



Ministry of Finance & Treasury

ANNUAL REPORT 2009





Minister's Forward

I have the honour as the Minister responsible for Finance and Treasury to present the 2009 Annual Report for the Ministry of Finance and Treasury. The Annual Report highlights the mission; key policies and organisational priorities that were implemented and outcomes that were achieved during the period. It also provides the structure of the Ministry and details of the role and functions of the various Divisions.

The Ministry of Finance and Treasury plays a central role in assisting the government to deliver financial services in order to improve and enrich the lives of the people of the Solomon Islands. In particular the Ministry provides advice on developing and implementing economic reforms including maintaining a sustainable fiscal position. The Ministry executes tax and customs and excise law fairly and efficiently and promotes spending discipline across the Public Service. The Ministry also manages the government finances and debt position and provides statistical information. In 2009 the Ministry took a lead in providing advice on the responses to the global economic crises and coordinated efforts with development partners on strategies and measures to minimize the impacts of the global economic crisis on government finances and ordinary Solomon Islanders.

I wish to sincerely acknowledge the dedication and effort of all staff under the leadership of the Permanent Secretary for the Ministry. The Ministry has performed its tasks as described in this Annual Report. A number of key initiatives were achieved in 2009 and a number of others remain on the work programme as their implementation will require more than one year.

I have trust and confidence that the Ministry of Finance and Treasury will achieve its mission to provide leadership to the Solomon Islands Community in financial matters and deliver high quality, professional financial and economic services to the Minister for Finance and Treasury, the Government, other Ministries and the wider community.

Hon. Snyder Rini
Minister for Finance and Treasury

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Permanent Secretary's Overview

The 2009 Annual Report sets out the Ministry's policy and organisational priorities and the responsibilities and achievements of the Ministry of Finance and Treasury in 2009.

In 2009 the Ministry of Finance and Treasury had both organisational and policy priorities. The key policy goals for the Ministry in 2009 was guided by the Policy Statement and the Translation and Implementation Document of the Coalition for National Unity and Rural Advancement (CNURA) Government.. The key CNURA strategic areas were incorporated into Divisional objectives and outputs. In addition the Ministry was responsible for raising the majority of government revenue as well as providing a supportive and facilitative mechanism for the whole of government to deliver on Government priority areas in a financially open and transparent manner. In 2009 the Ministry also coordinated efforts with development partners on strategies and measures to minimize the impacts of the global economic crisis on government finances and ordinary Solomon Islanders. This required the Ministry to revise its 2009 plans and forecasts.

Key Government policies implemented or progressed in 2009

1. Implement tax/duty reforms (Inland Revenue and Customs and Excise) that support economic growth, and are efficient and fair;
2. Continue an Economic Reform Program to improve the business environment and reform SOEs;
3. Maintain a stable government fiscal position by continuation of fully funded budgets and regularisation of debt
4. Develop and gain Government and donor agreement to a medium term fiscal strategy.
5. Strengthen the Statistics Office so as to re-invigorate the collection of key economic and social statistics;
6. Improve the Budget development process and presentation so as to better support government decision making and the transparency of spending decisions.

Organisational priorities in 2009 were aimed at building the capacity of the Ministry to deliver better services to the Government and to the whole of government generally. Better provision of services by the Ministry should contribute to better public service performance and to better economic performance. Both of these goals should improve the lives of all Solomon Islanders.

Key organisational priorities achieved or progressed in 2009

1. Enhance local systems, skills and capacity by effective use of advisors;
2. Strengthen middle management capacity by career planning and leadership and management skills development
3. Improve organisational support by strengthening the Corporate Services Section
4. Build capacity and professional skills by the introduction of a structured graduates program and targeted recruitment to priority areas with high vacancies.
5. Upgrade key IT systems which support service wide functions and internal financial management reporting systems
6. Work with the Public Service Commission to re-establish the Solomon Islands Government Accounting Service;
7. Continue to enhance revenue collection administration via tax and customs modernisation programs;
8. Modernise financial rules and regulations to facilitate efficient, effective and accountable delivery of government services.

The key activities achieved by the Ministry of Finance and Treasury in 2009 are detailed in this Annual Report. The Ministry continues to benefit from the support provided by technical advisors under the Financial and Economic Strengthening Program (FEMSP). During the year the Ministry also adopted a more explicit focus on capacity development which is aimed at enabling the Ministry to independently deliver quality services to the people and the Government of the Solomon Islands.

May I take this opportunity to thank all staff of the Ministry of Finance and Treasury for their contribution and commitment thus far and to encourage all to continue the good work.

Shadrach Fanega
Permanent Secretary for Finance and Treasury

Overview and Mission Statement

The Ministry of Finance and Treasury is responsible for facilitating the provision of sound advice on monetary, budget and fiscal policy to the Solomon Islands Government (SIG). Ministry services include statistics and economic management to support Government decision making processes and the implementation of good governance practice. The core tasks of the Ministry include financial reporting, revenue collection, border protection, government payments, preparing and managing the annual Solomon Islands budget and advising the Government on a range of financial policies including economic reforms.

The mission of the Ministry of Finance and Treasury is to provide leadership to the Solomon Islands Community in financial matters and delivering high quality, professional financial and economic services to the Minister for Finance and Treasury, the Government, and other Ministries and the wider community.

Structure of the Ministry

To achieve its mission the Ministry of Finance and Treasury delivers services through its Divisions and Sections. The descriptions that follow are in the same order as the sub-heads in the MoFT budget.

Executive Management: The Permanent Secretary is responsible for providing leadership to enable each Division to facilitate effective customer service delivery and support the Government through the Minister and Cabinet on fiscal and economic matters. Two Under Secretaries assist the Permanent Secretary. Executive Management and Corporate Services Section make up the HQ and Admin budget head.

Economic Reform Unit: The Economic Reform Unit is responsible for providing advice to key stakeholders on developing and implementing economic reforms.

Statistics Division: The Statistics Division is responsible for providing national statistics for the government.

Debt Management Unit: The Debt Management Unit is responsible for managing and servicing Government's debt obligations, both domestic and external.

Budget Unit: The Budget Unit is responsible for developing and managing the Annual Government Recurrent Budget, which details planned expenditure and revenue in each year.

Internal Audit: The Internal Audit Division's role is to provide the Minister of Finance, Permanent Secretary Finance and Treasury, and public sector management with an opinion on risk management, internal control and good governance practices.

Treasury Division: The Accountant General heads the Treasury which is responsible for maintaining the accounting records of the Government, financial reporting, processing of payments to suppliers and SIG payroll on behalf of Ministries and managing the consolidated fund bank accounts and maintaining the financial instructions.

Information and Communication Technology Support Unit: The Information and Communication Technology Support Unit provides for the overall management of development, support and maintenance of all Solomon Island Government (SIG) networks, applications software, and associated equipment and facilities in an effective and efficient manner consistent with SIG's Corporate and Operational Plans and to ensure that these are aligned with SIG strategic plans

Inland Revenue Division: The Inland Revenue Division is responsible for collecting income, sales, withholding and goods taxes as well as undertaking vehicle licensing for the Government. The core role of Inland Revenue is to maximize revenue over time through the effective and efficient administration of the tax laws.

Customs and Excise Division: The Comptroller of Customs and Excise heads the Division that is responsible for collecting import and export duties and administering border related laws and trade facilitation and industry assistance programs.

