



PUBLIC ACCOUNTS COMMITTEE

NATIONAL PARLIAMENT OF SOLOMON ISLANDS

COMMITTEE TRANSCRIPT

Office of the Auditor General, Monday 10 March 2008

Mr Fatai (*Auditor General*): Mr Chairman, what I would like to say is that during the previous Public Accounts Committee Meetings, one thing that is always emphasized is the lack staff or lack of human resource in my office.

If I may just briefly recap, Mr Chairman, in 1980 we had an office capacity with 29 professional staffs. In 2003 there were only three of us. The problem is quite complex may be basically because the common problem of government not being able to retain staff in terms of better remuneration and all that. But we have over recent years, since 2005 to be more precise, built the office from a staffing level of three (3) people to now of about 28 local staff basically with very minimal academic qualification.

Consistent with the requirement of the profession, we need to have qualified staff at very senior management levels. I must say that is required because reports of the Auditor General need to be conducted, prepared and set out in a professional manner. Like other professions the office also has codes and standards that must be adhered to.

Moving on to other general issues on our 2008 budget, I must specifically state here that although there has been a policy statement issued by the current government, if you look in there, there is no specific mention of the Office of the Auditor General. Unlike the last government there was specific reference to the Office of the Auditor General.

Secondly, under the policy statement being issued, my office has been moved from the Ministry of Finance and Treasury to the Prime Minister's Office despite my informal opposition based on existing legal framework. By that I mean, the Public Finance & Audit Act expects me to report firstly to the Minister of Finance on issues regarding the management of public funds. As it stands and as has been the conventional practice, I am always linked to Parliament for operational matters through the Ministry of Finance and for statutory matters in terms of reporting through the Office of the Speaker.

Apart from that there was mention of establishing a National Audit Office to replace the Office of the Auditor General, a proposal which I very much welcome on the basis that perhaps from there we could address the issue of independence of the Auditor General, especially in terms of funding and human resource. Because although the constitution clearly sets out the independence of the Auditor General, indirectly, I have been all along succumbed to the normal budgetary process undertaken by various governments. Whatever the government gives me that is all I need to work on.

The proposed 2008 budget is not different from that of 2007. The increase funding we received is basically what the Ministry of Finance is giving us. What I am saying here is that what we do is merely rearrange or reallocate resources. For example, if you look at page 23, the first two items under other charges, repair of office buildings and repair of government housing, the estimated actual expenditure for 2007, government housing is \$23,000, office building is \$786,000. But if you go back one step and look at the 2007 original budget, office building is \$261,000 and government housing is \$406,000. What we did was pull out those resources, come up with \$786,000 plus allocation of funds from other parts of

the budget and then deal with repairing of our office first. That is why the expense does not correspond to the allocation.

What we have decided here is that it is much better to repair office and accommodation in Honiara, and this year and that is why you see \$837,000 under government housing, and the other one is \$100,000, these are just to cater for 2007 expenditures or for this year that relate to office buildings.

What will happen under those two subheads is that this year we will be looking at repairing our residences in Gizo and Auki with that money. Instead of asking the Ministry of Finance to give us money, we just reallocate resources and deal with one issue first.

What I am trying to say here is that this year's budget has a very insignificant increase, and the increase is based on what the Ministry of Finance has been able to give us based on our 2008 proposal. If we start looking at revenue on page 33, you will notice that there is an allocation of \$900,000 as revenue in terms of audit fees. What is happening here is that it is not really revenue.

If you look at page 24, the second last item - audit fees, what is happening here is that in some cases we cannot audit statutory authorities, state owned enterprise which the Auditor General is required to audit, we contracted out those jobs. But we do not want, for example, the Central Bank to pay the auditors directly. The Central Bank pays the Auditor General's Office and then the Office pays the auditors so that we maintain ownership of the audit. That is why you will see revenue of \$900,000 which will be spent as \$900,000 on audit fees.

There has been a shortfall last year as to how much the office should have collected. This is basically due to statutory bodies not preparing their accounts to be audited. Last year we concentrated mostly on SIG accounts and provincial accounts.

