

# Report on the midterm performance review into 2011 Appropriation Act

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## **1. Introduction**

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The National Parliament is the independent law making arm of government to which the Executive is accountable. As part of this role, the Parliament is vested with the power to authorize the allocation of public monies through the Annual Appropriation Act. The Parliament also performs many of its oversight functions through its Standing Committees. The Public Accounts Committee (“**the Committee**”) is one of such committees vested with the mandate to examine the annual Draft Estimates prior to its tabling before Parliament.

The Public Accounts Committee conducted a midterm performance review of the 2011 Appropriation Act 2011. This Report outlines the findings of that review.

The Report has been prepared for the information of Members of Parliament. It aims to draw to the attention of members of Parliament matters which the Committee has identified through its inquiry.

## **2. Acknowledgement**

The Committee wishes to acknowledge and appreciate all witnesses who appeared before the Committee. Sincere thanks to the following parties;

- Permanent Secretaries
- Under Secretaries, Chief Accountants and all Senior officials
- Heads of Government Agencies
- Management of Solomon Airlines, Solomon Islands Ports Authority and Solomon Islands Nation Provident Fund,
- Management of Central Bank of Solomon Islands, and
- Management of ANZ, WESTPAC & BSP

Thank you for responding positively to the Committee’s invitation and for attending the Committee hearings. This Report would not have been possible without the valuable information provided to assist the Committee to undertake its important

oversight role of ensuring that public funds are allocated and expended appropriately.

The Committee would like to acknowledge the Auditor General in his role as the Secretary to the Committee. We would also like to make particular mention of the Director of Parliamentary Committees, the Committee Secretariat and the staff of Parliament for the sound logistics arrangements that enabled the professional conduct and smooth flow of the Hearings. The Committee would also like to thank the Clerk to Parliament and her staff for their oversight of the Committee's needs.

### **3. Terms of Reference**

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Pursuant to its mandate under the *Standing Orders* the terms of reference of the Committee is to:

- (a) consider in detail the Draft Estimates prepared by the Government in support of the Annual Appropriation Bill;
- (b) summon and examine the Accounting Officers and technical staff of Ministries and Departments and require the production of background information and explanation in relation to draft estimates;
- (c) report to Parliament in such a way that the report may inform Members prior to Parliamentary debate thereon of the background to the Draft Estimates and draw attention to those matters which the Committee feels should be the subject of such Parliamentary debate; and
- (d) make recommendations as the Committee sees fit and subsequently receive comments and reports on such recommendations from the Government.

#### 4. Functions of the Committee

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The Committee is established under *Standing Order 69*; an Order made pursuant to the *Constitution*<sup>1</sup> and has the functions, together with the necessary powers to discharge those functions such as, to:

- (a) examine the accounts as prescribed by Section 33 of the Public Finance and Audit Act 1978, together with the report of the Auditor General thereon, and to report the results of such examination to Parliament;
- (b) establish the causes of any excesses over authorised expenditure and to make recommendations to Parliament on any appropriate measures to cater for such excesses of expenditure;
- (c) examine such other accounts laid before Parliament as the Committee may think fit, together with any auditor's report thereon and to report the results of such examination to Parliament;
- (d) summon any public officer to give information or any explanation, or to produce any records or documents which the Committee may require in the performance of its duties;
- (e) consider in detail the Draft Estimates prepared by the Government in support of the Annual Appropriation Bill;
- (f) summon and examine the Accounting Officers and Technical staff of Ministries and Departments and require the production of background information and explanation in relation to Draft Estimates;
- (g) report to Parliament in such a way that the report may inform Members prior to the Parliamentary debate thereon of the background to the Draft Estimates draw attention to those matters which the Committee feels should be the subject for such Parliamentary debate; and
- (h) make such recommendations as the Committee sees fit and subsequently receive comments and reports on such recommendations from the Government.

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<sup>1</sup> Section 62, *Constitution of Solomon Islands 1978*.  
*PAC – 2011 Budget Mid term Review Report*

## **5. Membership**

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The current members of the Committee (9<sup>th</sup> Parliament) are:

- Hon. Job D. Tausinga (Chair) MP
- Hon. Steve Abana, MP
- Hon. Douglas Ete, MP
- Hon. Martin Kealoe, MP
- Hon. John Maneniaru, MP
- Hon. Stanley Sofu, MP
- Hon. Matthew C. Wale, MP
- Mr. Edward Ronia, Auditor General (Secretary)

Hon. N Tran, MP resigned his membership of the Committee.

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## 6. Review

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In the discharge of its functions the Committee sought to establish:

- (a) Whether past budget performance was taken into consideration in the implementation of the draft estimates;
- (b) whether the implementation of the estimates was guided by Government policies and have been designed and/or formulated based on relevant and appropriate information; and
- (c) Whether the implementation of the estimates is carried out in accordance with existing legal financial statutes.

- ***Committee Process***

The Committee interviewed and sought views from Accounting Officers and other senior officials who are responsible for the development and implementation of the estimates. In particular, the Committee met with the Accounting Officers of all ministries and their staff..

Briefing notes and explanatory material were also tabled before the Committee. The full transcripts of the Committees proceedings (contained in Hansard), Hearing Schedule and the Minutes of proceedings will be available on the Parliamentary website at [www.parliament.gov.sb](http://www.parliament.gov.sb) at an appropriate time as soon as practicable.

- ***Threats made to Committee member***

On Friday 9 September 2011, Threats were made to the Acting Chairman (Hon. Wale). In addition to the threats it was requested that the Acting Chair pay compensation for comments he made during the process of the hearings. The



Committee strongly condemns this behaviour which it believes was an attempt to impede the Committee's inquiry<sup>2</sup>.

For the committee to exercise its independence and the independence of Parliament, members of the committee must be free to speak their mind on any issue. The independence of Parliament and through it the independence of the committee, can only be effective and meaningful if members are truly independent.

The privilege of freedom of speech enjoyed by members of Parliament is essentially the privilege of their constituents. It is available to members not for their personal benefit, but to enable them to discharge the functions of their office without fear of civil suit or criminal prosecution. It is the voters' right that their elected representative should be able to carry out their duties as a member of the House without undue influence or pressure.<sup>3</sup>

The function of Parliament is to hold the Executive to account. In this particular instance the Public Accounts Committee has a responsibility to hold the Executive to account on the substance of this inquiry and the freedom of a member to ask questions without fear and solicit information is essential to this process and must be upheld.

The Committee also took the step of inviting SOEs, Banks, the CBSI, and the NPF to appear before it. Of the SOEs, only Ports Authority and Solomon Airlines Limited attended. The Committee wishes to record its appreciation of their willing participation in the inquiry process. These organisations play an important role in the Solomon Islands economy. And as government fiscal policy influences in a significant way how the private sector acts, and the monetary policy that is appropriate to protect against high inflation and such other ills, it was thought important that these organisations are accorded the opportunity to appear before the Committee. This was a most productive aspect of the inquiry, and one that the Committee wishes to repeat in the future.

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<sup>2</sup> Hon. Wale, Evidence, 16 September 2011.

<sup>3</sup> Special Select Committee on Privileges, Powers and Immunities of Parliament, Committee Report, 2009, pg 15.