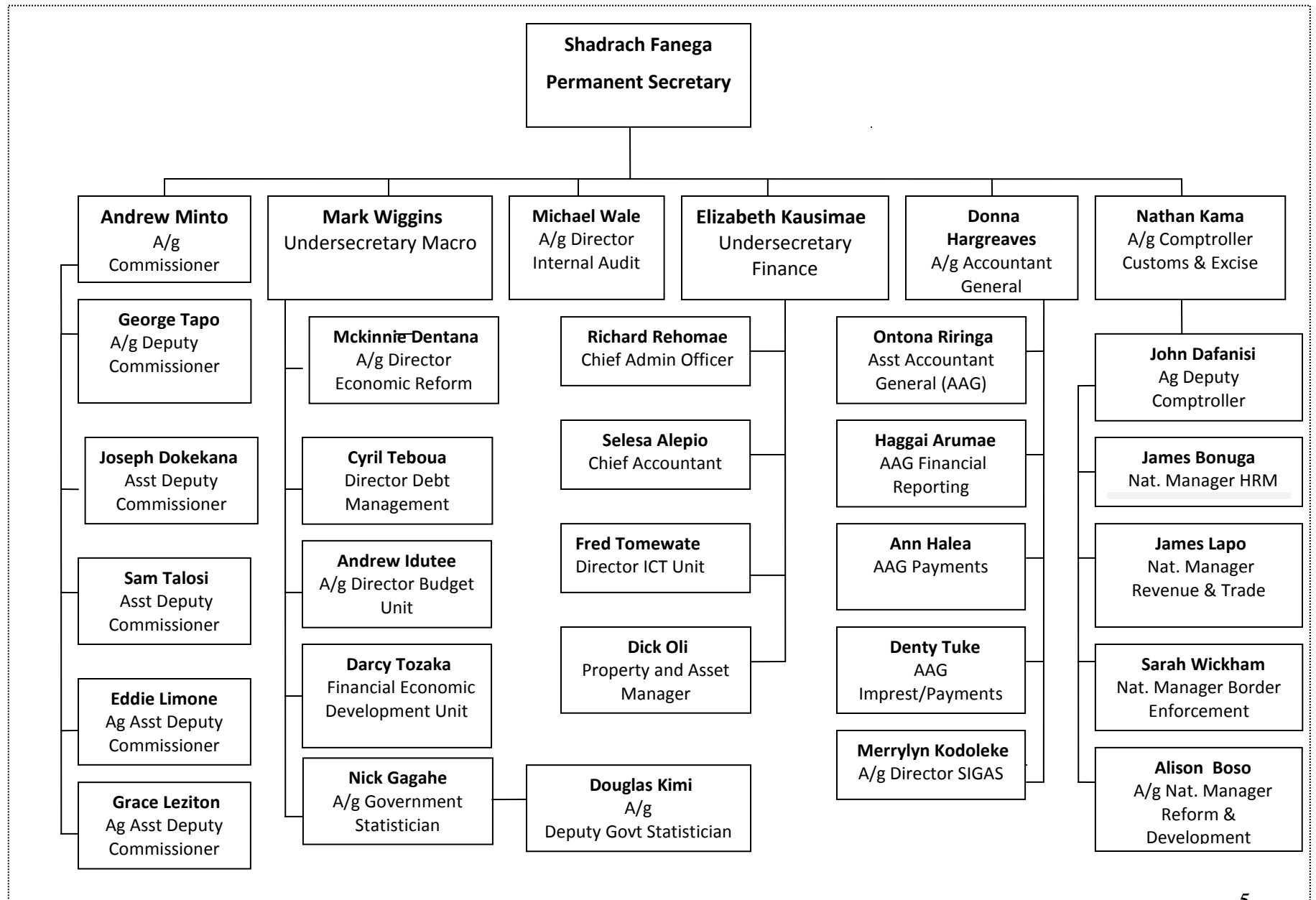
Customs and Excise Division: The Comptroller of Customs and Excise heads the Division that is responsible for collecting import and export duties and administering border related laws and trade facilitation and industry assistance programs.

Financial and Economic Reform Unit: FEDU's role is to develop, process, co-ordinate and assist to manage the implementation of development partner support programs and related initiatives.

Corporate Services: Corporate Services assists Divisions to undertake their administrative responsibilities. Functions provided include financial management, procurement, recruitment, records management, payroll and payments and supporting corporate planning and reporting.

The management and reporting structure of the Ministry of Finance and Treasury is presented in Figure 1 overleaf: *December 2009 MoFT Organisation Chart*.

December 2009 MoFT Organisation Chart



Economic Reform Unit

Overview

Early signs of the impact of the Global Economic Crisis began to show on Government revenues and the foreign exchange reserves at the beginning of 2009 strongly influencing the work of the ERU during the year. However, having its policy objectives and its functions as its central pillar, ERU has successfully advanced its policy commitments during the year as well as coordinating a package of policy responses to minimize the impact of the global economic crisis on government revenue and the economy.

Global Economic Crisis – Impact and Government Policy responses.

Towards the end of 2008, developing economies such as Solomon Islands were seen as not directly suffering from the problems on world financial markets because of their limited direct exposure to problem mortgages and financial products. However, at the beginning of the year the financial crisis began to be felt as economic activity in advanced economies slowed sharply.

The economic slowdown led to less demand for most commodities, including oil, metals and foods. This also impacted on the commodities Solomon Islands exports such as Copra and Cocoa. Furthermore, the global financial crisis made investors less willing to take risks, and less likely to invest in smaller developing countries such as Solomon Islands

ERU began the year by advising Government, donors and other stakeholders about the expected impact of the crisis and coordinating the formulation of the package of policy measures in responses the crisis. As a result, the Government responded quickly to this problem by cutting expenditure and prioritizing quality expenditure. Expenditure growth has been slowed substantially by implementing reservations across all expenditure other than payroll and essential services and there has been a freeze on new hiring in the public service. Around \$100 million of low priority expenditure in the development budget was reserved during the year.

Furthermore, as part of the policy response, the Government introduced new revenue measures that helped to make up the shortfall while improving the fairness of the tax system. These measures, range from increased penalties for driving offences to higher tax rates on alcohol and spirit, and cigarettes. ERU coordinated the rapid implementation of these revenue measures which were put in place urgently to help the Government manage its falling cash reserves.

Policy output

The review of the Unit's structure in early 2009 sets the Unit into two teams,(1) Macroeconomic, Business Regulation and Tax/Customs Team, (2) State Owned Enterprise reform Team.

Fiscal and Macroeconomic Reform Team outcomes for 2009.

During the year, the main work of the Macroeconomic, Business Regulation and Tax/Customs Team was to develop and implement the reform policy priorities of the CNURA Government that were managed by Ministry. Also as part of its core corporate responsibilities, the team ensures that Solomon Islands local

capacity is developed in order to sustain the progress and implementation of ongoing reform agenda. Overall, the team have progressed significant achievements during the year.

Solomon Islands Macroeconomic Model

One the major and significant achievement of the Unit during the year was the development of the Solomon Islands Macroeconomic Model or SIMEM. Successful capacity building in macroeconomic analysis and forecasting has led to the development of the Ministry's first macroeconomic model. SIMEM is seen as a significant tool that is used to analyze policy recommendations to the Government and to advise on potential upcoming economic challenges. SIMEM was first used to test the package of policy responses of the global economic crisis that was put forward to the Government.

New legislation, Customs Valuation Act 2009 passed by parliament;

Amongst the policy responses to the impact of the Global Economic Crisis on government revenue and the economy, was a review of the existing Customs Law. In working with the Customs Division a new Customs Valuation Act was brought to Parliament and was later passed in the August/ September sitting. The primary objective of the legislation was to protect Solomon Islands Government revenue by improving the collection of import duty. This will be achieved by giving the Customs and Excise Division greater powers in relation to Customs valuations of imported goods and also by introducing a range of Customs offences with penalties that will operate as a significant deterrent to people breaching the Customs laws. The Legislation is expected to commence in April 2010.

Parliament passed New Company's Act 2009

Working with the Ministry of Commerce Industries and Employment, a new Companies Act was brought to Parliament and was later passed. The principle objective of the new legislation is to reduce the time and cost involved for business in every aspect of operation of the company, from incorporation to compliance and winding up, and to reduce the number of discretionary provisions which currently make administration time consuming. The new legislation was passed by Parliament in its August/September sitting. A forward plan was established for the legislation to commence in June 2010.

Insolvency Act 2009 passed by Parliament

Parliament passed in August/September sitting a new Insolvency Act 2009. Preparation for the commencement date of the Act was underway at year end. The legislation seeks to simplify the insolvency procedures which currently exist under the old Company's Act. The fundamental objectives of these changes are to:

- (i) provide a simple and predictable system which deals with insolvency,
- (ii) support a system which is cost effective and which can be administered quickly
- (iii) operate a system which will provide for maximum returns to shareholders and/or creditors:
- (iv) provide a system which supports international co-operation in relation to cross-border insolvency.

Secured Transaction Registry implemented;

In September 2009 a new Electronic Secured Transaction Registry was launched. Since the establishment of the registry, banks no longer engage a private lawyer to secure their security interest against a moveable asset of the borrower with the Office of the Registry as the process can be easily done electronically in their office. The establishment of the registry was aimed to provide confidence for businesses to easily secure loans to expand as Businesses. Although the Act and its Regulation was prepared by MoFT, the management of the Registry is carried out by the Ministry of Commerce

State Owned Enterprise Reform outcomes for 2009

Like the Fiscal and Macroeconomic reform team, the SOE team also committed to progress the CNURA policy priorities and capacity development commitments of the Unit during the year. Amongst the policy outcomes for the year, significant achievements have been progressed.

Sale of Home Finance Limited

The Unit has successfully coordinated the sale Home Finance Limited to Solomon Islands National Provident Fund, the first privatization of a Government asset since the arrival of RAMSI.

Updated and Audited of financial accounts of 8 State Owned Enterprises

Financial Accounts for eight of the Government's SOEs have been updated and audited to 2007. This provides the SOEs with a sound basis on which to build future accounts and make business decisions and gives Government useful information with which to ensure SOEs are serving the country well and not presenting unnecessary fiscal risks.

Open Telecommunication market

ERU, through its work with the SIG telecommunications taskforce, coordinated a range of donors and technical assistance to progress the Government's policy commitment to introduce competition into the telecommunications market. With the strong assistance of the ERU, the taskforce negotiated the end of Our Telekom's exclusive license, reached a settlement agreement, passed a new Telecommunications Bill and selected a second mobile entrant and a new Telecommunications Commissioner. The introduction of a second mobile carrier will go ahead in 2010 as scheduled.

Administration/Capacity Development and Training

At the year end total establishment was seven permanent staff, comprising the Acting Director, one senior Analyst, four newly recruited Analysts and one Administrative Assistant. Of the 7 staff 2 were female and the remaining were males. There were 11 in-house training sessions conducted for the staff during the year. These include spread sheet training offered through assistance from FMSP, 5 in house English writing training sessions and 5 follow-up spread sheet training sessions.

