

*Our imprest system currently used is that these payments when paid are charged to its expenditure account code and the manual register is only for the purpose of an obligation expected from the officer for geniuses*

*of expenditures so even it is unretired or retired the expenditure has already been recorded in the accounts.*

*We now will impose much stronger emphasis on the recovery of outstanding imprest, that is, we will only issuing one warning letter and the second letter is just to inform eventuation of the deductions from their salaries.*

*We will no longer be lenient on the outstanding imprest holders to get another one.*

## ***9.0 Property, plant & equipment***

### ***9.1 Weak control over asset register (C/fwd from 2011)***

**Risk Rating - High**

OAG identified during the audit of the assets of the province that an asset register was kept and regularly updated. However, even though the asset register was maintained, there were loopholes identified with the register which create a high opportunity for misuse of provincial assets.

During the audit, OAG noted the loopholes as follows:

- No specific description of the asset. e.g. colour, brand, serial numbers, size etc.
- No quantity column to show the number of assets purchased by the province.
- No asset code exists on the physical asset to trace it back to the asset register when review is done on all provincial assets.
- Depreciation expense was incorrectly calculated for certain assets, therefore resulted in the understatement of the value of assets as at 31/3/2014
- And also audit noted an incorrect classification of certain procurement transactions, which should have been disclosed as expense or inventory and not PPE.
- And still no asset management policy was in place to guide the province with its procurement, maintenance and disposal decisions.

The deficiencies identified above have made it difficult to determine the accuracy and existence of the assets owned by the Provincial Government. In addition, OAG noted inconsistencies with balances on the fixed asset register, note 12(a) and the PPE statement. FAR balance was \$5,041,369.



Note 12(a) the balance was \$5, 143, 552, while PPE statement addition balance was \$4,689,822. The un reconciled balances resulted in the misstated both from the FAR to the financial statement balances as at 31/3/2014.

### Implications

The lack of control over asset register increases the risk of abuse, misuse, theft of assets, overspending of approved budget for asset procurements and loss of provincial funds. And failure to correctly account for the province's assets denies management and other stakeholders make rightful decision over the provinces resources.

### Recommendation 14

OAG recommended that the Provincial Government:

- Ensure that asset register contains all the loopholes identified above;
- Ensure to regularly update the asset register, correctly calculate depreciation expense and to correctly classify procurement transaction relating to inventory or expensed so as not to misstate PPE balance;
- Ensure to establish an asset management policy and;
- Ensure to reconcile the fixed asset register balance to the reported balance in the PPE statement and the capital payment item as per payment statement as at the end of each financial year.

### Executive Response

*The Ministry of the Provincial Government (MPGIS) has advised us that they will assist on the Asset (stores) section on the recording system of the assets, there is no confirmation on their coming.*

*We will however comply with the recommendation and to improve on the asset register.*

AUDIT ACTION PLAN

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
1	<p><b>OAG recommended that:</b></p> <ul style="list-style-type: none"> <li>The Provincial Government Executive must ensure to record all ordinary and extra ordinary meetings with the signing and dating of them by relevant officers and;</li> <li>The executive minutes are properly filed in a secured location from public access.</li> </ul>	<p>The recommendation was noted for compliance in future that Minutes would be signed and dated by responsible officers straight after confirming minutes by Executive at its next meeting.</p> <p>Procurement of filing cabinet would be made soon to store Executive minutes in PS and Premier' s Office.</p>	PS & Premier	On going
2	<p><b>OAG recommended that:</b></p> <ul style="list-style-type: none"> <li>The Provincial Government must comply with FMO 2008 in doing daily banking of revenue.</li> </ul>	<p>The banking of revenue was usually done on fortnightly basis, however, we will comply with the recommendation, therefore, will be done the banking daily.</p> <p>There will be receipt books ordered to comply with the recommendation at hand for issuing of receipts to market vendors.</p>	PTR	On going
3	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>Ensure to sign and date the bank reconciliations by the preparer and reviewer and also to attach the cashbook copies and;</li> <li>Make sure that monthly bank reconciliation is performed for all bank accounts.</li> </ul>	<p>This has be taken note of to ensure bank reconciliations for all bank accounts are performed on monthly basis and that the preparer and reviewer to date and sign off documents.</p>	Cashier or PTR,DPTR & PS	On going
4	<p><b>OAG recommended that the Provincial Government:</b></p>	<p>This is well noted. The Executive shall ensure that the three accounts are</p>	PTR & DPTR	On going

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> <li>• Ensure to immediately start perform bank reconciliations for these three accounts;</li> <li>• Continue to perform monthly bank reconciliations for all accounts and;</li> <li>• Make sure to file the bank reconciliations in secured folders and stored away from public access.</li> </ul>	reconciled properly by making arrangements to collect the statements from the bank on a timely manner. A special file shall be opened to ensure the documentations are filed on a monthly basis.		
5	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>• Ensure that the financial statements of Isabel Investment Corporation are audited by reputable audit firm and submitted for consolidation.</li> </ul>	<p>Being a repeated audit query, the Executive shall make a decision on how to handle this investment but in the meanwhile, the province shall solicit the services of an external accounting firm to:</p> <ul style="list-style-type: none"> <li>✓ do the accounts of the investment corporation using proper accounting standards</li> <li>✓ consolidate the accounts with that of the provincial accounts in the financial statement using proper accounting standards</li> <li>✓ carry out an audit of the investment corporation before onward submission to OAG.</li> </ul>	PS & PTR	On going
6	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>• Ensure to liaise with IDC for the outstanding dividends to be paid and;</li> <li>• Disclose the dividends in its financial statements.</li> </ul>	The Executive recently received verbal assurance from IDC Management for a payment of \$50,000.00 into IPG Accounts, thereafter would be disclosed in IPG Financial statements.	PS & PTR	On going
7	<p><b>OAG recommended that the Provincial Government:</b></p>	There was a suggestion from Executive Heads to open files for IIC, IDC and any	PS & PTR	On going