## 7. Budget midterm overview

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During the Inquiry the Committee was briefed on the Government's financial results as at 31<sup>st</sup> July 2011. Outlined below is a summary of the results provided by the Ministry of Finance and Treasury;

### Summary of July Year to date 2011 Financial Results<sup>4</sup>

	<b>Original Annual Budget \$m</b>	<b>Year To Date (YTD) Budget Adjusted (July) \$m</b>	<b>YTD Actual July \$m</b>	<b>Variance Budget/Actual \$m</b>
<b>Revenue</b>	<b>2,048.6</b>	<b>1,096.3</b>	<b>1,195.8</b>	<b>99.4</b>
<b>Expenses</b>	<b>2,063.2</b>	<b>1,205.9</b>	<b>1,102.5</b>	<b>103.3</b>
<b>Budget surplus(deficit)</b>	<b>-14.6</b>	<b>-109.6</b>	<b>93.2</b>	

*Note: all figures reported exclude Budget Support (NZAID & AUSAID - Education & AUSAID-Health, ADB and EU)*

### **Financial Results<sup>5</sup>**

Solomon Islands Government recorded a surplus of **\$93.2m** at the end of July 2011 YTD against an estimated pro-rata deficit of \$109.6m. Revenue collected was **\$1,195.8m**. YTD total expenditure was **\$1,102.5m** (including imprest total of \$12.4m). The revenue results reflected an overall July YTD above budget collection of \$99.4m. Expenditure results show an YTD under budget spending of \$103.3m. These figures exclude budget support and other non appropriated donor support SIG received and expended during the period.

### **Inland Revenue Division (IRD)**

Collections for IRD July YTD were \$715.2m. The revenue comprised: Goods Tax **\$306.7m**, Personal Taxation (PAYE) **\$180.3m**, Withholding Tax of **\$66.1m**, Company Tax **\$106.2m**, Sales Tax of **\$39.4m** licenses of **\$4.6m** and Stamp duty **\$11.6m**. IRD has exceeded pro rata monthly forecast revenue collection by \$4.8m and July YTD

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<sup>4</sup>Media Release, Ministry of Finance & Treasury, Evidence, 20 September 2011.

<sup>5</sup> The figures and analyses are based on the best information currently available, and may be subject to change as more information comes to hand.

revenue collection by \$67.4m.

### **Customs & Excise Division**

Collection for Customs YTD was \$392.0m as follows:

1. Export Duty on logs/timber **\$218.0m** with July recording **\$38.1m**
2. Excise Duty **\$71.1m**
3. Import Duty **\$99.7m**
4. Export Duty (excluding log/timber) **\$1.7m**
5. Other **\$1.2m**

Collection exceeded both monthly projection by \$28.3m and July YTD \$99.8M.

### **Other Ministries**

Collection from other Ministries was \$70.5m against a pro-rata estimate of \$108.6m, a shortfall of \$38.1m. \$26.6m of the revenue collected relates to fishing licenses and fishing related activities.

### **Payroll Expenditure**

Payroll expenditure for July YTD was \$348.9m against the pro-rata estimate of \$342.4m. Payroll costs including SIG employer contribution to NPF of \$22.0m represent around 37.6% of recurrent expenditure for the period. NPF Contributions continue to be paid on time on a weekly basis.

### **Other Expenditure**

YTD Other Charges Expenditure was \$568.2m against pro rata estimates of \$573.5m resulting in slightly under pro-rata budget spending of \$5.3m. There is no profiling in the expenditure budget so monthly budgets are apportioned on a pro-rata basis. Major spending has occurred in the following areas. These major spending areas represent accumulatively about 64 % of Other Expenditure and 39% of total Recurrent Expenditure:

- National Debt Servicing- \$56.5m
- Education Grants (SIG)-\$37.9m
- SICHE grant - \$10.3m
- Provincial Grants -\$22.9

- Health Services Grant (SIG)- \$22.1m
- Utilities (SIEA, SIWA, Telephone) -\$57.4m
- Overseas training under scholarship- \$49.2m
- USP Contribution - \$14.3m
- House Rent -\$41.5m
- Office Rent - \$10.2m
- Office Rent (Overseas Missions)-\$1.6m
- Repair and upkeep of government buildings/stations- \$22.4m
- Fuel - \$9.0m
- Costs of Overseas Travel for MPs and Public servants -\$8.2m

In terms of overall Recurrent Expenditure, spending in Education accounted for 29.6%, Health 13.8%, and Police and National Security 7.2%. The three ministries' spending for July YTD represents around 50% of SIG recurrent expenditure.

### **SIG Development Expenditure**

Expenditure for SIG funded Development projects was \$140.0 m, against the annual budget allocation of \$417.0m. \$15.0 million of this expenditure relates to SIG funds paid towards RSCD payments. Major projects implemented during the period are:

- SI Chancellery in Canberra \$14.5m
- Provincial Capacity Development Fund (PCDF), \$4.9m
- Provincial Airfields Navigational Equipment, \$16.0m
- Rural Livelihood, \$40.0m
- Improvement of Water Supply Hon/Auki, \$5.3m
- SIG advance payment of RSCD, \$15.3m
- ROC RSCD Support, \$22.8m
- Upgrade of Finance System (Maximise), \$1.8m
- Rural Infrastructure projects under MID, \$3.6m
- Tina Hydro Development , \$2.6m
- SICHE School of Tourism \$2.2m
- Ministry of Public Service housing.

**SIG Budget Support**

NZAID had contributed \$47.0m of its \$55m annual budget support to the Ministry of Education by July. This program is supporting access to basic education. July YTD expenditure was \$30.3m of which \$12.6m was for basic education fee free grants. 2011 annual fee free basic education school grants under NZAID budget support is expected to reach \$21.6m.

**Fiscal Measures**

The Recurrent Budget is tracking according to pro-rata allocations, however the Development Budget shows significant underspends on a year to date pro-rata basis. Historically most of the Development Budget is expended in the second half of the year.

## **8. Committee Observations**

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From the evidence brought before it on the 2011 Budget, including Ministry hearings, the Committee identified a number of issues. These issues are discussed below and are outlined as follows:

### **8.1: Payments Process**

#### ***The process leaves much room for improvement.***

The Committee is aware that the Ministry of Finance has undergone some reforms lately especially through the strengthening of its financial management systems. Although these are welcomed by the Committee, the Committee feels that more needs to be done in speeding up the payment processes at Treasury. A delay in the release of payments in turn leads to delays in the delivery of services.

In evidence, Mr. Harry Kuma, Permanent Secretary – Acting, Ministry of Finance, acknowledged the Committee’s concern and explained that the responsibility of the Ministry is twofold:

“One is to facilitate the delivery of services by making payments and releasing payments to the Ministries so that they can do their operations and deliver services. On the other side of course, as you said, we are also restraining spending. Making sure that payments that are coming in are coming through procedures with proper information being submitted. As you know, lately we have uncovered a number of procurement issues that are not procedurally correct so that it really heightens our responsibility for making sure that payments are really following procedure, providing all the information that Treasury require in order to properly account for those payments. So we are trying our best to balance those two responsibilities.”<sup>6</sup>

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<sup>6</sup> Mr. Kuma, Evidence, 20 September 2011.  
*PAC – 2011 Budget Mid term Review Report*

The Committee notes that a number of Ministries expressed their disappointment in the delays within the payments process.

However, in evidence to the Committee, Mrs Donna Hargreaves, Accountant General, Ministry of Finance, informed the Committee that Ministries should not expect delays from Treasury unless the payments do not comply with Chapter 7 of the Financial Instructions. She also explained to the Committee that on average it should take 5 working days for Treasury to process a payment.<sup>7</sup>

Another area of concern was with regards to the manner in which requests for payment are checked before they are issued. The Committee noted during the hearings that a \$3 million dollar payment was made to the Guadalcanal Province through a Contingency Warrant (CW) under an accounting code created in the Development Estimates.

In evidence, Mr. Andrew Idute'e, Director – Budget Unit, Ministry of Finance, concurred with the Committee and stated that;

“In relation to this particular payment, you are correct. There was no code allocated for this payment so what we did is we consulted the Ministry of Development Planning and they gave us the code. And it is similar to the one for Choiseul Township Development. What I understand is that the payment came from CW, it is a \$3 million payment, and the purpose they say is for the goodwill payment for Doma Township Development. I think that is the story behind the payment.”<sup>8</sup>

The Committee is concerned as it seems that despite the broader reforms within Treasury and the Ministry of Finance to help in the of control of government expenditure and the strengthening of the budget system, it is clear from the evidence provided by the Director of the Budget Unit that discrepancies exist.