Four officers also attended short term external training overseas through workshops and short development trainings. These includes the Acting Director whom concluded the stage 2 of the Pacific Executive Management Program in Canberra offered by the Australia and New Zealand School of Government, an SOE officer attended a familiarization training at the State Owned Enterprise Department in Auckland, and a tax and Customs policy officer attended one week training in Fiji.

During the year, the Acting Director also represented the Unit in 2 International Financial Institution Annual Meetings while accompanying the Minister and the Permanent Secretary to these meetings. These meetings included the Asian Development Bank Annual Meeting, Bali in May and the World Bank Group and International Monetary Fund Annual Meeting, Istanbul in October.

Statistics

The Statistics Division is responsible for providing national statistics for the Government.

National Population and Housing Census

During 2009, much of the focus of the Government Statistician was on the 2009 National Population and Housing Census. There were a range of census activities which were dovetailed in nature so as to meet the November 22nd Census Night dateline.

Questionnaire Development

Questionnaire development started February 2009 with the involvement of Users Committee chaired by the Government Statistician. The Users Committee benefitted from the advice of the Statistics/Demography Programme of the Secretariat of the Pacific Community (SPC). The final development of the questionnaire was made after the Pilot Census and by late September it was completed. The final print of the census questionnaire was done in Australia and by end of October the bulk of the printed census questionnaires was received by the Census Office.

Household Listing: March to August 2009

This work component of the 2009 national population and housing census was intended to record listings of households and villages, to provide an up-to-date record the total population of households and the number of HH and Villages in the country. The Household listing which was initially planned to take a period of 3 months took up to 6 months to complete and although expensive to conduct produced mixed results.

Pilot Census: August 2009

The pilot Census was a success even though it was delayed for one month because of the extension of the household listing. The results of the pilot census showed that the questionnaire was well developed. The scanning of the Pilot Census Questionnaires also indicated that the scanning could be done with the Census Questionnaire forms. The verification work using the scanned Pilot census Questionnaire forms showed that both the Occupation and Industry codings needed to be redesigned, this proved a lengthy task.

Training

The Census Office started training its workforce in September 2009. The initial training of the Master Trainers was subsequently followed by Training of Trainers, Training of supervisors and then the training of enumerators which ended 6th November 2009.

Enumeration

Census enumeration began on 9 November 2009 and was to have been completed by 4 December 2009. The first two weeks were the first round of enumeration and the 22nd of November was the Census night. The second round of census was from 23rd November 2009 to the 4th of December 2009. The bulk of enumeration should have been completed by the end of the second round. The extension by the Census Commissioner of the enumeration for three weeks after the 4th of December has had major financial implication for the census and reflects management problems.

Scanning: Data Processing

At the end of the reporting period preparations were in place for the receipt of Census Questionnaires from the provinces.

Publication of Social and Economic Statistics

21 statistical Reports were published in 2009 across several collections.

Report	No of Publications
Consumer Price Index (CPI) Bulletin	10 Consumer Price Index Statistical Bulletin published in 2009
Gross Domestic Product (GDP) Estimates 2007 – 2008 completed	1
Demographic Health Survey (DHS) Final Report	1
Projected Provincial Population	1
Trade Bulletin 2008	1
Trade Bulletin First Second and Fourth Quarter 2009	1
Visitors quarterly reports from 2008 -2009	6 Quarters

Expanding the Scope of Statistics

Village Resources Survey (VRS)

Data from the Village Resources Survey which was part of the Census mapping preparation was being mapped at year end using 'DevInfo' Software. Results are expected end of March 2010.

Capability and Establishment

Two established Staff enrolled in IT related Tertiary Courses offered by the local campus of the University of the South Pacific (USP) and the University of Papua New Guinea. The busy Census work plan was the main reason for other staff not taking up extension courses during the year.

The capacity of the Statistics Office to develop survey/census maps was enhanced through Technical Advice from the Secretariat of the Pacific Community (SPC) and local mapping/geographical information system (GIS) consultants.

Debt Management Unit

The Debt Management Unit (DMU) in 2009 continued to provide advice and guidance to Government and other key stakeholders on all debt management related matters. Highlights for the year include a reduction in debt as a proportion of GDP to under the Government's key stated target of 30 per cent, the resolution of Provincial Government employee contribution arrears to the National Provident Fund

and P.A.Y.E tax arrears to Inland Revenue, the brokering of a solution to DBSI's debts owed to the European Investment Bank and the successful delivery of around \$100 million in debt servicing payments to the Government's domestic and external creditors. Significant progress was also made during the year in developing debt management systems, processes, reporting and in building DMU's technical and analytical skill base with the assistance of a RAMSI advisor who is attached to the Unit.

During the year, the IMF again examined debt sustainability in the Solomon Islands as part of its Article IV mission. Their findings revealed a declining debt burden but cautioned that short to medium term debt sustainability remained vulnerable due to the underlying weakness of Government finances, the continuing delays in starting up major revenue generating projects like gold mining and further expected reductions in revenue from log exports. These findings point to the need for a cautious approach to the management of Government debt in the coming years with any new borrowing to be squarely targeted at productive and growth enhancing investment opportunities such as in infrastructure development (and conversely not being used to fund a recurrent budget shortfall).

Another important development during the year was the completion of the first Debt Management Performance Assessment (DeMPA) mission and report by the World Bank. The Solomon Islands was the first Pacific Island country to undergo this assessment which has highlighted priority areas for attention to bring sovereign debt management into line with internationally recognized benchmarks for sound practice. The DeMPA report, freely available for public scrutiny from the World Bank¹, forms the basis for DMU's medium term work agenda.

Debt statistics and milestones

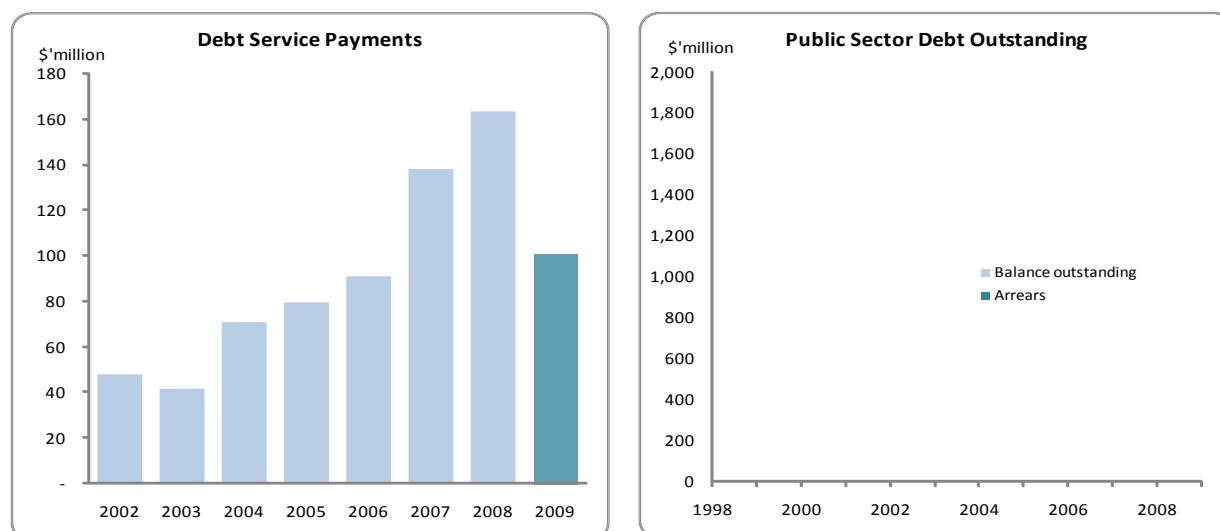
All debt sustainability indicators improved with the exception of debt to exports which increased by around 9 per cent following a steep drop in export performance in 2009 (largely driven by the global economic crises).

	2006	2007	2008	2009
Debt/GDP	47%	38%	30%	27%
Debt/Government revenue	168%	128%	101%	95%
Debt/Exports	176%	122%	102%	118%
Debt Servicing/Government revenue	9%	11%	10%	6%
Debt Servicing/Exports	10%	11%	11%	8%

Total official central government debt fell from \$1,471 million at the end 2008 to \$1,443 million by end 2009. Informal debt, including trade creditors and the debts of state owned enterprises covered by a Government guarantee, fell marginally over the year from \$105 to \$102 million.

¹ See: http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1226602826665/DeMPASolomonIslandsFinal_EN.pdf

Debt servicing payments in 2009 fell by around \$63 million to \$101 million. Debt servicing was considerably higher in 2007 and 2008 due to the payment of Government's debt arrears (such payments were not necessary in 2009).



During 2009, DMU published the very first 'Government Debt Statistical Bulletin' which is hosted on behalf of the Ministry on CBSI's website². The bulletin is updated on a quarterly basis and provides a detailed analysis of the Government's debt position.

DMU also worked closely in 2009 with the Treasury Division in the development and implementation of a cash balance forecasting framework. The framework facilitates better planning and management by providing forward projections of the Government's cash position taking into account anticipated revenues and expenditures.

Another significant milestone during the year was the successful deployment of DMU's 'Portfolio Analysis Tool'. This in-house developed system provides DMU with the capacity to analyze, forecast and stress test the debt portfolio under different scenarios as well as providing a basis for verifying and reconciling debt repayments to the Government's creditors. DMU also collaborated with ERU and FEDU in making improvements to the Ministry's custom built Solomon Island Macroeconomic Model (SIMEM).