In the auditing of provincial accounts, we used our staff, and this comes under a project that is being initiated by my office in 2005. Because we did not contract anybody we did not expect to pay anybody and that is why revenue that should have come in there has a shortfall.

Although we should, under the Provincial Government Act, charge Provinces for the auditing, it is very obvious that had we charge the provinces, they will come back to the central government and ask for money to pay the Auditor General. That is why I said that if it is like that then it should be addressed under the project, and at the same time it has been useful for us because as I said most of our staffs are new and it is good on-the-job training exercise for them.

On expenditure - there is one notable increase in the statutory salary of the Auditor General, which is an increase from \$114 to \$140. That is wrong because the statutory salary of the Auditor is set by regulation. At the moment the increases of 2006 is only \$104. Besides that there is a substantial increase of about \$30,000 plus in terms of actual expenditure. This is due to other allowances that should have been met under the PMO were included in here like utilities and all that and this should actually be under the PMO. Leave conversions and salary arrears are added there as well.

If I can now go through with the Committee in terms of other areas like civil service salaries - there is an increase there because at the moment as part of our capacity building program, we are looking forward to simultaneously fill in senior positions or identify staff for senior positions and putting those positions on the job training where the SI Government has pay for their salaries, which means we are going to take on the cost, although we are going to have problem with recruitment because the Public Service has advised us not to recruit.

Housing allowance is less than previously anticipated but our new staff will have to be accommodated and therefore under the government rental scheme, the office will have to meet officers' accommodations.

In terms of office accommodation, I have already explained that, in terms of the increase between office buildings and government housing. What we are envisaging is that

once we rebuild two residences in Auki and Gizo, we are going to put staff there as and when we have trained staff who would be deployed to the provinces. In fact in the long run we are looking at putting Audit Offices in all the provinces or in the major provinces. Say in Makira we could have one Audit Office to also cover Temotu and Makira. Or in Western Province we could have one there to cover Choiseul and the Western Province.

There is also an increase in printing costs resulting in us having to print our own reports. Sometimes we print one set of report for Parliament and soon after we realize that we have to print another set of report when the report comes back to PAC, PAC deliberates on it and it comes back to parliament again.

In terms of utilities - electricity and gas, the increase as the Committee would note is primarily due to increase cost in these areas, which also accounts for telephones and all that. The reduction in printing here is because we take up printing instead of outsourcing it, but extra cost in terms of stationery is absorbed under office expenses.

On page 24, a major item is IT replacement. What the office has as its policy is to replace IT equipments, for example, laptops and things like that every year. What we are doing here is not replace the whole set. For example, one year we buy five laptops and that is replacement cost for this year. Those five laptops aging are different because they are not procured at the same time. Unless the life of one laptop is really bad before it is replaced. We purchase a new one to replace the laptop of an officer that has passed its life. It does not mean that when we purchase five new laptops they are immediately distributed. No, they are kept in the office, and as and when one is broken down beyond repair then it is replaced. In doing that it is much better because you do not incur a very substantial cost of replacing, say, 28 or 30 laptops all at once because this is surely going to burden the budget.

On house rent - although there is a substantial amount in the original provision in 2007 and again in 2008, the actual expenditure is small. This is because we have yet to take on all staff. We recruit and then pay rent is what is reflected in the actual expense. But the provisioning is for the whole office otherwise we only provide for those at post and when we want to recruit other staff they are not budgeted for.

Briefly that is what I can say about the budget. It is, in my view, very credible, very realistic. Members of the Committee would only know that as Members of Parliament they have all come across the reports the Office has produced. I think we are happy with the budget as it stands now. The only thing is that I am a bit disappointed on the basis that although this budget has already been approved, when it comes to recruiting to fill up the positions, there is slowness in doing this. The Public Service always says 'wait'. Now, I understand the Public Service has imposed a moratorium on recruitment. And so that is my argument with them at this time.

With those few remarks, thank you very much.

Mr Chairman: Thank you Auditor General. I can see that is very well covered. Just on the issue of backlogs on government accounts in terms of audit, what is the progress on this so far?

Mr Fatai: Michelle deals directly with the auditing of central government accounts, and therefore is very familiar with the current situation, and so I will ask here to inform the Committee of the current status.