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<sup>7</sup> Ms. Hargreaves, Evidence, 20 September 2011.

<sup>8</sup> Mr. Idute'e, Evidence, 20 September 2011.

## Recommendations

It is recommended that the Ministry of Finance ensures that the Treasury has sufficient capacity to ensure payments are not delayed, and that there is a robust system in place to check payments before they are issued. The Committee further recommends that the Ministry of Finance conduct a workshop for Accounting Officers and Chief Accountants on its newly implemented financial management systems.

Further, the Committee recommends that guidelines are drawn up to ensure that Contingencies Warrants do not become an excuse for lack of planning on the part of ministries. The Constitutional requirements for the use of CWs is that the expenditure is unforeseen AND of an urgent nature, and these are clearly being ignored in some of the payments under CW.

### 8.2: Adequacy of allocations

*Key Ministries are allocated inadequate budget appropriations that will restrain them from the successful completion of their planned programs.*

Some Ministries which attended the hearings indicated that their bids were inadequate for most operational areas but were advised to seek additional funding through either a Supplementary Appropriation or the use of virements or contingency warrants to meet shortfalls in funding programs to implement some of the government's key policy areas. This clearly points to a glaring weakness in the budget process, and one that cannot continue to be ignored much longer.<sup>9</sup>

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<sup>9</sup> **Contingency Warrant** is the official document that allocates extra money needed before the Supplementary Appropriation Act is approved by Parliament. The Minister for Finance can issue and Cabinet can approve allocations for emergencies that could not have been foreseen. Warrants apply until the last day of the Financial Year only; and then need to be replaced with a fresh annual Warrant.

**Supplementary Appropriation Act** is an act of parliament which approves extra allocations in addition to those already approved by the Appropriation Act for that year.



During the hearings, Mr Luke Eta, Permanent Secretary, Ministry of Culture and Tourism, expressed his concern about the inadequacy of funds allocated to host the 'Pacific Arts Festival' in July 2012. He explained to the Committee that;

“The original costing for the festival it self was about \$100 million but our allocation is in fact only \$39million. We will be looking for additional funds in next year’s budget. But we would like to get some of these initial infrastructure projects off the ground as soon as we can.”<sup>10</sup>

The Committee was most concerned that this approach betrayed a breakdown in the budget process.

Similarly, the Committee noted that several Ministries had already spent 90 percent of their budget allocations. For instance, the Office of the Prime Minister and Cabinet was allocated \$41 million in its Recurrent Budget, but by July 2011 the department had already spent \$31 million, leaving only \$10million for the remaining 5 months.

The Committee noted that the inappropriate use of contingency warrants has been identified in every report in recent years, but the practice remains entrenched in the system due to poor planning and political expediency.

Whilst the Committee acknowledges that providing enough funds for all Ministries to implement their work programmes is complex, it believes that robust consultations during the Budget process will enable Ministries to have Budgets which are realistic and deliverable. Further, it will ensure that there is control on the budget and the abuse of virements and contingencies warrants are minimised.

### **Recommendations**

**The Committee recommends that the Ministry of Finance ensure that all Ministries are given sufficient time to consult with the Budget Unit. It also recommends that Ministries produce expenditure plans to ensure expenditures are monitored and**

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<sup>10</sup> Mr Eta, Evidence, 15 September 2011.  
*PAC – 2011 Budget Mid term Review Report*

controlled. Further, the Committee recommends that Expenditure Reviews are performed for all ministries to provide a clear basis for their respective planning and budgeting.

### **8.3: Development Budget**

*The setup of the development budget and the manner which programs under it are implemented impede the effective delivery of government services.*

- *Implementation of development projects*

The Committee noted from the hearings that most Ministries will not be able to spend majority large proportion of their development budgets in this financial period. The Committee notes from previous budget inquiries that most government ministries do not have realistic plans about how their development budgets will be expended. Some ministries testified that no work plans were in place for some items in the Development Estimates. Political pressure may have served to ensure amounts were allocated in the Development Estimates without the commensurate planning documentation required to ensure proper implementation. As a result, a number of ministries were still awaiting various other prerequisite protocols to be met to enable them to expend the funds. Overall, this results in much-needed funds being tied up that could be utilised in other areas, thereby constraining the government's capacity in delivering services.

In his evidence to the Committee, Mr. Andrew Idute'e, Director – Budget Unit, Ministry of Finance, confirmed the Committee's concern. He explained that;

“Currently the two budgets are produced separately, the recurrent and the development. Although the two budgets are produced separately the budget process that is involved is the same. In terms of requesting ministries to put in bids and the accessing of those bids are the same for both budgets. The only difference is that we give development to planning for assessment and

recurrent we give to finance for assessment and then we come together and put the two budgets together.”<sup>11</sup>

The Permanent Secretary, Ministry of Finance, Mr. Harry Kuma believes that the implementation of any budget takes time, and sometimes this might mean implementation over two financial periods. He informed the Committee that;

“Even if a project appears in the budget and is approved by Parliament, it does not mean that it can be quickly implemented and administratively they have to comply with the various project management issues like preparing a work plan, itemizing what is the cost of each stage of implementation.

With Ministry of Finance, we must also comply with other requirements of planning. If Ministries do not submit all those necessary requirements of the project to the Planning Ministry we cannot dispatch any payment on that particular project.”<sup>12</sup>

He also added that for 2012, the Ministry of Finance will ensure that all Ministries do not make excessive bids. He said this will be done by using the figures and the actual spending of 2011 during the formation of the budget estimates. The Permanent Secretary assured the Committee that the Ministry is working on this issue, he also stated that:

“Ministries are still to properly cost a budget, that’s one basic fact. And so you will find that ministries probably just do incremental kind of budgeting. That would be a reason why sometimes we find submissions overly estimated as well, so costing of budgets is still a problem within the ministry and we are yet to build expertise on proper costing of budgets. If we are not able to do that we would not be able to also do output budgeting, that is the fundamental I think. And so we are still also working on that with the assistance of the World Bank. At the same time, that multiyear budgeting

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<sup>11</sup> Mr. Idute’e, Evidence, 20 September 2011.

<sup>12</sup> Mr. Kuma, Evidence, 20 September 2011.

would be at this point in time still difficult for us to achieve as even the basic costing is still a problem for us.”<sup>13</sup>

The Committee appreciates the sentiments expressed by the Ministry but wishes to encourage the Ministry to acquire the appropriate capacity required

Further, the Committee also noted that the Development Budget included details of donor funds available to Ministries that was outside the consolidated accounts and therefore not an integral part of the Committee’s expenditure review process. The Committee was concerned about the level of such funding and whether such funding was in line with Government priorities. However, the Committee appreciates the disclosure of such information in the budget documentation.

### **Recommendations**

**The Committee recommends that the Government review the budget process to ensure that funds are strategically utilised and value for money is achieved. It also recommends that all donor funds included in the Development Estimates but outside the consolidated funds, be coordinated by Ministries in consultation with the Ministry of National Planning and that a strategic plan be drafted documenting the donor funded projects with their implementation and coordination of outputs and targets. This should be made available to the Committee and also made available publicly not later than March 2012.**

- ***Variation costs on development projects***

The committee noted with some concern the issue of variations in costs of infrastructure development projects. The Committee is concerned that either Ministries are not adequately providing for these projects, or that the budget process has forced under provision on such projects, or that contractors bids were deliberately low in the tender process to secure contract awards, or a combination of the above.

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<sup>13</sup> *Ibid.*

In his evidence to the Committee, Mr. Luke Eta, Permanent Secretary, Ministry of Culture and Tourism indicated that his ministry was faced with the dilemma of a large variation cost. He explained that:

“This variation is a very critical variable on construction. We want to raise this question to the MID [Ministry of Infrastructure development] as to why there is so much variation. But the comment that we have, the feedback from the MID is that there was no real consistency between the architectural plan and the structural plan of the building so the construction company had to add this and that and so it caused a lot of changes to the construction as it went up. That is the explanation we received from the MID”<sup>14</sup>.