2009 Capability and Establishment

The 2009 establishment remained at the 2008 level with three local officers, the Director's post, Senior Finance Officer and a Finance Officer. The Senior Adviser to the Unit provided under RAMSI plays a crucial role in developing capacity within the Unit.

With the development and implementation of the SIMEM and the Portfolio Analysis Tool, DMU officers received ongoing training from the Senior Adviser on the use and application of these systems.

² See <http://www.cbsi.com.sb/index.php?id=103> for further details.

Enrollment in various courses at USP SI Campus also contributed to the development of DMU staff during the year.

Budget Unit

The Budget Unit is responsible for the oversight of the Solomon Islands Government Recurrent Budget, revenue forecasts and the overall fiscal envelope. This involves managing all stages of the budget preparation, monitoring and management of funding allocations.

The Government Response to the Global Economic Crisis (GEC)

The Budget Unit was heavily involved in developing and implementing the government's response to the GEC. This included:

- working with the Ministry of Development, Planning and Aid Coordination to reprioritize the 2009 Development Budget spending.
- working with the Ministry of Public Service to place a freeze on the creation of new positions in the Establishment.
- working with the Treasury Unit to implement a 10% reservation on 'Other Charges' as a savings measure.
- working with the Treasury Unit to implement a 25% reservation on 'Other Charges' as a cash management measure.

Improved Budget Processes Presentation and Economic Forecasting

A designated Budget Management System has been procured and has been implemented. The 2010 Budget was produced using the Budget System and it is the first Solomon Island Government Budget to be made available electronically in PDF form. The system will go live for management and monitoring of the 2010 Budget on 1 January 2010. The Budget System has improved Budget production and documentation, the processing and management of virements and contingency warrants and the monitoring and evaluation of expenditure. It also provides the base to advance broader Budget reform.

MoFT continues to provide assistance to Ministries to develop and present Budget bids that identify the full financial impacts of the proposal, including the recurrent implications of development projects. All Ministries were consulted on a regular basis during the 2010 Budget process and kept informed of events and issues as they arose.

The alignment between the Recurrent Budget and the Development Budget was further improved through greater consultation between the Ministries and Budget meetings to ensure consistency of approach on baseline movements and new bids. In addition, advances were made in ensuring that the Establishment is more closely aligned with the Budget.

Budget Unit established a Taskforce to investigate ways to improve and enhance the collection of 'Other Government Revenue'. Budget Unit is working directly with key Ministries to develop ways of ensuring ongoing revenue collection.

Budget Unit worked closely other Divisions to develop and refine a Macroeconomic Forecasting Model and a Cash Flow Model.

2010 Appropriation Bill

The 2010 Appropriation Bill was passed by Parliament on 22nd December 2009 and received Royal Assent on 30th December 2009. The General Warrant was signed by the Minister for Finance on 4 January and Accounting Warrants issues to Ministries from that date.

2009 Budget and Supplementary Appropriation Bills

There were two Supplementary Appropriation Bills produced by Budget Unit and put before Parliament in 2009. The first, passed by Parliament and assented to the Governor General on 28th August 2009, was to legalise contingency warrants to the value of \$21.5 million and to approve new funding totaling \$58 million.

The Supplementary Appropriation Bill (No 2) 2009 was passed by Parliament and assented to on 14th December 2009. It legalised contingency warrants to the value of \$32.8 million.

Contingency Warrants and Virements

In 2009 the Budget Unit processed 14 contingency warrants to the value of 54.3 million.

In 2009 the Budget Unit processed a total of 431 virements. This is a decrease in the number of virements compared to 2008 (636 virements)

Capability and establishment

In 2009 the Budget Unit was allocated nine Establishment positions. For most of 2009 the actual number of staff in the Budget Unit was six, with two on full time study leave for the year and with one staff member leaving the Public Service in early 2009. This position was not subsequently filled. Budget Unit staff were supported by three RAMSI advisors.

The primary focus of capacity building in 2009 was assisting staff with the selection and procurement of the Budget System, and the subsequent design and development work for implementation. All staff received comprehensive training in the use of the system for the production of the 2010 Budget. The Budget System has delivered substantial productivity gains and will allow for the further development of Budget Unit staff in areas including the assessment of Budget Bids and the analysis and evaluation of spending versus budgets.

Internal Audit

Internal Audit is an objective assurance and consulting activity designed to add value and improve the operation of the Public Sector of the Solomon Islands. It will helps the government agencies accomplish their objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes.

The unit has continued working in transformation the internal audit approach across the public sector. This work will assist the Ministry to provide assurance to the Minister of Finance; to compile and produce accurate national accounts for Parliament, and to gain donor confidence.

Audit Reports Completed

In 2009, 10 compliance audit reports and 3 special audits were completed by 5 serving internal auditors with oversight from the Director.

A number of tasks/assignments started in 2009 were unable to be completed in the year, due to poor availability of records held by audit clients, and anticipate this trend to continue in 2010.

Reform

Work to reform the approach to internal auditing is supported by the Commonwealth Secretariat (COMSEC). In 2009 terms of reference were developed for a technical advisor funded by COMSEC. The Director of the Unit, the Auditor General and the Permanent Secretary of the Ministry of Finance and Treasury were involved in selecting the technical advisor who is scheduled to commence work with the unit early in 2010.

Terms of reference were also drafted and approved for an Audit Committee for the Ministry of Finance and Treasury.

Capability Development

Outreach to Government Ministries about the Unit's role was implemented but at a slow pace. So far, partnerships have been secured with the Ministry of Police and National Security, Ministry of Justice and Legal Affairs, Ministry of Education and Human Resources Development and Ministry of Health and Medical Services.

The Ministry of Health and Human Services has had an Internal Auditor transferred from the MoFT Internal Audit Unit.

Treasury Division

The Accountant General heads the Treasury Division which is responsible for the financial framework, financial reporting, cash management and forecasting, revenue and expenditure management, procurement and asset management and managing the government payroll and payments processes.

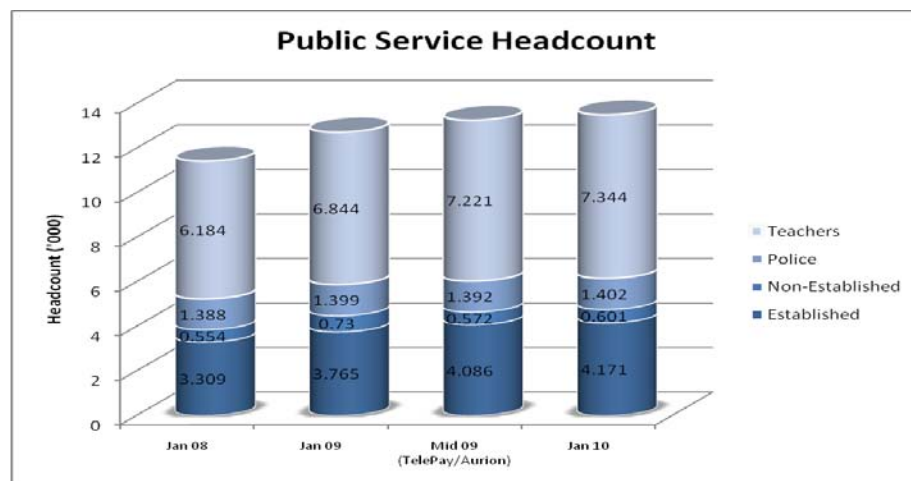
Progress by Treasury Division against key Corporate Plan performance measures during 2009 were as follows:

Payroll, Revenue and Imprest Services

Replacement of the obsolete, and unsupported, TelePay application was achieved in July 2009 with the implementation of the Aurion HR system. The new application is stable, with payroll users able to process all SIG salaries, for the most part without advisor input.

Work is ongoing to rectify data shortcomings arising from: a) TelePay data quality, which was generally poor, with widespread absence/duplication of individual data items such as NPF numbers and dates of birth; and b) data integrity, particularly the matching of employees to authorised positions, as well as significant allowance eligibility and legislative/regulatory compliance issues.

Figure 1- Public Service Headcount



The increasing workload upon the Payroll Section may be determined from Figure 1 (above) which shows continually increasing headcount numbers across the Public Service. Since January 2008, there has been a net gain of 2076 individuals (18% headcount increase) to a total of 13,684; Teachers (18%) and Established (26%) payrolls in particular experienced significant increases. The administration of these new entrants, along with the usual starters, leavers, retirees has been managed without an increase in Payroll Section headcount.

There is scope for optimism that the substantial headcount (and workload) growth of previous years may be slowing. Figure 2 (below) highlights the annualised rates of headcount increase across government have fallen from a high of 11% in 2008-2009 to a present rate close to 4%.