Ms Michelle Maschmedt: In 2007 we tabled reports to Parliament in July, which covered the period 1998 to 2003. Late last year we received signed accounts for 2004 and 2005 financial accounts and we proceeded to auditing those, and they are not completed as yet and we are waiting for the 2006 financial statements.

Mr Chairman: There was a concern raised by the Auditor General that there is moratorium imposed by the Public Service Commission on recruitment.

Mr Fatai: We have been advised recently that there is a freeze on recruitment. I think I have already explained the situation on office buildings. The substantial reduction from a provision of \$406,000 and then there is only \$23,000 for total expenditure is because we have removed that funding. In fact if the 2008 budget is to show the new revised provision then it would be reflected in there.

Hon Zama: Is there any particular reason because in your establishment in the Public Service, almost every position vacant last year still appears as vacant this year, and so there is provision for that in the budget.

Mr Fatai: In terms of vacant positions, last year we tried to recruit to fill the Principal Audit positions but what we got was not what we expected. Most applicants did not meet the criteria, and secondly there was not adequate number of applicants applying for the positions. The number of applications we received was actually less than the number of positions.

Now when you go from senior to principal auditor positions, we need to have qualified people, people that should have at least completed, say degree level and have had some public sector experiences in audit. That is one critical area that is now affecting us.

If I am to recruit people with experience in public sector auditing then old people are likely to come back, those that have retired from the Audit Office.

Basically what I am trying to say is that in terms of scheme base that we require, it is not there, and that is why we have been trying to, even promote current staff to take studies at the USP Extension to shorten the length of time they are going to be absent if they are to be sent to study in universities.

Hon Boyers: There are five posts and about three TAs and from the principal auditor down to the assistant auditors there are seven vacant posts. Are you saying that the posts that you advertised – people who applied for them are not qualified to take up those positions? Is that the only obstacle or is it because the package offered is not attractive as well? Would that be another factor or is it the remuneration package? Is that a problem because people who applied for those posts are not qualified?

Mr Fatai: What I was trying to say is that the deficiency or the shortfall in terms of filled positions is basically because of the difficulty we have in recruiting and filling these positions. Last year we tried to fill the principal audit positions and the feed back we got from the advertisement put out on the newspaper was not really to our satisfaction.

Firstly, we did not receive response from qualified people that is required. Secondly, the number of responses was inadequate. Thirdly, apart from this, we also recruit people on contract and currently we have two auditors on contract.

What we did is when we observe a person is good at his job we take him on board and place him against the positions. We then submit to the Public Service Commission to review the staffing with the view of promoting and upgrading them. We then put contracted auditors against the vacancies available. Since we submitted such request to the Public Service, I did not receive any response until today. In some cases that the posts are vacant, they are not really vacant. There are people waiting to take up those positions paid under the audit service contract.

Mr Mendo: Thank you Chairman. If you look at the yellow book here under Table 1, you will all the vacancies in the Auditor General's Office as well as the filled positions.

The Auditor General's Office has seven vacant positions. This year there is one increase there. The Office has seven vacant positions like I have said, and six of them are filled by TAs, which were gradually filled by qualified persons. The Office has 34 filled

posts. The total staff of the Auditor General's Office this year is 41. Out of those seven are still vacant.

To further explain the freeze that the Public Service has imposed, it is a temporary measure. If you look at the Table there, there are 1,098 vacant positions created. The small note underneath there indicates that there are still 656 vacant posts carried forward from last year to this year, which is a big difference. We have created 442 new positions this year, and so it is a big number of vacancies carried forward to this year. Now the cost of those vacant positions is \$47million. That is the reason why the Public Service has imposed this freeze. It is to really assess which are priority areas of each ministry.

At the moment Permanent Secretaries have been given power to advertise and recruit up until today. But we still having problem in really identifying the key positions to be advertised. That is the reason for the freeze. It is simply to assess all vacancies that have been advertised. Currently, from my information there are about 270 positions that were advertised and currently filled to be appointed by the Public Service Commission. So it is a big task for us in assessing the vacancies.