The Committee noted that the Ministry received two variations from the vendor, the first was for \$700,000 the second for \$2 million. The Ministry argued that support from the Ministry of Infrastructure Development (MID) was lacking as there was no report yet from MID on the matter. The Ministry of Infrastructure Development confirmed the variations, and the fact that these were based on unsound engineering in the architectural plans necessitating additional work. The architectural planning was outsourced and not supervised by MID.

### **Recommendations**

**The Committee is of the strong view that all Ministries embarking on infrastructure projects are to ensure that MID approval is sought right from the planning phase, including architectural/engineering drawings, through to the completion and handover of such facilities. All outsourced work are to be inspected and approved by MID before payment is made for such services. And that these requirements are outlined in any outsourcing contracts.**

**Further, the Committee recommends that the Ministry of Infrastructure Development review its internal processes and its capacity to ensure that there is adequate control of development projects from conception to completion. The Committee also recommends that the Government through the Ministry of Finance**

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<sup>14</sup> Mr. Eta, Evidence, September 15 2011.  
*PAC – 2011 Budget Mid term Review Report*

identify reliable and reputable vendors for development projects and a blacklist of non-performing recalcitrant contractors be produced and given to all ministries of vendors who should not be contracted.

#### 8.4 Contingencies Warrants

***The use of Contingencies Warrants for items which are not urgent in nature and are entirely foreseeable is unconstitutional (S.103).***

The Committee noted that in many cases the Contingency Warrants which had been approved by the Minister for Finance were not for items which were “urgent and not reasonably foreseeable”<sup>15</sup>. The Committee has for several years called on Ministries to seek funding for necessary expenditure during the annual budget process rather than seeking Contingencies Warrants approval to permit expenditure which was entirely foreseeable at the time of the budget process.

In evidence, Mr. Andrew Idute’e, Director – Budget Unit, Ministry of Finance, informed the Committee that the Contingencies Warrants (CW) for the 2011 year had already been fully expended. He explained that:

“In the 2011 appropriation, there was a provision for \$53million for CW’s. \$26.5 million for development and \$26.5million for the recurrent, as far as I know that provision is already exhausted”.<sup>16</sup>

The Committee is of the view that the Minister exercise greater discipline in the use of contingencies warrants, consistent with the Constitution.

In a number of cases examined by the Committee during the hearings, it would appear that the Ministry of Finance and Treasury may have pre-empted Parliament’s role in authorising future expenditure by the improper use of Contingencies Warrants. As previously noted Section 103 of the Constitution stipulates that the

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<sup>15</sup> Section 103 of *The Constitution of the Solomon Islands 1978*

<sup>16</sup> Mr. Idute’e, Evidence, 20 September 2011.

Minister needs to be satisfied that there is an urgent and unforeseen need before authorising expenditure by contingencies warrants.

### **Recommendations**

**The Committee is of the view that the Minister must make it clear to Permanent Secretaries that Contingency Warrants will not be approved without appropriate and convincing justification of how the request complies with the requirements of the Constitution, and so recommends.**

**The Committee recommends that Ministries take greater care in undertaking annual planning so that items which are foreseeable and can be estimated in that planning process are identified at that time and are not required to be funded by Contingency Warrant.**

### **8.5 Advance Warrant<sup>17</sup>**

***The use of Advance Warrants must be done in strict compliance with the Public Finance and Audit Act and not as a tool of convenience.***

Another area of concern which the Committee noted during the Budget review was in regards to the use of Advance Warrants. In the 2011 Appropriation Act a sum of

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<sup>17</sup> Public Finance & Audit Act Section 13.—(1) Subject to the provisions of this section the Minister may by warrant under his hand authorise the Permanent Secretary to make disbursements of moneys forming part of the Consolidated Fund or other public funds for the purpose of making advances—

(a) on behalf of and recoverable from other Governments;

(b) to or on behalf of public bodies or institutions where in the opinion of the Minister such advances are in the public interest:

Provided that such advances are repayable within a period of twelve months from the close of the financial year in which such advances are made;

(c) to or on account of any Special Fund where such advances are recoverable before the close of the financial year in which such advances are made;

(d) to public officers and elected members of Parliament for such purposes and under such terms, conditions and limitations as may be provided from time to time;

(e) to meet expenditure against an authorised loan in accordance with section 32 in anticipation of the receipt of any instalment of such loan.

(2) The total of the sums disbursed for the purpose of making advances shall not exceed in aggregate at any one time after deducting repayments and moneys on deposit an amount approved by an Appropriation Act or Acts.

\$60 million dollars is allocated for Advance Warrant. When the Committee inquired into how much was left from the Advance Warrant and whether there were any consultations on the criteria for spending, Mr Andrew Idute'e, Director – Budget Unit, Ministry of Finance informed the Committee:

“I am not sure on this because it is quite new to us, unlike for us in the budget section. This is the first time that we process this advance warrant, under this \$60million provision.”<sup>18</sup>

It came to the attention of the Committee that **\$34.8** million was earmarked to be spent on the purchase of assets of Russel Islands Plantation Estate Limited (RIPEL). This transaction was to be done through the Investment Corporation of Solomon Islands (ICSI). In his Explanation to the Committee, Mr. Harry Kumar, Permanent Secretary, Ministry of Finance, informed the Committee that;

“It is an advance from the government to other government entities. For example, the advance that the Director for Budget mentioned for the purpose of purchase of RIPEL assets is an advance made to ICSI because of the investment role that ICSI carries out on behalf of the government and so the government sees it as appropriate that facilitating the purchase of assets of RIPEL, it will be more appropriate to make an advance to ICSI and then ICSI pay the bodies that are party to that transaction.”<sup>19</sup>

The Committee notes that the Public Finance & Audit Act provides for Advance Warrants to be used and is clear that funds expended as such are to be repaid within 12 months from the close of the financial year in which they were issued. The Committee is concerned that the provisions of the PFA Act may be breached in the event that it will take longer than twelve months to find a new investor to purchase the RIPEL assets from ICSI and ICSI is in a position to repay the advance. Of course, the government could repay the advance itself through next year's appropriation. When queried on what the process was if the Advance Warrant was not repaid

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<sup>18</sup> Mr. Idute'e, Evidence, 20 September 2011.

<sup>19</sup> Mr. Kuma, Evidence, 20 September 2011.



within 12 months, the Permanent Secretary stated that he was not certain of the details if such a case were to arise but assured the Committee that he would seek legal advice from the Attorney General.

The Committee is concerned that in the RIPEL (assets) transaction ICSI has become a tool of convenience. The Committee understands the urgency by the government to remedy the RIPEL issue but to knowingly use an Advance Warrant when there is a high possibility of breach may be bordering on irresponsible financial management.

Further, if the government opted to repay the advance through either a supplementary appropriation or next year's appropriation, this would amount to the government knowingly abusing the clear intent of the PFA. In such a case, the advance warrant tool would have been used as additional contingencies warrants, except of course beyond the limit approved by Parliament.

### **Recommendation**

**The Committee recommends that the Ministry of Finance provide the Committee with a progress report on the repayment options of the Advance Warrant within the 90 days of this report being tabled.**

## **8.6: Budget dependence on narrow revenue base**

***Revitalisation measures are required to broaden the revenue base of the government.***

- ***Dependence on logging***

The Committee noted that the current estimates for logging reserves within Solomon Islands indicate approximately five years supply after which time this major revenue stream is expected to substantially fall. It is clearly an unsustainable revenue source for the government.