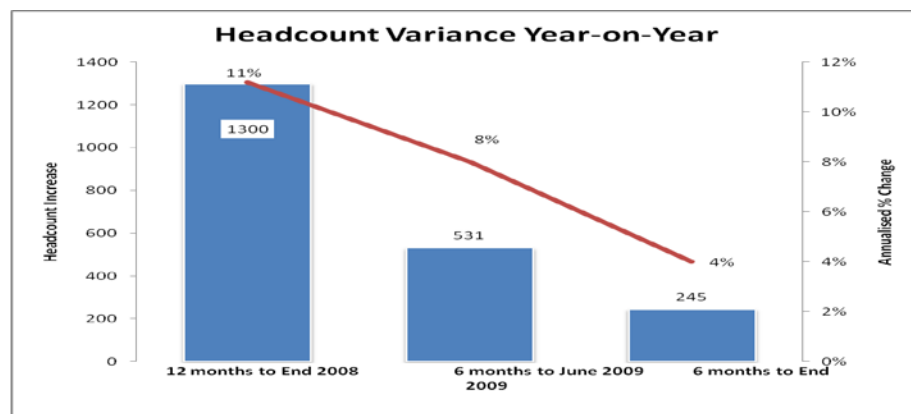


Figure 2 - Year on Year Headcount Variance

Though SIG staff have a good grasp of payroll operations and regular data capture/maintenance activities necessary to administer the five payrolls presently in operation (Established, Non-Established,

Teachers, Police, and Pensioners), there remain some areas where external assistance from the software provider will continue to be required.

Tax processing has been problematic for many years, with the legacy TelePay application limited to calculating PAYE on a period basis only, this shortcoming has resulted in widespread over-deduction of tax when assessed on an annual basis. The COLA uplift(s) in 2009 would have triggered more than 12,000 tax returns to IRD, to be processed for refunds; the decision was therefore taken to address the 2009 issue as a one-off, and process tax adjustments within Aurion. Treasury staff played a vital role in effecting the adjustments, and in advising on policy and process changes to correct the PAYE process. For 2010 and subsequent years, a revised cumulative calculation process is to be implemented as part of a software upgrade in Q3 2010 which will obviate the need for annual tax refunds to be made.

The Imprest Section made further progress during 2009 with the strategy for devolving processing of low value payments to line Ministries through the more effective use of standing imprests. In 2009 several standing imprests were increased in value in order to better meet operational requirement in a timely manner. Further work on compliance monitoring by line Ministries with standing imprest procedures has led to the reduction in the number of imprests due to the retirement of those which were no longer required. The Section continues to follow up of outstanding acquittals from ministries.

With a reduction in revenue as a result of the impact of the global economic crisis, the revenue section worked collaboratively with IRD, Customs and other revenue agencies to ensure that all revenue was collected and accounted for in a timely manner.

A minor renovation in the customer service area of the revenue section was undertaken in 2009. This involved limiting public access to the internal building and ensuring that the three revenue collectors had separate and secure collection areas and that sufficient controls were in place for the collection of cash.

Payments and Procurement

The number of payments transactions processed by the Procurement and Payments Section increased from 43,000 to 50,000 (14%) over the year. The Procurements and Payments section was able to manage this increased workload with no additional staff. This increase in the number of purchase vouchers (PV) processed and consequential payments continued the upward trend in transaction volumes handled by the Section since 2004 as illustrated by the graph in the following table.

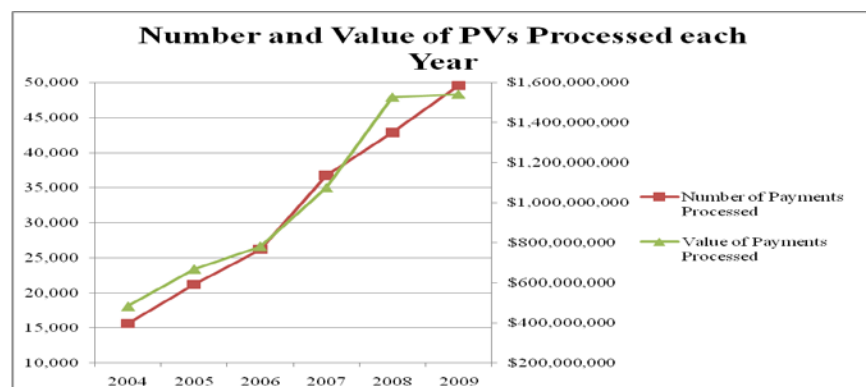
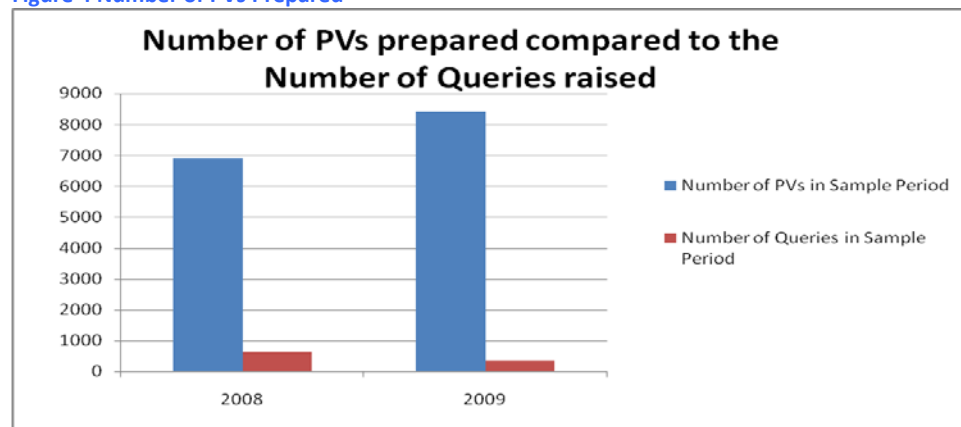


Figure 3: Number and Value of Payments Processed

A two month exercise to review the total number of purchase requisitions returned to Ministries was conducted in 2009. Out of 8395 purchase orders raised only 360 were returned to ministries with queries, as compared to 626 over a similar period in 2008. This equated to approximately 3.2 additional work weeks compared to 5.6 extra work weeks within the same period last year.

Figure 4 Number of PVs Prepared



During the year the Procurement and Payments Section undertook a major reconciliation project of all utility invoices. This resulted in queries being raised with the service providers to determine the validity of some invoices. Utility payments have now been totally reconciled and payments are up to date.

The monthly review of stale cheques is continuing. Stale cheque procedures are being adhered to and stale cheques are cancelled in a timely manner.

Financial Framework and Reporting Section

Substantial progress has been made in the preparation of the national accounts. All accounts are now up to date and the 2008 Annual Accounts were submitted for audit in September 2009, three months earlier than the previous year.

Once again, the Auditor-General provided a Disclaimer of Opinion for the 2008 Annual Accounts, but noted that improvements were made in note disclosure, general ledger accuracy and in identifying unexplained variances. An Audit Action Plan, which includes working more closely with the Office of the Auditor-General and MOFT providing greater oversight and support to other Ministries, is expected to lead to continuous improvements in the Annual Accounts.

The format and content of the monthly financial statements provided to management and government changed during the year. The new format includes additional information on the recurrent and development budget including comparative information of monthly, year to date and previous year information.

The cash situation facing the Government in 2009 was challenging and required constant management and monitoring. Cash balances throughout the year varied and required the Government to introduce a priority approach. This approach was successful in stabilising the budget and cash position.

The uncertain timing of revenue demanded that a long term strategic approach be developed to managing cash. In 2009, Treasury, in conjunction with DMU, commenced the development of a model

to monitor and forecast cash, with the objective of ensuring that the Government has sufficient funds to meet its obligations as and when they fall due.

During the second half of the year, the Treasury Division worked with donor organisations on the use of SIG processes for financial management of donor funded projects and programs. In 2010, central oversight by MOFT on NZAid and some AusAID programs will commence.

A review of the Finance Instructions to modernize government financial rules was further progressed during 2009. The new Financial Instructions provide for a financial framework which strikes an appropriate balance between facilitating financial management and business processes while retaining a robust compliance and controls environment to provide assurance over the use of public funds. It is anticipated that the revised Finance Instructions will take effect early in 2010 after SIG officers have been provided with training.

Preliminary work has also been undertaken on the development of a new chart of accounts. The chart of accounts is in urgent need of review prior to the implementation of a new upgraded the Maximise Financial Management Information System (FMIS). The upgrade of Maximise is expected to commence in 2010.

Capacity Building and Establishment

The Treasury Division Establishment was increased from 57 to 63 for 2009 in recognition of the significant increase in workload being handled by the Division. Only 49 positions have been filled due to the freeze on recruitment as a result of a Government strategy to tackle the global economic crisis.

A senior technical adviser and SIG officer were appointed late in the year to reinvigorate the SIGAS cadre and both are due to commence early in 2010. The officers will be working with departments to improve financial management practices and to enhance the capability of staff involved in the management and handling of public funds.

As part of a capacity development opportunity Mr Haggai Arumae, an Assistant Accountant General, travelled to Australia to spend three months in the Department of Finance and Deregulation. The focus of the deployment was to undertake training on whole of government reporting, cash management and asset management. On his return to the Solomon Islands significant changes to the format of financial reports and the capture of asset information, were made based on lessons learnt in Australia.

A Chief Accountants and Chief Administrative Officers Workshop was held in November to provide Solomon Island Government Accountants with an opportunity to discuss current issues impacting on their work places. The workshop focused on providing an update on the cash situation facing the Government at the time, limiting spending to high priority areas such as payroll, utilities, education, health, security, provincial government grants and accommodation rental payments. Instructions on managing end of year finances and update on the progress of the financial instructions, the 2010 Budget and the progress of the Aurion implementation were also included in information provided.