The freeze is just a temporary measure. If any ministry like the Auditor General's Office want to recruit they have to write to the Public Service and we can assess and then allow them to recruit. It is just a temporary measure carried out in the Public Service. If you look at the total budget of this year, we have fallen short of about \$8million for the positions here, and so it is a temporary measure. May be not all vacancies will be filled this year. We hope that if any vacancies are not filled by April this year they will be sidelined because we are just tying up funds in all these vacancies when they should have been utilized in other sectors.

Hon Boyers: In the light of information given by the Public Service that there is going to be a temporary freeze, I think it should not include the Auditor General's Office.

In 2005 we debated on the floor of Parliament the 1997 and 1995 government accounts which were 10 years late. In fact at that the time the Opposition MP for Finance was actually the Prime Minister then, and it was a different government debating the government accounts then.

In light of the oversight importance of the Auditor General's Office, is there any way possible for the Public Service not to freeze recruitment to fill vacant positions in that office. A Public Service freeze to do assessment of the Auditor General's Office when it is still years behind in auditing, should not be imposed on the Auditor General's Office because it is a most important oversight institution situation of the government on accountability.

I think the Public Service needs to prioritize its position on a very small but very important institution. For any freeze to be imposed on this office, I would say would be an incompetent move. I would like the Public Service to take note that if it is going to make any more freezes do not make it on the Auditor General's Office. Because that would be saying that the Office does not really know where its priorities lie in assisting the government of the day and government to be accountable to the country on government finances, past and present.

Mr Mendo: Meanwhile we will take note of that concern. There are essential services like the Ministry of Health which we really consider as priority and not only the Auditor General's Office. But as and when submission is made we will consider them.

Hon Soalaoi: I was going to raise the same point that was raised by my colleague to my right. Maybe it is good for me to say it again and then I have another question for the Auditor General's Office to answer.

I guess one of challenges facing the Office in attracting skill and qualified personnel is because of attractive remunerations offered by private auditing firms. I do not believe in

the saying that we do not have people with the right skills in the country. That is what I believe.

If possible may be the way to go from here is to look at attractive salary scales for the Office of the Auditor General. That will be the only way we can attract the right type of people we need to carry out auditing, especially of government accounts. In terms of your functions to keep accountable and good governance in the public sector, it is important for you to have the manpower to carry out your function.

But I wish to congratulate you for auditing government accounts up to 2003. That is quite up-to-date compared with other jurisdictions we have seen. But I also want to impress that we need to be up-to-date in the auditing, especially of government accounts. We do not want later on to try and fix up a mess that might cause us to start pointing fingers at each other because of the change in government. I guess you know what I am trying to talk about.

The other thing, Mr Chairman, is when it comes to contracting audit to private firms, the only fear I have, if the office can inform the Committee about today is who owns the report after. May be I am asking this question out of ignorance, but when auditing is carried by a private firm who signs the documents after that?

Mr Fatai: Basically, the Constitution sets out the Auditor General's function and the areas of audit. In terms of reporting, where an audit is outsourced to a private firm, the firm would merely be reporting to the Auditor General, and the Auditor General reports to Parliament. In that way the Auditor General still maintains ownership.

In fact that has been one of our problems in the past because although the Auditor General is empowered to authorize another person to carry out that statutory function on his behalf and therefore report to him, there are issues that other institutions have to play their part in it. For example, when I tender I am still subject to the provisions of the Financial Instructions or Public Finance & Audit Act, and so it still has an impact on who I choose. Say if the tender is more than \$500,000 then I must go through the CTB and so the CTB will help to make the choice.

But in regards to reporting the outsource audit contractor must report to the Auditor General. In that process we ensure there is quality control over the audits done.

I find a few problems with some SOE's where the Acts says this but the constitution or the Public Finance and Audit Acts says another. For example, under other acts of Parliament it just merely refers to an auditor, it does not say the Auditor General. In such a case, like ICSI, for example, it tried to advise me that it will choose the Auditor General based on the ICSI Act. I said no, we must go back to the Constitution because the Constitution says that the Auditor General is the auditor of statutory bodies.