In evidence to the Committee, Mr. Gordon Konairamo, Under Secretary, Ministry of Forestry indicated that the sustainable harvest rate for natural growth forest is

around 250 to 300,000 cubic meters per annum. However, for the last couple years natural forests have been harvested at around five times higher than the sustainable level.<sup>20</sup>

YEAR	Cubic metres harvested
2010	1.4 million m <sup>3</sup>
2011 (as at October)	1.2 million m <sup>3</sup>

The Governor of the Central Bank stated in his testimony that the Bank estimates that production for 2011 will reach approximately 2.5million cubic meters. In attempting to ensure sustainability, the Committee was informed by the Ministry of Forestry that 1,000 hectares of trees need to be planted per annum.

However, in his evidence, Richard Raomae, Deputy Commissioner of Forest, informed the Committee that since September 2010 to October 2011 only 293.6 hectares of trees have been planted through the ministry's reforestation program.<sup>21</sup>

Although the Committee fully supports the sustained replanting projects proposed by the Ministry, the Committee would like to encourage the government to provide the resources required to achieve the 1,000 hectares per annum target.

### **Recommendation**

**The Committee recommends that funding initiatives relating to reforestation in rural areas should be increased and be carefully monitored and reported on.**

## **8.7 Economic Growth Centres**

***The progress on Economic Growth Centres is too slow with no clear strategy.***

- ***Economic Growth Centres (EGC)***

The Economic Growth Centre is one of the two flagship policies<sup>4</sup> of the NCRA Government. The Committee was informed in March that measures were in place to

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<sup>20</sup> Mr. Gordon Konairamo, Evidence, 10 October 2011.

<sup>21</sup> Mr. Raomae, Evidence, 10 October 2011.

ensure progressive implementation and growth. Under the current Appropriation Act the EGC is allocated 12.2 million, all spread out within three government ministries;

▪ Recurrent	\$200,000*
▪ Development	\$12.0 million^
▪ <b>Total Budget Estimates</b>	<b>\$12.2 million</b>
<hr/>	
*Ministry of Rural Development budget	\$200,000
^Office of Prime Minister & Cabinet	\$6.0 million
^Ministry of Commerce, Industry, Labour & Immigration.	\$6.0 million

In his evidence to the Committee, Mr. Luma Darcy, Permanent Secretary – Special Duties, informed the Committee that of the \$6 million allocated to the Prime Minister’s Office only \$500,000 has been spent on consultations.<sup>22</sup>

The Committee is concerned that the funds allocated will not be spent before the end of the financial period. Furthermore, the Committee is disappointed with progress made on the Economic Growth Centres.

### **Recommendation**

**The Committee recommends that a well thought-out clearly articulated strategy is outlined to guide the development of EGCs. Further, the government needs to take a target/focussed approach and not try to spread resources too thinly across too many EGC projects. It is important to do a few projects well.**

<sup>22</sup> Mr. Darcy, Evidence, 12 September 2011.  
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## **8.8: Government Assets**

***Use of government assets without adhering to proper processes and financial regulations is unacceptable.***

- ***Sale of a government house***

The Committee noted during the hearings that a government house was purchased by a parliamentarian at the undervalued price of \$255,000. From evidence gathered during the Committee's deliberations, it was noted that there were 3 separate valuation reports done on the property. The Committee queried the Ministry of Finance to clarify the process of disposing and acquisition of Government assets, why there were more than one valuation report produced by the Lands ministry on this one property around the time of this transaction and how a government receipting point was able to receive the monies for government assets that were disposed of outside the appropriate regulations (FIs).

In evidence, Ms. Donna Hargreaves, Accountant General – Ministry of Finance, was not aware of the transaction, she stated that:

“In relation to this transaction I will have to go back to our revenue collection area and get these specific details but our revenue section would have been collecting on advice from the ministry of lands. But what I should add and our secretary to the central tender board would be able to confirm this but in the financial instructions that there are clear details determining how government disposal of assets should occur, and that covers central tender board process as well.”<sup>23</sup>

In response to the Committee's query, Mr. Dick Oli, Secretary – Central Tender Board, Ministry of Finance briefed the Committee on the process of disposing of

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<sup>23</sup> Ms. Hargreaves, Evidence, 20 September 2011  
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government assets as required by the Financial Instructions. He, too, was unaware of the details of the sale but emphasised the requirement for assets disposals to go through a public tender process. There are no regulations other than the Financial Instructions governing disposal of government assets. Mr. Oli stated that:

“Mostly the assets have to be tendered out publicly....., that’s the process but in this case I don’t have any information with regards to this special case.”<sup>24</sup>

In light of this matter, the Committee is of the view that there are weaknesses in the system in regards to disposal of assets and the receipting of payments. When appearing before the Committee, Mr. Tione Bugotu, Permanent Secretary, Ministry of Lands, shed further light on the transaction by informing the Committee of the sequence of events leading up to the transaction:

“Now my awareness of this case goes back to the last Parliament session when I received a letter from the Honourable Member expressing interest in this property. I responded to the Honourable Member advising him that the Ministry of Lands has no authority over this property and that the Housing division is only responsible for the management of the Public Service Rental Scheme. And the house in which he had indicated interest was actually a tied house under the Prime Minister’s housing pool and I know that for certain because I looked after all the houses when I was Deputy Secretary to Prime Minister at one time.

So my advice was you would need to seek the advice of the Prime Minister’s Office in this case as we have no say in this and that as far as I remember then. A month later we were advised through our Minister that our ministry was to proceed and carry out a valuation of the land and property I believe in respect to the Honourable Member and so the valuation was carried out.”<sup>25</sup>

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<sup>24</sup> Mr. Oli, Evidence, 20 September 2011

<sup>25</sup> Mr. Bugotu, Evidence, 28 September 2011

The Permanent Secretary confirmed that the title was transferred.

Similarly, in his evidence to the Committee, Mr. Silva Dunge, Commissioner of Lands, observed that:

“Directive to facilitate this transaction came through the Minister for lands, through the Permanent Secretary, then to the office of the commissioner of Lands, where we were actually further instructed through the evaluation section to carry out a valuation and to issue an offer on this property. And this is basically what the office has done.

The valuation as the Permanent Secretary has rightly stated is the depreciated value of the property as if you would note in the valuation of the property, the valuation of this property which was carried out by our Valuer General from the office, and those are basically what the fees were. And the offer is simply based on the fees which the Valuer General has given to the Commissioner of lands.”<sup>26</sup>

Because of time constraints the Committee was not able to inquire further into the matter.

The Committee is extremely concerned in the manner in which this transaction was handled. Firstly, it is important to note the fact that certain government houses are tied to various ministries, or as in this case the Prime Ministers Office (PMO), does not give such ministries, nor the PMO, authority to dispose of any such houses. Being tied to ministries, however, only gives those ministries, and the PMO, the right to allocate such houses to their officers. If any such ministry or the PMO no longer required the use of any house or for whatever reason wishes to dispose of any such asset, such a ministry can only make recommendations to such effect to the Ministry of Finance. The Ministry of Finance has sole responsibility for the acquisition and disposal of all government assets as regulated by the Financial Instructions.

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<sup>26</sup> Mr. Dunge, Evidence, 28 September 2011  
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Further, it is clear to the Committee that Officials in the Ministry of Lands were either incompetent in not understanding the law regulating disposal of government houses or were complicit in this transaction. Officials in all ministries are expected to protect the government of the people of Solomon Islands from loss. There was clear negligence in this matter on the part of officials in the Lands ministry.

Further still, the practice of issuing political directives to effect what is clearly an illegal transaction brings disrepute to the name of the government of the people of Solomon Islands. All public officials must be clear that they are not to implement any political directives by Ministers or the Prime Minister, unless such directives are lawful, consistent with announced government policy and are the result of appropriate Cabinet conclusions.

### **Recommendations**

**The Committee recommends that the Auditor General's office to look into these matters and provide a report to the House. It is also recommended that Senior Government Officers refrain from accepting questionable ministerial directives and ensure all directives comply with the Financial Instructions.**

- **Conversion of Government vehicle into private property**

Another issue which was brought to the attention of the Committee was with regards to the blatant breach of the Financial Instructions in the purchasing of a vehicle. The Committee was informed that the Ministry of Finance purchased a Toyota hilux 4WD, but on purchase the vehicle was registered as a private vehicle in the name of the same member of Parliament implicated in the house sale transaction.