ICT Support Unit

The ultimate objective of ICTSU is: *to improve information systems and ICT services meeting SIG business requirements*. Progress against 2009 objectives is reported below.

Improve information systems and ICT services to meet SIG requirements

Installation of new payroll system and new budget system supported

Seven new payroll servers were installed successfully according to SIG standard, to support the new payroll and budget systems located in the Ministry of Finance and Treasury. This is the first large scale installation of core infrastructure to international standard, that has occurred within SIG.

New Census database installed

A new SQL server was installed at the census office. This server holds the census data collected during the 2009 national census.

New and improved network systems installed for ministries and other agencies.

Two new network systems were installed at the Ministry of Infrastructure and at the Ministry of Foreign Affairs' new office in the Melanesian House.

New firewall and proxy servers installed and antivirus software license renewed.

A new ISA server was acquired to replace the old and dysfunctional server. This was installed during the last quarter of the year.

New hardware and software to replace the critical SIG domain controllers and whole of government email system was purchased at the end of the year.

New ICT procurement processes implemented.

New procedures were developed to support procurement standards. Equipment and software delivered to SIG will be checked by ICTSU staff using a check list before any payment will be released to the vendor.

Payments to vendors, for the delivery of ICT equipment, software or services to SIG, will be processed only where the delivery is in full compliance with SIG standards. Any vendor who delivers equipment, software or services that are non-compliant with the minimum standards three times (3) in a row will be excluded from the provision of any equipment, software or services to SIG for a minimum period of six (6) months.

Strengthen the capacity of SIC ICT Management and technical staff

The following capacity building activities were undertaken in ICTU during 2009.

- The ICTSU Director attended a training on "Use of IT in Public Administration" at the National University of Singapore
- The ICTSU Manager (acting) and the Director attended the Final stage of the Pacific Executive Leaders program in Canberra, Australia.
- All the new ICTSU staff attended the Induction training at IPAM during the year 2009.

ICTSU Support to Ministries and Agencies

ICT staff provided a range of support services to Ministries during the year, Graphs showing the activities undertaken and the distribution of support jobs to Ministries are at Appendix B.

Relocate the ICTSU and main computer room to the Anthony Saru (AS) building

ICTSU finally moved to Anthony Saru building during the month of October 2009. The move was delayed for almost a year due to availability of funds and shipment of essential equipments.

Linking of other Ministries and Government agencies to the central server in AS building.

More Ministries and government Agencies are in the process of joining to the SIG core systems which will reduce the cost of purchasing expensive equipment and reduce the replication of services and systems.

Establish suitable policies for the management and support of SIG ICT

A new policy, procurement and standards coordinator was recruited by the transition program (RAMSI/MoG) at the end of the year.

Capability and Establishment

Three Technician Desktop Support Officers and a Programmer Application Support Officer were recruited early quarter of the year.

A program funded by Machinery of Government program in RAMSI provides support for a Technical advisor and four local staff. The transition phase started in July 2009 and will end in June 2010.

In addition to the training reported under "Strengthen the capacity of SIC ICT Management and technical staff" above .five technical training has been attended by SIG ICT staff in Australia in 2009. These trainings are funded under the transition phase and will end in June 2010.

Inland Revenue Division

The Inland Revenue Division, is responsible for collecting income, sales, withholding and goods taxes as well as undertaking vehicle licensing for the Government. The core role of Inland Revenue is to maximize revenue over time through the effective and efficient administration of the tax laws. The Inland Revenue Division, in conjunction with the Economic Reform Unit, also assists with the provision of policy advice to the government.

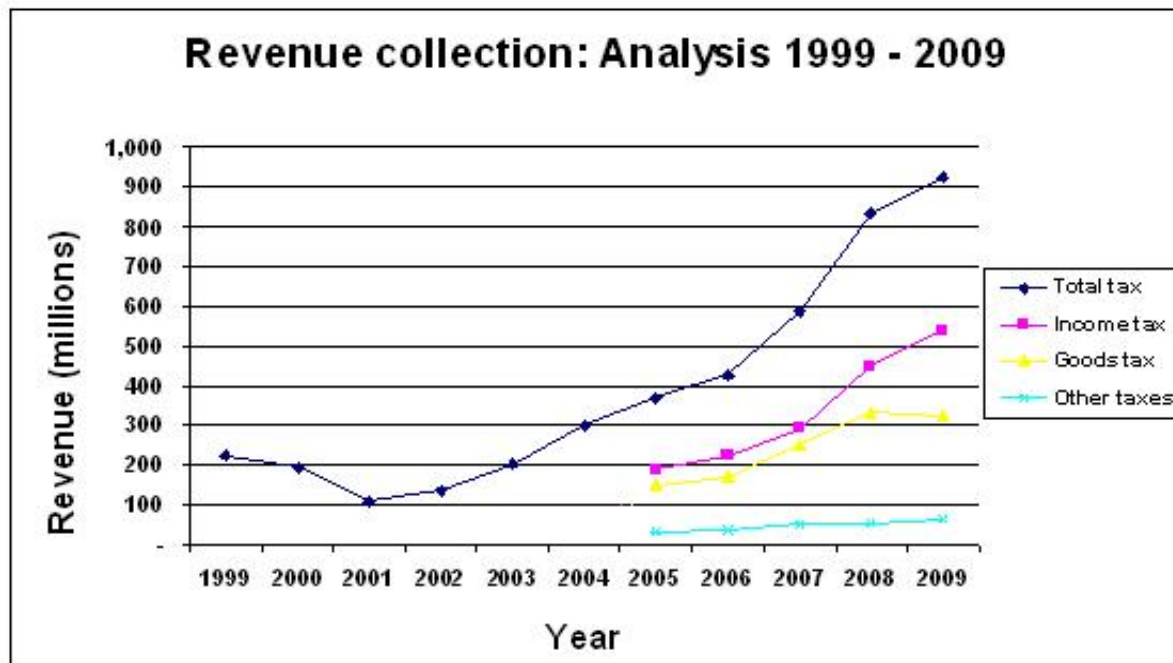
Enhanced Revenue collection

The 2009 year commenced with a budget of \$1B which was revised to \$934M in March 2009 due to a drop in Goods Tax on fuel. This was further revised to \$900M in September 2009. This revision was due to concerns that the third quarter results may not be as strong as originally anticipated due to the impacts of the prevailing economic climate on business activity.

The final total revenue collected by IRD in 2009 was \$924M which is 2.6% above the amended budget of \$900M. This represents a \$91M (9.8%) increase over 2008.

The greatest area of concern came from Goods Tax which was significantly under budget due to the falling cost of fuel and lower than expected returns from Customs at the Port. For the first time in many years the Division reports a slight decline in Goods tax over the previous year.

Income tax (includes Company, Personal and Withholding taxes) was very strong with a \$90M (20%) increase over 2008.



Improved Voluntary Compliance

In response to the increasing number of businesses registering with the Division and a general drive to improve overall compliance, a Tax Education Team was established. The team's primary role was to visit business premises, distribute educational material and run seminars. The seminars were well attended and received.

The focus of the Division has been to ensure that compliance is maintained and improved going forward rather than assessing back years and effectively putting small business into significant debt. However for those that choose not to comply and flout the system then IRD will take a hard line and penalise where it is necessary.

The Division has also become more proactive at identifying those outside the system through a good flow of information from the Registrar of Titles and changes to the use of the Tax Identification Number on imported goods.

Registrations

Year	2007	2008	2009
New Registration	280	417	419

Audit Activity

Audit achieved a record year in terms of revenue assessed with \$50.6m assessed by year end. The following is a breakdown of audit productivity during the last 4 years.

<u>Year</u>	<u>No. cases completed</u>	<u>Tax Assessed</u>	<u>Tax Paid</u>
2006	27	\$11,256,772	\$6,347,835
2007	98	\$12,808,051	\$6,416,324
2008	37	\$13,300,493	\$7,942,713
2009	59	\$50,646,723	\$12,448,822

The Assessed and Paid figures are significantly increased compared to prior years. This is a reflection of some long-standing cases being finalized and an ongoing focus on high net worth individuals. One case represented a \$30M discrepancy. Other features for Audit in 2009 were:

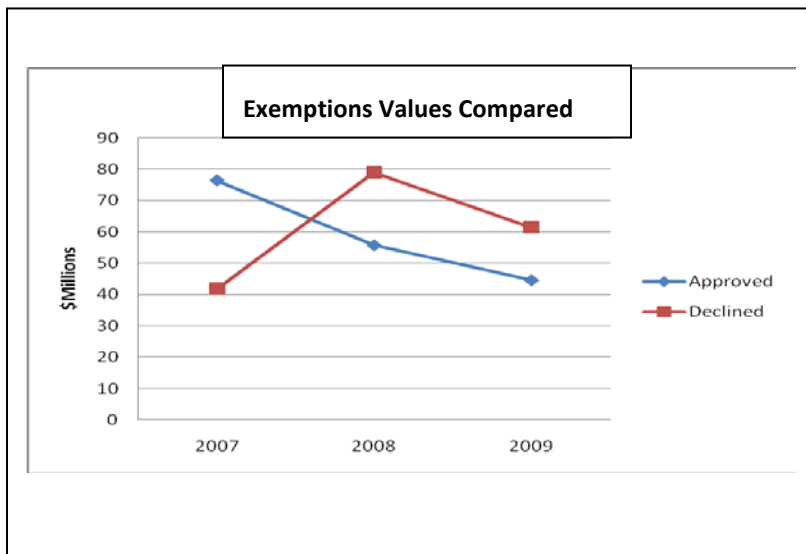
- continued auditing of high net worth individuals
- commenced development of an audit strategy
- continued assistance to Customs to improve Revenue collection and focus.

