

Office of the Auditor General

Last week I described what kind of audits we do and how we do them.

This week I describe some of the issues that come out of our financial statement audits and the sorts of recommendations we make to improve reliability and completeness of their accounts and records.

Financial statement audits of the National Accounts

For a number of years now, the OAG has repeatedly found several weaknesses in the internal controls among the ministries. These include:

- Failure to manage imprests to officers

What this means is that when a Ministry needs to spend money to send an officer on an activity where the actual cost cannot be estimated before he or she gets there, the Ministry provides that officer with a special imprest of cash to buy accommodation, travel and other costs to carry out his or her duties. When the officer returns to the Ministry, the officer must provide receipts and any change back to the Ministry so that it can be properly recorded in the national accounts. Very often the OAG finds that the officers have not retired their imprest and the Ministry does not keep records to know that this is the case.

This puts the Ministry at risk of the officer not spending the money as intended or keeping the change for personal use.

- Bank account reconciliations not performed

Bank account reconciliations make sure that the General Ledgers match the cash in the bank account and are essential to ensure that the financial reports accurately show what has happened to the bank account over the year. If a Ministry does not do a bank account reconciliation, then OAG cannot be sure that the financial statement produced by the government really shows what money was received or spent by the Ministry.

- Cashbooks not properly maintained

Cash books are the records that are prepared when a Ministry receives cash or spends it. If they are incomplete or not properly recorded, then the OAG cannot find out whether all the money received was actually banked or all the money spent was actually recorded. This can lead to theft or fraud of public monies.

- Lack of records and supporting documents

All revenue collected and cheques raised to spend public money require certain forms to be filled in and approved by officers in charge to ensure that money does not go missing and that all the money spent is for the intended purpose. This function is carried out by the Ministry of Finance and Treasury and all the records are held for audit inspection in the Ministry.

OAG has often not been able to find these forms for completed payments which means that we have no way of knowing whether the payments are genuine or the amounts correct. This weakness can lead to theft or use of money for private purposes.

- Lack of verification of daily revenue collection:

One way to ensure that all monies received are properly recorded is to require a second officer to check and verify that the revenue collected is correct for that day. If a Ministry relies on the same person to collect and record the money without it being checked, it runs the risk that the officer will not record and bank all of the money – and that the officer will keep it for their own purposes.

- **Lack of Asset Registers:**

Almost no ministries have up to date Asset Registers to record all the things that they buy such as office equipment and furniture or motor vehicles and other transport, nor do they record what buildings are owned by the government. This leads to officers who leave the Ministry often taking those things with them and the government not being able to recover them. It also means that the government is unable to properly maintain and protect its buildings.

All of these internal control weaknesses do not apply to all ministries but they are common and often significant. Because of the extent of these weaknesses, it has not been possible for OAG to form an opinion on the accuracy of the financial statements of the Solomon Islands Government for many years.

OAG has been making the same recommendations repeatedly to improve controls over the protection of cash and the completeness of records; and, in looking at the 2013 accounts OAG notes that there seems to have been a noticeable improvement over the past year, and we are looking forward to the day when the people of Solomon Islands can rely on the national government accounts to accurately describe what happens to their money.

Financial statement audits of the Provincial Governments

Our audits of the nine provincial governments come across the same issues that we find for the national government, but there are also other matters which we find because they are separate individual governments in smaller communities. Some of those issues are:

- **Poor Provincial Executive Committee Minutes**

Often the minutes of Provincial Executive Committee meetings are not available or are not signed. This can result in decisions made by the Executive not being carried out by its administration, or decisions can be altered after the meeting to allow different actions to be carried out.

- **Accounts General Ledger not properly maintained**

Some Provincial Governments have difficulty in maintaining their accounting General Ledger which is used to monitor the accounts and produce the financial statements. Without an accurate General Ledger the OAG has no way of checking to see that the financial statements mean anything. It also stops the provincial governments properly managing their budgets, revenue or expenditure.

- **Loss of control over locally raised revenue**

Some provincial governments do not properly track who owes them money through a receivables sub Ledger, do not keep their records of license holders and businesses up-to-date so that they can know who has left the business or who are new business owners, do not properly file their receipt books or have missing daily cash deposit sheets, and in some cases do not bank cash received and then use that money to pay urgent bills so that they bypass the accounting system altogether.

These weaknesses result in a breakdown of controls over the receipt of public money and their expenditure – thereby allowing the money to be stolen or misused in addition to being unable to fully report on those monies in the financial statements.

- **Business arm not functioning or producing financial accounts**
Provincial Governments all have commercial arms that are being managed by Development Authorities created under provincial legislation. The majority of those business arms are either operationally inactive or are functioning but not reporting back to the provincial government – and certainly not paying any dividends to the government for use to provide government services to the people. These authorities operate many different types of businesses ranging from owning and leasing commercial buildings to running shipping services, guesthouses, farms and retail outlets.

Failure to put the business arms on a proper business footing prevents Provincial Governments from assessing their profitability or making any decisions about their management or future investments, and exposes the Government to the risk that all commercial businesses held by the Government may be managed or used for personal benefit.

OAG is beginning to notice that some of the provincial governments are starting to improve their procedures in financial reporting and are able to start benefiting from financial rewards through the donor funded Provincial Governments Strengthening Project [PGSP] managed by the Ministry of Provincial Government and Institutional Strengthening. Other provincial governments are still struggling and missing out on those monies which could be used for essential infrastructure projects.

Notwithstanding the sorts of problems that the provincial governments are dealing with, the overall performance of those governments have dramatically improved over the past few years. When the OAG recommenced proper audit services in 2006 we found that some of those provincial governments had never been audited since Independence; whereas now all the provincial governments are providing financial statements to OAG on a regular basis, and some of them by the due dates.

Financial statement audits of the Honiara City Council

All of the weaknesses that OAG finds in the national government and provincial government audits are also found in the accounts and records of the Honiara City Council. The Council has not produced any financial statements since 2010; and the OAG has joined an ADB funded program under our regional group of International Association of Supreme Audit Institutions (INTOSAI) members to conduct an audit of the Council's accounts and records alongside auditors from Kirabati and Tuvalu later this year.

Next week

Next week I will describe the sorts of performance audits the OAG has conducted over recent years and the issues that come out of those audits.