In terms of statutory authorities, it is well defined, but subsidiaries of statutory authorities or entities owned by statutory authorities is where we have problems with, like the Solomon Airlines where we do not have access to. And to make it worse, ICSI does not consolidate accounts and so it is difficult for me to report on the impact of financing of Solomon Airlines on ICSI as a shareholder in the Airlines. It is difficult because Solomon Airlines is required to report to the Board of ICSI but there is no consolidation to the accounts to reflect what is happening to the Solomon Airlines under ICSI financial statements and so it is very difficult for me to go in previously until the enactment of the SOEs Act. With that Act now in place, it should provide more power for the Auditor General to look into entities incorporated under the Company's Act that is 100% owned by the SI Government through ICSI.

Hon Sogavare: I take this opportunity as well to commend the Auditor General for a work well done in up-dating the accounts.

Just a point that was raised earlier on and I think this is in regards to the need to maintain the independence of your office. You were saying that that there was a physically

arrangement where the Office of the Auditor General's Office comes under the Prime Minister's Office without amending the relevant Act.

How do you see that arrangement in terms of the need to maintain the independence of the Auditor General's Office? You said that the Office now comes under the Prime Minister's Office now. How do you see that in terms of the need to maintain the independence of the Auditor General's Office?

The Auditor General's Office is a good governance institution, and the last place it should go under is the Prime Minister's Office. If there is need to merge it somewhere, I think the appropriate place for it to come under is the National Parliament. The Leadership Code Commission and the Auditor General's Office should come under Parliament. It is an overseeing kind of institution and so that is the more appropriate place that it should come under, and not under the Prime Minister's Office, as you have said. How do you see that in terms of the need to maintain the independence of the office?

Mr Fatai: Quite frankly I must say that although there is provision in the Audit Act that I can report matters pertaining to the execution of my statutory functions to the Prime Minister or the Minister of Finance, it is much better and as practiced in other jurisdictions, for the Auditor General to come under the National Parliament. On that basis, the Auditor General's access in terms of operational, financial and other matters is through the Committee. In terms of its statutory functions in regards to reporting, the Auditor General goes through the Speaker. He lays his reports before the Speaker.

My view is that it depends on how one sees it. As I have said and to be frank, it depends on a number of things and quite frankly it can be detrimental to the office if the Office of the Auditor General is placed under the Prime Minister's Office.

Hon Sogavare: That is exactly the concern. You can have political directives not to audit certain things. I think that is a point that needs to be emphasized here that you cannot subject the Auditor General to a political office like the Prime Minister's Office. It should come under Parliament if they want to move it anywhere, with the Leadership Code Commission. These should come under the umbrella of the National Parliament. We really need to know the rationale behind that move. Why is it moved under the Prime Minister's Office?

Mr Fatai: The Prime Minister's Office, in my view, is one of the busiest institutions of the executive government. So to put an Office like mine which needs to be independent and needs something to be done quickly, to put me under an office that is already too busy to deal with things, I do not think that would be in my best interest or the best interest of my office.

Hon Boyers : There has been a massive under-spending on short-term contracts. Has the Auditor General envisage that the \$900,000 allocation is going to be utilized this year? Can it substitute the position of vacant posts that is creating a deficit in your Department? This is on page 24.

Mr Fatai : This under expenditure like I explained is due to us not contracting out too many audits last year so that we would receive it as revenue under that \$900,000 audit fees and then pay out from here. When revenue is under collected it is also found to be under-spent because we only payout what we collect. When we outsource an audit say to ICSI, ICSI pays us and we pay the auditor.

Hon Boyers: Seeing that the Auditor General's Office and the PAC are quite oversight, I would like to record that the committee should also scrutinize audit reports compiled by the Auditor General's Office before they are tabled in Parliament.

I am not sure whether we have actually scrutinized audit reports in the past at this committee, but I think this committee should be dealing with that as well. I think if we had not then can we make a note that from now on we can be informed through the Auditor General's Office and be given copies if we can scrutinize audit reports that not come through so that we can make reports on them for Parliament as well.

Hon Soalaoi : If you already had your action plan for this year 2008, I know you have a plan, just by looking at your budget is it reflected in the 2008 budget? And if your office has an action plan for 2008, what are you planning to do? Is that reflected in your budget for 2008 on what you have here for recurrent?