Arrears

The debt team continues to focus on new income tax debt and any old debt that is on active taxpayer accounts. Improvement in our ability to reduce debt is contingent on the modernization of the taxpayer accounts system. A project to modernize the taxpayer accounts system is scheduled for 2010. A table setting out progress with cases and arrears collected is at Appendix A.

Improved Management of Exemption Guidelines

The IRD Goods Tax Committee continues to meet fortnightly and provide comprehensive reports to the Minister to assist him in the decision making process. IRD worked with ERU on legislative options to harmonise the Customs and IRD Exemption Committees and enshrine the guidelines and process in legislation.



Note:

- The above figures include Ministerial, RCDF, Committee recommended, MOU and Bilateral Infrastructure Projects exemptions.
- Bilateral Infrastructure Projects account for \$15M of the \$44m approved.
- "Real" discretionary exemptions are therefore approx \$29M.

Capacity Building

The report on the design of a medium term program of assistance for the Solomon Islands IRD was signed off by the Minister of Finance, the New Zealand High Commissioner and RAMSI Special Co-ordinator. The report proposed a programme of capacity building for the Division over the next 5 years fully funded by the New Zealand Government with personnel support coming mainly from NZ Inland Revenue.

Other Capacity development activities included:

- The division recruited, inducted and trained an additional 20 staff during 2009
- HR Plan was developed identifying priorities for the next 5 years.
- Continued Growth of leadership team through acting and development opportunities.
- A leadership programme has been identified and piloted by members of the Senior Management Team.
- Work commenced on the modernisation of taxpayer accounts commenced.

Customs and Excise

Customs and Excise Division (CED) ensures compliance with border related laws and administers a range of schemes to assist local industries to contribute to economic growth. The Solomon Islands economy depends on sustainable improvement of trade and the division plays a major part in this by facilitating movement of legitimate international trade while at the same time, identifying and responding to non-compliance with Solomon Islands laws.

The sections which follow report on Customs performance against its objectives in 2009.

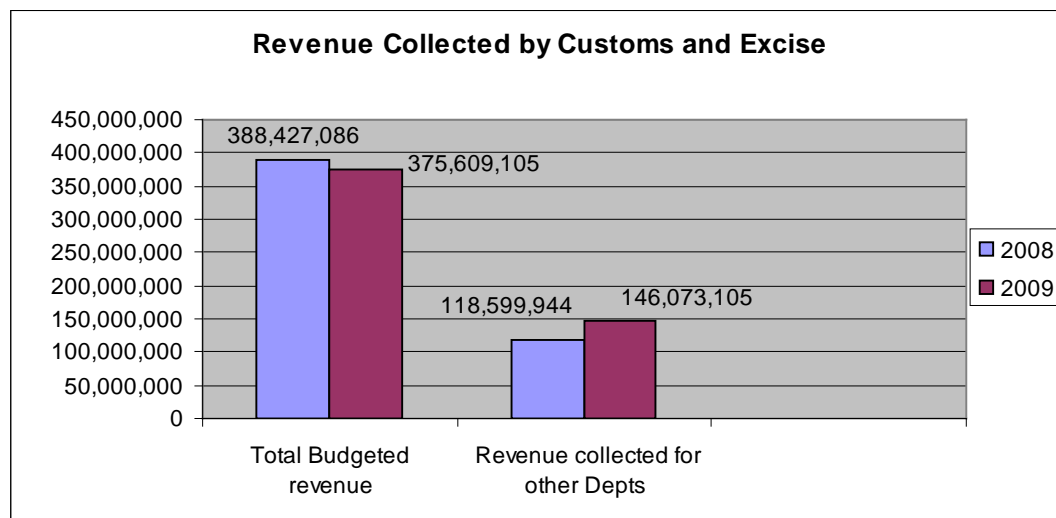
Revenue Collection, trade and Industry Assistance

Improved revenue collection for the Government of the Solomon Islands

Customs & Excise Division collects revenue due to the Government.

The originally budgeted level of revenue for 2009 was \$419,033,258. This was revised downward to \$380,206,134 because of global financial crises which has resulted in many short falls in revenue particularly in the imports and exports.

Revenue collected in 2009 totaled \$522,945,277 this includes budgeted revenue (Duty and other fees) and unbudgeted revenue which is collected on behalf of others. Budgeted revenue which includes duty and other fees totaled \$375,609,105 while unbudgeted revenue totaled \$146,073,105. Collection of budgeted revenue resulted in a shortfall of \$4,597,054.58 against the revised target of \$380,206,134. See table below for comparative 2008 figures.



Enforcement Compliance and Community Protection

To achieve an increase in compliance with customs and other border related law

While the majority of revenue was collected by Revenue and Trade there was an increase of revenue collected by Border & Enforcement staff in 2009. This was the result of the work of a Taskforce specifically established with assistance from IRD to improve revenue collection at the port, the collection of outstanding and current Debit Notes and the increase in the payments of penalties. A brief breakdown of revenue collected by Border and Enforcement in each sector follows.

2009 Revenue Collected by Border and Enforcement	
Sector	\$
Seaport	4,712,460
Out-ports	12,458,965
Airport	1,058,992
Enforcement	313,938
Debit Notes	3,062,101
Parcel Post	622,067
Total	22,228,524

Customs and Excise Division Contributes to Solomon Islands community safety by detecting and responding appropriately to the unlawful activities and movement of goods, people and transport across the national borders.

The objective for 2009 was to increase the level of compliance by importers, exporters and excise manufacturers. In 2009 9 new cases were referred to Investigations, this compares with 7 in 2008. A total of 9 were under Investigation during 2009 of which 5 were settled out of court, 1 prosecuted and 3 were pending at year end.

Facilitate Trade travel and transport

Our objective is to facilitate movement with minimal disruption to the movement of legitimate trade, transport and travel, while identifying and responding to the unlawful movement of people, goods and transport.

Customs Performance Statistics for Year 2009

Movements Passengers and Trade Processed

	Inwards 2008	Inwards 2009	Outwards 2008	Outwards 2009
Aircraft	1,058	921	1,058	921
Ships	919	624	873	542
Total movements	1997	1545	1,973	1,463
Air passengers and crew	38,248	36,116	38,551	38,702
Sea passengers and crew	22,061	18,017	24,970	17,516
Total passengers	60,309	54,133	63,521	56,218

	Imports 2008	Imports 2009	Exports 2008	Exports 2009
Air Cargo	849,231 kg	891,697kg	414,412kg	248,226kg
Sea Cargo	1,726,898mt	888,459mt	658,357mt	151,691mt
Parcel post	5,684	4,089	500	414

Improved Effectiveness and Efficiency of Customs and Excise Operations

The redesign of jobs and business practices consequent on the implementation and subsequent evaluation, of PC Trade has been a major focus. Over 3,000 traders are now registered in PC Trade. Other achievements in 2009, to improve efficiency and effectiveness include:

- A business process review of the documentation process has been undertaken. It will lead to a greater scrutiny of high risk customers.
- Information technology has been significantly upgraded at both the seaport and airport and a new version of PC Trade installed successfully.
- Work started to develop policies and procedures to establish Post Clearance Audit activities.
- A Joint Operation Task Force carried out 684 physical examination of “high risk” cargo at the wharf and container yard. The operation was hugely successful with \$2,451,657 revenue collected. Importers and exporters are now more compliant.
- The new passenger declaration arrival card is now in use. It includes a border cash reporting declaration and has resulted in 12 cash related interceptions.
- PNG and Solomon Islands has signed agreements on common issues which affect both countries along the common border.
- A contract for the provision of security on foreign boats was tendered. Safe Guard Security Company was approved for security duties on board all foreign vessels.

Legislation

A scoping review was conducted to identify what needs to be done with Customs legislation and a project document was prepared. The project major project and will run through 2010 and possibly well into 2011.

A Customs Valuation and Customs Offences Bill as developed based on a model that was reworded for the Solomon Islands environment. This legislation was passed in August. This legislation implements the WTO General Agreement on Tariffs and Trade (GATT) and provides legal methods Officers can use to determine the Customs value of goods.

A Currency Declaration Act was also passed in 2009. This Act requires the declaration of currency at the border and for the seizure, detention, or forfeiture of currency which is derived from, or intended to be used in unlawful conduct.

Human Resource Management and Capacity Building

Customs has focused on reforming its Customs workforce. At the forefront of these reform programs are redesigning of jobs and business practices consequent to the implementation of the PC Trade. Achievements in 2009 included the recruitment of 23 new Probationary Customs Technical Officers and 1 support staff.

Accountability and Integrity are 2 key components aimed to build confidence and trust in Customs. Capacity development strategies are aimed to strengthening the Customs Organization. In 2009 activities included the following:

- Implementation of a Code of Conduct and Professional Integrity
- Implementation of a Discipline Policy and a Supervisors' guide to Discipline
- Development of policies on Rotation and Deployment and Performance Plans
- Development of a Workplace Safety Program
- Attendance on Canberra based program by three senior staff

Financial Economic Development Unit (FEDU)

In 2009 FEDU broadened its involvement from a primary focus on tsunami relief to a key role in coordinating work with development partners. FEDU's role is to develop, process, co-ordinate and assist to manage the implementation of development partner support programs and related initiatives.