In evidence, Ms. Donna Hargreaves, Accountant General – Ministry of Finance, explained to the Committee that:

“In late 2010, the Republic of China – Taiwan provided the Caucus with \$960,000 for the purchase of a vehicle and some IT equipment. In March 2011, the Caucus office supplied a payment voucher to the Ministry of

Finance, for this vehicle with a cost of \$356,800. As this vehicle was far more expensive than any other vehicle in the government fleet we withheld payment and there was no duty or tax paid as part of this purchase. Treasury requested that the office consider purchasing something a little bit cheaper so that a precedent wouldn't be created. However, the Permanent Secretary (Finance) directed that Treasury release this payment...."<sup>27</sup>

Ms. Donna Hargreaves further added that:

"We released the payment and the cheque was released to Caucus and they collected the cheque. A number of days later Treasury officers were advised that the vehicle was registered as AB8361 in the name of the said member of Parliament and this was confirmed by the Licensing Officer from Inland Revenue. We then sought advice from the office of the Auditor General who confirmed that this vehicle should have a government plate so we then provided this information to Caucus and asked that they change the registration of this vehicle. We contacted MID and we followed it up on several occasions but to date this vehicle is still registered in private plate."<sup>28</sup>

When the Committee inquired to the legal status of the vehicle the Committee was informed that the advice given by the Attorney general was that the vehicle is still a government asset.

In contrast, The Permanent Secretary for the Ministry of Infrastructure Development, Mr. Moses Virivolomo, argued that his Ministry were only made aware of the purchase when they were consulted to advice on the issuing of number plates. He expressed his disappointment in that his ministry was not consulted before the vehicle was purchased:

"That case came up and we were not aware when the Ministry of Finance paid for those vehicles. That was admitted by them that they did not consult

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<sup>27</sup> Ms. Hargreaves, Evidence, 20 September 2011

<sup>28</sup> *Ibid.*



us when they bought those vehicles. It was later on when they found out themselves that numbers have changed when they came back to us.

When new vehicles are bought it is the MID that should get the vehicles from suppliers.....I think that particular purchase is an oversight by the Ministry of Finance.....The mechanism is there but it is just that this is a total oversight because it is not a project, it's a budget support purchase and so it should be a G plated vehicle right from the beginning.”<sup>29</sup>

It is clear to the Committee that a vehicle was purchased with government funds. On purchase, the vehicle was immediately registered in the personal name of the said Member of Parliament. Ministry of Finance disregarded normal vehicle acquisition procedures and did not involve the Ministry of Infrastructure Development in this purchase. Further, it seems this was the result of inappropriate political pressure brought to bear on the Permanent Secretary of Finance & Treasury. There must be accountability for this inappropriate political pressure.

The Permanent Secretary for Finance assured the Committee that the matter will be referred to the Internal Audit Unit within the Ministry for review.

### **Recommendations**

**The Committee feels that this case may have elements which are criminal in nature and strongly recommends that the Ministry of Finance immediately refer the matter to the Police and the Director of Public Prosecutions for investigation and prosecution. The Committee also recommends that it be furnished with a report into the internal audit findings into this matter.**

**Further, the Committee recommends that Permanent Secretaries under political pressure and inappropriate directives report any such matters to the Public Accounts Committee.**

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<sup>29</sup> Virivolomo, Evidence, 15 September, 2011  
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The Committee notes that since raising this matter, the vehicle has been returned to MID and re-registered with a G-Plate. However, an act of converting a government vehicle into private ownership has occurred, and there may have been an intention to defraud the people of Solomon Islands.

- **Payment for a property without title transfer**

During the Inquiry the Committee was informed by the Ministry of Lands, that the government had paid \$75,000 for a House which the former Prime Minister occupied, when he was a government Minister in the 1990s. The House was bought by the government but never transferred to the Commissioner of Lands.

In his evidence to the Committee, Mr. Silva Dunge, Commissioner of Lands, explained that:

“...records that we have show that the Government actually rented the property in the 90’s for the foreign Affairs Minister then who is none other than the Prime Minister now (now former PM). Upon renting the house, the Government realized that the owners had owed the Government a huge amount of income tax, and land rents. So the government decided to offset these arrear. The agreed amount was \$75,000.00. That is basically what we have in the file with us. There is no certain instrument signed as I have said yesterday and so currently the title is still with the original owners. The records of any sale or records of whatever happened are not in the file.”<sup>30</sup>

Further, the Committee noted that an amount of \$75,000 was paid additional to the amounts owing to the government. Mr. Dunge then informed the Committee that the owners (couple) have since separated and therefore a transfer of the title back to the Government cannot be done as the owners are overseas. Further the file which contained documents of the transaction has since gone missing.

When asked whether the government still rented the House during the time the former Prime Minister was not a Member of Parliament, the Ministry stated that

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<sup>30</sup> Mr. Dunge, Evidence, 28 September 2011.  
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they could not establish this as the file is missing. The Ministry of Lands also indicated that the onus would be on the Office of the Prime Minister and Cabinet to pursue the matter further.

The Committee strongly feels that facts need to be established as to whether the public funds were used to pay house rent for a non – parliamentarian.

The Committee notes the explanation in the media by the former Prime Minister that the purchase was in lieu of compensation for lost property during the conflict.

### **Recommendation**

**The Committee therefore recommends that the facts of this transaction be properly established so that remedial action can be taken. Firstly, it needs to be established whether it is in fact true that this purchase was a compensation settlement in favour of the former Prime Minister. The compensation scheme comprised payments directly to victims of the conflict, therefore the Committee wishes to be assured that no cash payments were received by the former Prime Minister for the same property loss claim.**

**Secondly, it needs to be established how a large amount of money was paid out of the consolidated fund, but no steps were taken to ensure there was simultaneous transfer of title. There is clear negligence here by lands officers who dealt with this matter. The Committee therefore requests the Auditor General to look into these matters and to report to the Committee.**

## 8.9: Prime Minister's discretionary funds

*Use of discretionary funds are clearly inconsistent with the principles of good governance and equity.*

- ***Contravention of established policies***

Ministries have over many years worked hard to establish sound policies, procedures and systems to administer their functions and services effectively. It is harmful to the public image of the government and against fair and effective administration when the Cabinet or a respective Minister uses his discretion to decide matters in contravention of established and announced policies.

During the hearings the committee inquired into why an allocation of \$10 million marked for rural solar projects, in the rural sector, were managed by the Prime Minister's Office and not the Ministry of Planning and Ministry of Energy.

In his evidence to the Committee, Mr. Allan Daonga, Under Secretary, Ministry of Planning and Aid Co-ordination, explained to the Committee that funds received from the Republic of China – Taiwan (ROC) are not coordinated by his ministry rather they are normally co-ordinated through the Prime Minister's office.<sup>31</sup>

The Committee notes from previous budget inquiries that the \$10 million was allocated in an on-going four year programme to make solar lighting available to constituencies, under a signed agreement between the government, ROC and the supplier of the equipment, as part of ROC's bilateral assistance to Solomon Islands.

Mr. Daonga further added that;

“[Prime Minister's office] people whom I have talked to confirmed that they are not aware. I also contacted those at the ROC embassy and I also received the same responses; that the project is implemented this year and that they

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<sup>31</sup> Mr. Daonga, Evidence, 6 October 2011  
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have not paid out any funds. So these were the items of information I got from the embassy. That's our response regarding that issue."<sup>32</sup>

In his evidence to the Committee, Mr, Harry Kuma, Permanent Secretary –Acting, Ministry of Finance, informed that Committee that he was not aware for the \$10 million dollars and he had no information on the funds to furnish to the Committee.