Mr Fatai: The budget for 2008 is based on our strategic plan. The copy of the strategic plan can be made available to the Committee. There are a number of factors whether or not we can be able to reach this expenditure or performance which will kind of get us through in our achievements. But having said all these, I am very optimistic that our performances to date are in line with our plans.

Hon Soalaoi: What I am trying to say is if you look at what you have here, are you satisfied that you have enough to carry out this year's plans? I guess all of us share the same concern that we want your office to be properly resourced so that you can be able to carry out whatever plans you have for this year.

Ms Michelle Maschmedt: Yes, the budget here is based on our office to manage to become fully staffed. In terms of financial resources there is a provision there. The challenge for us is to develop skills within our office and that is why there is funding provided for in there to outsource audits where we might need to, particularly with regards to state owned enterprises that this budget will allow us to undertake our 2008 programs.

Hon Zama: If you look at the recurrent estimates as against your non-consolidated development estimate, you have a very healthy \$9.5million non appropriated sum jointly administered by SIG and donors, and this is in the development estimates. This is not part of the consolidated fund but may be for purposes of good governance since we talk so much about good governance, transparency and accountability there is about\$ 9.5 million here because we will continue to raise this. The footnote says, "administered jointly by SIG and donors" in the development estimates of \$9.5million. That is a lot of money; it is even more than your recurrent allocation. How transparent can you jointly administer these funds with the donors and what is the money used to be for?

Mr Fatai: There are currently five advisors in our office, of which two are from the Pacific Islands and three from Australia.

This part of the budget was never discussed with me but I think and I believe that this sudden increase is because we have requested some assistances. The assistance program under MOG (machinery of government) is stretched over a period of five years. Therefore, in some areas they should have completed their program, like the audit managers. I have asked the Machinery of Government to retain them in some areas. When you reach the manager level you must be qualified more specifically on CPA program set up by the Public Accounts or degree in accounting which we do not have now.

I am talking about the office of the Auditor General's Office. We have already identified two or three staff to train them towards achieving that but they are yet to reach that. In some areas it is an additional and that is why this sudden increase. It's an additional on top of what we should have normally received.

As I have said it caters for TAs and everything pertaining to TAs such as housing, all their terms and conditions of services, this is what is paid under. I only use them to work.

In choosing TAs, I sat in the panel that selects TAs. I instruct MOG as and when I still need a particular person or not.

I must say that despite of the budget not being too detailed, this is one area in which there is real partnership between the machinery of government programs and my office. We work hand in hand to try address and achieve issues of my office and achieve what our plans are.

Hon Sogavare: Mr Chairman, I think this not only happens in the Auditor General's Department but I also think cuts across the full Public Service on the engagement of TAs. Because unless we have a program in place to systematically replace those people, we will have potential threat on the sustainability of the Public Service.

I think what the committee would like to know and maybe the public service here as well is that what programs are in place to actually replace those people?

The fact here is if you need them in 10 years time, people that should replace should be trained now. We expect five people to be in Australia right now to be trained to replace those people.

I think this program cuts across the Public Service and not only the Auditor General's Office, and it also has the potential to threaten the sustainability of the Public Service.

I do not know how many people we are engaging in that capacity as TAs of different ministries. I think it is an issue that should not be taken lightly, but something should be taken very seriously. If these things are about partnership then let us see some.

People should now be really trained to takeover those posts if these ones are through counterpart arrangement, people are ready to take over from the Whiteman. If there is no such arrangement in place then we have serious potential situation that you will undermine the sustainability of the Public Service. There needs to be some kind of program right now to systematically fill those posts. It may not really happen the way it should happen.

Thank you Mr Chairman.

Mr Fatai: We have a successive plan but the Ministry of Finance always changes. Every time we give it to another Minister another one goes out and so it never works out right. I think if I were to submit it to the PAC it will remain there.

Mr Chairman: Thank you Members. I think we have exhausted our time. We have the other department ready outside and I think if we can go straight or do you want to take a break, let me know but otherwise the office of the Governor General is ready outside ready to come in. Can we proceed? Okay.