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> <li>Ensure any correspondence or documentation regarding IIC, IDC or any investment must be filed accordingly for accountability and transparency and also audit purpose and future reference.</li> </ul>	investments for future audit purposes and references.		
8	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>Ensure that proper documents are attached with the payment voucher before the cheque is released;</li> <li>To ensure signed and stamped receipts from suppliers, contractors and other recipients were attached to payment vouchers to confirm completeness of transaction;</li> <li>Or ensure to attach cheque butts to direct deposits from IPG account to suppliers, particularly businesses such as Solomon Sheet Steel, Lee Kwok Kuen and others operating in Honiara and;</li> <li>Where source documents are withheld within other departments, Treasurer or accounting officers have to promptly advice and/or collect the documents and attached to payment vouchers.</li> </ul>	This query is well noted. As indicated, the executive shall coordinate well with the Provincial Secretary to ensure payments are not raised without proper documentations in order to ensure compliance.	PS & PTR	On going
9	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>Ensure that proper segregation of duties is complied with in the payment process.</li> </ul>	This was done and should not be an issue for future audit queries.	PS	Dec 2014
10	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>To ensure WDC is effective in their role so as to be an example for other provinces, to demonstrate accountability and transparency to the people of Isabel Province, the National Government and all tax payers;</li> </ul>	There is a committee created from each ward to facilitate the ward development funds, thus the MPA will no longer take the ward development grant as imprest as usually done, the Ward Development Committee is responsible for implementing & reporting	PS & PTR	On going

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> <li>To ensure reports on community projects are independently performed and supported with adequate and reliable documents and;</li> <li>Ensure the reports and supporting documents are securely filed.</li> </ul>	the funds issued. Reporting templates would be provided to WDC in future.		
11	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>To ensure proper compliance check was performed on all payroll payments prior to payout;</li> <li>To ensure that, accounting officers are aware of the roll over date and account correctly for the year end transactions and;</li> <li>To ensure not to entertain advancing from other account unless the main account was operating on O/D, approval has to be sought from the provincial secretary as the accounting officer to incur such transactions.</li> </ul>	<p>The special account is a suspense account as far as the Isabel Provincial accounts is concern and is not incorporated with the other accounts of the Isabel Province.</p> <p>These transactions were fully explained and the accounting officer was aware of the transaction made, there is no double payment of salary, however, we will comply with the recommendations made and will put effort to improve on the salary section during the roll over period.</p> <p>Take note and prepare closing of financial transactions properly.</p>	PTR & DPTR	On going
12	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>Ensures transactions are supported with all relevant source documents and filed accordingly;</li> <li>For the purpose of accountability and completeness of the procurement procedure, responsible officers to obtain receipt upon releasing and confirming with other parties that payment have gone through and;</li> </ul>	Noted for actioning as recommended by OAG.	PTR & DPTR	On going

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	<ul style="list-style-type: none"> <li>Where collection of receipt is an issue, management needs to note and advise provincial employees when visiting Honiara to call at the agencies and request those documents.</li> </ul>			
13	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>To relook at the treatment for these accounts and how effective that will become if no proper control was in place to account for the unretired imprests and advances;</li> <li>To improve the current control over these accounts by preparing separate reports of the unretired imprests and advances as at the end of each financial year;</li> <li>Ensure that all records pertaining imprests and advances are properly filed and reported when required and;</li> <li>Ensure that the province decision of changing the accounting treatment for imprests and advances were adopted and accepted by other provinces.</li> </ul>	<p>Our imprest system currently used is that these payments when paid are charged to its expenditure account code and the manual register is only for the purpose of an obligation expected from the officer for geniuses of expenditures so even it is unretired or retired the expenditure has already been recorded in the accounts.</p> <p>We now will impose much stronger emphasis on the recovery of outstanding imprest, that is, we will only issuing one warning letter and the second letter is just to inform eventuation of the deductions from their salaries.</p> <p>We will no longer be lenient on the outstanding imprest holders to get another one.</p>	PTR	On going
14	<p><b>OAG recommended that the Provincial Government:</b></p> <ul style="list-style-type: none"> <li>Ensure that asset register contains all the loopholes identified;</li> <li>Ensure to regularly update the asset register, correctly calculate depreciation expense and to correctly classify procurement transaction</li> </ul>	<p>The Ministry of the Provincial Government (MPGIS) has advised us that they will assist on the Asset (stores) section on the recording system of the assets, there is no confirmation on their coming.</p>	PTR & DPTR	On going

Audit Issue #	OAG Recommendations	Detail Action that is to be / has been Taken	Responsible Officer	Target Date
	relating to inventory or expensed so as not to misstate PPE balance; <ul style="list-style-type: none"> <li>• Ensure to establish an asset management policy and;</li> <li>• Ensure to reconcile the fixed asset register balance to the reported balance in the PPE statement and the capital payment item as per payment statement as at the end of each financial year.</li> </ul>	We will however comply with the recommendation and to improve on the asset register.		