When asked, the Secretary to Cabinet also stated that he was not aware of the \$10 million fund. Nor was the Permanent Secretary to Ministry of Energy aware of this.

It is important to note that if there is a change in government policy, this would require appropriate Cabinet approvals. Such changes would then be announced and implemented. During the inquiry none of the ministries involved in the implementation of the rural solar project were aware of any change in government policy on this project. Further, the manner in which these funds were allocated by the Prime Minister has brought disrepute on the government of the people of Solomon Islands. It is clear that the requirements of the Financial Instructions, good governance, transparency, accountability were deliberately ignored in the allocation of these funds. These funds are budget support to the government, and as such form part of the Consolidated Fund. Payments out of the Consolidated Fund require appropriation by Parliament or issued under warrant of the Finance Minister (within the limits approved by Parliament for contingencies warrants). It is clear that these requirements of the Constitution were breached in the use of these funds.

Further, issues of fair access to the funds and equity in its distribution are important considerations that were deliberately ignored in the use of the funds. All funds received in the name of the government of Solomon Islands are for the people of Solomon Islands and therefore principles of equitable access and good governance are paramount.

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<sup>32</sup> Mr. Daonga, Evidence, 6 October 2011  
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## Recommendations

The Committee recommends that the Auditor General's office conduct an urgent audit into these matters and provide a report to the House. The Committee further recommends that a copy of the report be furnished to the Director of Public Prosecutions and the Leadership Code Commission for their further investigation and action as they deem appropriate. The Committee also recommends that the Ministry of Finance keep a track of all budget support funds for purposes of audit and reporting. The Committee further recommends that all ROC budget support are channelled through the Ministry of Planning, and Treasury.

- *Political Interference & duress*

The revelation by the Ministry of Finance that there were delays in the appointment of board members of certain state owned enterprises creates an environment for political interference. The Committee noted that the Minister had some personal interests in the matter. The Committee notes that the spirit of the State Owned Enterprises (SOEs) Act is to minimise political interference in the running of SOEs and set clear boundaries for the responsibilities of Ministers, Boards and management of SOEs.

In evidence, Mr Harry Kuma, Permanent Secretary – Acting, Ministry of Finance, informed the Committee that, for instance:

“The board of the Solomon airlines have been confirmed but it is not my duty Mr Chairman to announce it here, it is the responsibility of the Minister himself to announce the new board to take on Solomon Airlines.”<sup>33</sup>

The Committee is very concerned about this delay in the appointment of the Board of Solomon Airlines. During the inquiry, the Chief Executive Officer of Solomon Airlines confirmed that inappropriate political pressure was exerted by the Finance Minister personally to seek favourable treatment of a particular travel agency company, despite the travel agency owing Solomon Airlines a large debt over an extended period of time. Solomon Airlines took the commercial decision of closing

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<sup>33</sup> Mr. Kumar, Evidence, 20 September 2011  
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the account of the travel agency and pursuing it for repayment of millions of dollars in receivables. This revelation has led the Committee to conclude that this matter has compromised the Finance Minister's judgement, and that he should recuse himself from taking any decisions regarding the appointment of the Solomon Airlines Board. The Committee notes that these Board appointments are yet to be made, and urges the new Finance Minister to proceed and conclude this matter, having regard to the issues raised by the Committee.<sup>34</sup>

The Committee will refer this matter to the Leadership Code Commission for their consideration as to whether there was abuse of office by the then Finance Minister.

Further the Committee also noted during the hearings that certain Permanent Secretaries were pressured through political directives which contradicted government policies and regulations.

In his evidence to the Committee, Mr Lennis Rukale, Permanent Secretary, Ministry of Provincial Government explained that he was pressured to raise a payment voucher under Contingencies Warrant (CW) for a particular payment which was not initiated by the ministry and did not have an accounting code. He explained that:

“We were being constantly pressured by some members of the Cabinet to actually do it, and finally, we raised the CW. But the information I got is that when it was sent to the Ministry of Finance, it was actually rejected because of those very reasons, there is no code to charge and so forth. My Chief Accountant actually raised the CW and she asked us which head to charge, and we charged the service grant which is the recurrent head. It was also my first time to see this accounting code because when the voucher was returned we sent it back to the Ministry of Planning and maybe that's where the accounting code was given. I can assure the Committee that the payment was actually made under duress, it was not done properly.”<sup>35</sup>

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<sup>34</sup> Mr. Sumsum, Evidence, 13 October 2011

<sup>35</sup> Mr. Rukale, Evidence, 12 September 2011

Many Ministries stated that there is a need for internal audit function to monitor and report on compliance with internal controls, procedures and compliance with the Public Finance and Audit Act, and the Financial Instructions.

The Committee also noted other cases of political influences during the hearings. These came in the form of Ministerial directives which hampered the daily operations and caused financial constraints on the Ministries involved. Cases of influence which came to the attention of the Committee include:

- Instructions that the Ministry of Infrastructure Development be relocated from current site within 60 days,
- Reinstatement of the Commissioner of Lands after he was suspended for conflict of interest, and
- Trip to Vanuatu by the Minister of Tourism to discuss trade without consultation and representation from the Ministry of Foreign Affairs.

In light of the sentiments made by the Permanent Secretary of Provincial Government and evidence heard, the Committee encourages all Permanent Secretaries and public officials to comply with the financial regulations but acknowledges the political awkwardness that they sometimes face and to take steps to report any inappropriate political pressure or directives to the Public Accounts Committee.

### **Recommendation**

**It is recommended that the Auditor General's office to look into these matters and provide a report to the House. The Committee also recommends that the Government prioritise capacity development support from donor agencies to build an active and effective internal audit unit with officers in all ministries which has responsibility to review and report on all government Ministries.**

**Officials need not fear political retribution from Ministers. All Ministers and officials ought to take a zero-tolerance approach to inappropriate political pressure**



and direction. The Committee is hopeful that the message is slowly but surely finding reception.

#### **8.10: Request for documents and records**

*The Committee's power to call for papers and request records has not been taken seriously*

During the hearings the Committee found it difficult to effectively carry out its mandate as certain Ministries did not cooperate when the Committee Requested documents.

Under Standing Orders 69, 1 (b), the Committee has power to “summon any public officer to give information on any explanation, or to produce any records or documents which the Committee may require in the performance of its duties”<sup>36</sup>.

During the hearings the Committee made a total of 19 requests (for records) to 8 Ministries, of the 19 requests only 2 ministries had responded (**appendix 1**). The Ministries are the Ministry for Home Affairs and the Ministry of Culture and Tourism.

The Committee will continue to pursue the requests through the Parliamentary Secretariat. However, it is clear that the Standing Orders need to be strengthened and appropriate powers are given to the Committee to punish/discipline persons/officials who do not comply with the requests/summons of the Committee. Further, the Committee has noted instances of testimonies not being truthful. This is contempt of Parliament, however, there are no provisions to punish such offences against Parliament. The conventions of the High Court of Parliament require that such powers be vested in Parliament and its Standing Committees to ensure that they are taken seriously.

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<sup>36</sup> Section 69, 1 (b) Standing Orders of the National Parliament of Solomon Islands  
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## **Recommendation**

**The Committee recommends that all government ministries and agencies ensure that requests made by the Committee be processed in a timely manner. Further, the Committee wishes to register with the House its intention seek further powers, by way of a motion, to strengthen its work and ensure better oversight and greater accountability.**

## **9. Recommendations**

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Upon completion of the hearings, the Committee made the following recommendations:

### **Payment Process**

- 1. It recommends that the Ministry of Finance ensures that the Treasury has sufficient capacity to ensure payments are not delayed, and that there is a robust system in place to check payments before they are issued. The Committee further recommends that the Ministry of Finance conduct a workshop for Accounting Officers and Chief Accountants on its newly implemented financial management systems.**

Further, the Committee recommends that guidelines are drawn up to ensure that Contingencies Warrants do not become an excuse for lack of planning on the part of ministries. The Constitutional requirements for the use of Contingency Warrants is that the expenditure is unforeseen AND of an urgent nature, and these are clearly being ignored in some of the payments under Contingency Warrants.

### **Adequacy of allocations**

- 2. The Committee recommends that the Ministry of Finance ensure that all Ministries are given sufficient time to consult with the Budget Unit. It also recommends that ministries produce expenditure plans to ensure expenditures are monitored and controlled. Further, the Committee recommends that Expenditure Reviews are performed for all ministries to provide a clear basis for their respective planning and budgeting.**

### **Development Budget**

- 3. The Committee recommends that the Government review the budget process to ensure that funds are strategically utilised. It also recommends that all donor funds included in the Development Estimates but outside the consolidated funds, be coordinated by Ministries in consultation with the**

Ministry of National Planning and that a strategic plan be drafted documenting the donor funded projects with their implementation and coordination outputs and targets. This should be made available to the Committee and also made available publicly not later than March 2012.

4. The Committee is of the strong view that all Ministries embarking on infrastructure projects are to ensure that MID approval is sought right from the planning phase, including architectural/engineering drawings, through to the completion and handover of such facilities. All outsourced work are to be inspected and approved by MID before payment is made for such services. And that these requirements are outlined in any outsourcing contracts.

Further, the Committee recommends that the Ministry of Infrastructure Development review its internal processes and its capacity to ensure that there is adequate control of development projects from conception to completion.

The Committee also recommends that the Government through the Ministry of Finance identify reliable and reputable vendors for development projects and a blacklist of non-performing recalcitrant contractors be produced and given to all ministries of vendors who should not be contracted.

#### Contingencies Warrants

5. The Committee is of the view that the Minister must make it clear to Permanent Secretaries that Contingency Warrants will not be approved without appropriate and convincing justification of how the request complies with the requirements of the Constitution, and so recommends.
6. The Committee recommends that Ministries take greater care in undertaking annual planning so that items which are foreseeable and can

be estimated in that planning process are identified at that time and are not required to be funded by Contingency Warrant.

#### **Advance Warrant**

7. The Committee recommends that the Ministry of Finance provide the Committee with a progress report on the repayment options of the Advance Warrant within the 90 days of this report being tabled.

#### **Budget dependence on limited revenue base**

8. The Committee recommends that funding initiatives relating to reforestation in rural areas should be increased and be carefully monitored and reported on.

#### **Economic Growth Centres**

9. The Committee recommends that a well thought-out clearly articulated strategy is outlined to guide the development of EGCs. Further, the government needs to take a target/focussed approach and not try to spread resources too thinly across too many EGC projects. It is important to do a few projects well.

#### **Government Assets**

10. The Committee recommends that the Auditor General's office to look into these matters and provide a report to the House. It is also recommended that Senior Government Officers refrain from accepting questionable ministerial directives and ensure all directives comply with the Financial Instructions.
11. The Committee feels that this case may have elements which are criminal in nature and strongly recommends that the Ministry of Finance immediately refer the matter to the Police and the Director of Public Prosecutions for investigation and prosecution. The Committee also recommends that it be furnished with a report into the internal audit findings into this matter.

Further, the Committee recommends that Permanent Secretaries under political pressure and inappropriate directives report any such matters to the Public Accounts Committee.

The Committee notes that since raising this matter, the vehicle has been returned to MID and re-registered with a G-Plate. However, an act of converting a government vehicle into private ownership has occurred, and there may have been an intention to defraud the people of Solomon Islands.

12. The Committee therefore recommends that the facts of this transaction be properly established so that remedial action can be taken. Firstly, it needs to be established whether it is in fact true that this purchase was a compensation settlement in favour of the former Prime Minister. The compensation scheme comprised payments directly to victims of the conflict, therefore the Committee wishes to be assured that no cash payments were received by the former Prime Minister for the same property loss claim. Secondly, it needs to be established how a large amount of money was paid out of the consolidated fund, but no steps were taken to ensure there was simultaneous transfer of title. There is clear negligence here by lands officers who dealt with this matter. The Committee therefore requests the Auditor General to look into these matters and to report to the Committee.

#### Prime Minister's discretionary funds

13. The Committee recommends that the Auditor General's office conduct an urgent audit into these matters and provide a report to the House. The Committee further recommends that a copy of the report be furnished to the Director of Public Prosecutions and the Leadership Code Commission for their further investigation and action as they deem appropriate. The Committee also recommends that the Ministry of Finance keep a track of all budget support funds for purposes of audit and reporting. The Committee

further recommends that all ROC budget support are channelled through the Ministry of Planning, and Treasury.

14. It is recommended that the Auditor General's office to look into these matters and provide a report to the House. The Committee also recommends that the Government prioritise capacity development support from donor agencies to build an active and effective internal audit unit with officers in all ministries which has responsibility to review and report on all government Ministries.

Officials need not fear political retribution from Ministers. All Ministers and officials ought to take a zero-tolerance approach to inappropriate political pressure and direction. The Committee is hopeful that the message is slowly but surely finding reception.

Requests for documents and records

15. The Committee recommends that all government ministries and agencies ensure that requests made by the Committee be processed in a timely manner. Further, the Committee wishes to register with the House its intention seek further powers, by way of a motion, to strengthen its work and ensure better oversight and greater accountability.

A handwritten signature in black ink, appearing to be 'Matthew C. Wale', written over two horizontal lines.

**Hon. Matthew C. Wale**

Chairman (Acting)

Public Accounts Committee

30 November 2011

## **Appendix 1: Information and papers requested by the Public Accounts Committee**

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### **Ministry of Public Service (8/9/11)**

- Instructions/directions received for the reinstatement of the Commissioner of Lands.

### **Prime Ministers Office (PMO) (12/9/11)**

- Information on the Moonlight Club land which was bought by the government for \$3.5 million.
- Report on the order to suspend and reinstate the Commissioner of Lands (copy of the directive).
- Copies of contracts of Political Appointees at the PMO

### **Ministry of Fisheries & Marine Resources (12/9/11)**

- Actual figures on what percentage Solomon Islands contributed in catch volume to the total PNA catch.

### **Ministry of Provincial Government & Institutional Strengthening (12/9/11)**

- Report on internal investigation into the \$3m advance payment to LBS (a company that did not participate in a tender), \$10m in the agreement for feasibility study, \$53m for design and \$50m for administration and handling for the Doma Township Development.

### **Ministry of Culture & Tourism (15/9/11)<sup>37</sup>**

- Initial contract for the architectural and construction of the Pacific Arts festival village and relevant documents.

### **Ministry of Finance & Treasury (20/9/11)**

- Report on the timeline of events of the purchase of the Caucus vehicle.
- List of exemptions granted, and
- Briefing note on the Financial Inclusion Taskforce.

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<sup>37</sup> The Committee received the documents on Monday 3 October, 2011  
*PAC – 2011 Budget Mid term Review Report*



### **Ministry of Lands, Housing & Survey (27 – 28/9/11)**

- List of lands acquired by officials of the Ministry of Lands.
- Instructions for the subdivision of the Burns creek land for the National Stadium (PS informed committee that it is still verbal, waiting for written instructions)
- Records, facts and chronology of events of the Panatina residence.

### **Ministry of Home Affairs (30/9/11)<sup>38</sup>**

- Details of how the \$387,000 was spent for the uniforms for the Pacific Games
- Records on how many athletes did not have tracksuits during the Pacific Games.
- Provide committee with operators' licence for the two (2) different companies – (Pacific Casino and Honiara Casino)
- Comparative figures on the gaming levee paid by each operator for 2010 & 2011.
- Profit/loss statements declared by the two operators 2009 & 2010.
- Corporate/Company Tax information for each of the two operators for 2009, 2010 & 2011. (In collaboration with the Commissioner of Inland Revenue)

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<sup>38</sup> The Committee received the records on Friday 21 October, 2011  
*PAC – 2011 Budget Mid term Review Report*