Public Financial Management

FEDU prepared a Cabinet paper on improving public financial management. The recommendations in the paper were adopted and Cabinet endorsed the establishment of a Public Financial Management Working Group comprised of representative from MoFT, the Auditor General, the Ministry of Development Planning and Aid Coordination and Development Partners. The role of the group is to enhance public financial management. FEDU will coordinate and support this group in 2010.

Development Support Partners

During 2009 FEDU coordinated the timeframe and content of the donor support program for the Solomon Islands in 2010. FEDU also supported the negotiation of a project and financial agreement with the Asian Development Bank for the Solomon Islands Roads Improvement Project (SIREP).

Preliminary work to develop the International Monetary Fund's program for the Solomon Islands was completed in 2009. The IMF representatives will visit Honiara in February 2010.

Briefings were prepared for the Minister of Finance and Treasury in respect of his overseas meetings with the World Bank; the Asian Development Bank and the Pacific Forum (Finance and Economic Ministers Meeting).

Global Economic Crises Working Group

As the potential impact of the global economic crises on the Solomon Islands emerged a Global Economic Crises Working Group was established. The Group consists of the Central Bank, Prime Minister's Office, Ministry of Development Planning and Aid Coordination and MoFT. FEDU organized and coordinated the five meetings which were held in 2009.

Establishment and Capacity Development

FEDU is fully established with 4 staff. Capacity development activities undertaken in 2009 included attendance at a World Bank/ADB Country Performance Assessment Workshop and attendance at a ADB seminar on managing Results from Programs and Projects. The Director also attended a MoFT seminar on capacity development.

Corporate Services

Corporate Services assists Divisions to undertake their administrative responsibilities and provides support where necessary for the effective operation of the Ministry. Functions provided include financial management, procurement, recruitment, records management, payroll and payments.

A key objective for the Ministry in 2008 -10 is to strengthen Corporate Services so that it can do more to support capacity building within the Ministry. Significant achievements in 2009 included the following.

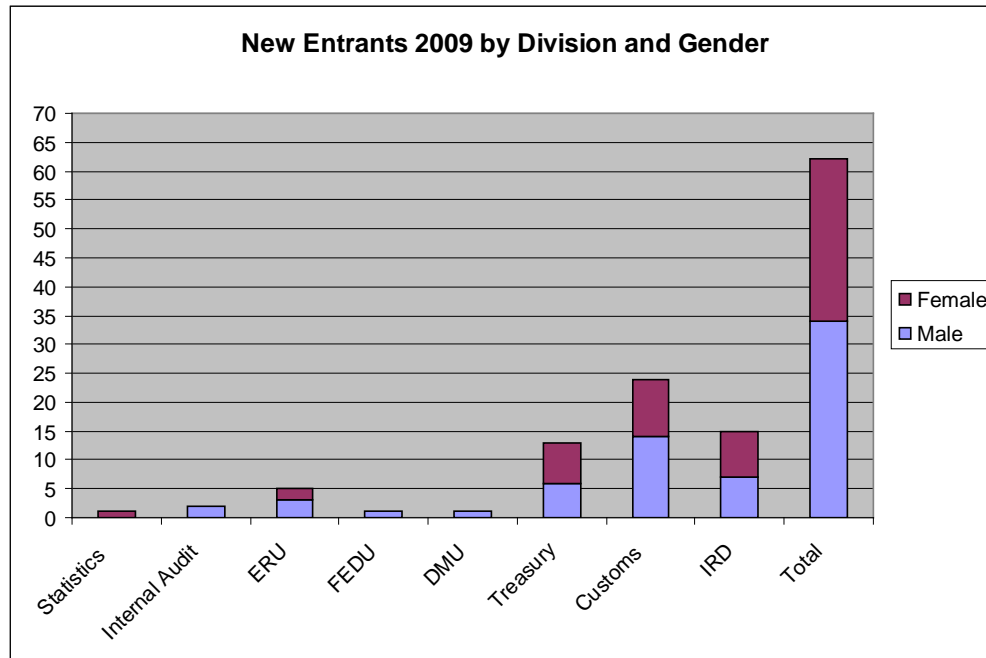
Strengthen Corporate Services

MoFT Financial Management

Reports on the Ministry's financial position are now prepared and discussed at the monthly Heads of Division meeting. These reports were improved in 2009 to provide an estimate of the year end position as well as information on expenditure to date.

Personnel Management

Recruitment resulted in 62 staff commencing employment in MoFT in 2009. The recruitment of such a large number of staff has reduced the understaffing in Treasury, Customs and IRD. A graph showing the number of employees in established positions by Division in 2008 compared to 2009 is included at Appendix C.



Efforts were made in 2009 to eliminate overdue confirmations of appointment and while this objective was not completely achieved at year end the situation was considerably improved.

Confidential performance reports were completed for over 95% of MoFT staff in 2009. This represented a significant increase on 2008 when reports were completed for less than 35% of staff.

Planning and Reporting

At the end of 2009 MoFT was on track to adopt a new Corporate Plan 2010 – 2012 early in 2010. An Annual report was completed for 2008 and provided to the Minister for tabling in Parliament

Central Tender Board and Ministerial Tender Board

CSS supports the Central Tender Board which is now regularly meeting to consider public service tenders where more than \$500,00 is involved. The CTB met 26 times in 2009 compared with 19 in 2008. CSS also supports the Ministerial Tender Board which considers MoFT tenders worth between \$50,000 and \$500,000. In response to the global financial crises a policy was introduced whereby Ministries' MTB decisions need to be referred to and endorsed by, the CTB. This has increased the servicing workload.

New Treasury Building

In 2009 the concept design was developed for a new Treasury building. This involved coordinating and managing stakeholder involvement to ensure MoFT needs were fully met. The approved design has an emphasis on sustainable design and building technology. The detail design documentation was completed to 95%.

A comprehensive donor funding business case report was completed to support efforts to try to obtain donor funding for the construction costs. At the end of 2009 the Ministry was still seeking funding for the construction of the building.

Refurbishment and Maintenance

A number of refurbishments and minor building works were undertaken in 2009. The Payments & Procurement Building and the Customer Services area were remodeled and a new water tank, pump, plumbing were installed in the main Finance Building. Internal partitioning was installed in the 4th floor of the Anthony Saru building to accommodate the IT department move and refurbishment works were substantially completed on Customs House.

Establishment and Capacity Development

CSS had 10 staff in 2009 but one was seconded from the Accounts area to the Census project.

Several standard forms and contracts were developed to support work in Property and Asset management.

New systems were introduced to support the management of confirmations and confidential performance reports and a template has been developed for the monthly reports on MoFT's financial position.

Corporate Services helped coordinate a 1 ½ day seminar on capacity development which was attended by Under Secretaries and Heads of Division. This seminar agreed a MoFT approach to capacity development which will be introduced across the whole Ministry in 2010.

Ministry of Finance and Treasury 2009 Financial Report (unaudited)

Division Account Code	Description	Estimates 2009 (revised)	Actual Expenditure
<u>Head Quarter & Admin</u>			
	Payroll Total	820,874	901,908
	Other charges total	18,909,152	18,678,171
	Total	19,730,026	19,580,079
<u>Economic Reform</u>			
	Payroll Total	390,579	348,639
	Other charges total	266,549	95,820
	Total	657,128	444,459
<u>Statistics</u>			
	Payroll Total	1,087,665	995,013
	Other charges total	376,810	243,768
	Total	1,464,475	1,238,781
<u>Debt Management Unit</u>			
	Payroll Total	199,949	141,786
	Other charges total	46,233,667	42,992,749
	Total	46,433,616	43,134,535
<u>Budget Unit</u>			
	Payroll Total	551,082	397,909
	Other charges total	1,196,838	1,640,122
	Total	1,747,920	2,083,031
<u>Internal Audit</u>			
	Payroll Total	307,435	224,530
	Other charges total	469,839	114,467
	Total	777,274	338,997
<u>Treasury</u>			
	Treasury Payroll Total	2,793,773	990,604 ³
	Other charges total	3,159,723	2,744,162
	Total	5,953,496	3,741,766
<u>Computer (IT)</u>			

³ The introduction of a new payroll system in 2009 resulted in some problems with the posting of expenditure, these are still being investigated. The figure of \$990,604 is considered to understate Treasury Payroll expenditure

Ministry of Finance and Treasury 2009 Financial Report (unaudited)

Division Account Code	Description	Estimates 2009 (revised)	Actual Expenditure
	IT Payroll Total	928,478	326,374
	Other charges total	3,259,452	2,829,343
	Total	4,187,930	3,155,717
<u>Inland Revenue</u>			
	Inland Revenue Payroll Total	4,860,872	3,130,724
	Other charges total	11,637,553	4,498,365
	Total	16,498,425	7,629,089
<u>Customs & Excise</u>			
	Customs Payroll Total	3,843,802	3,670,448
	Other charges total	3,532,716	3,185,725
	Total	7,376,518	6,856,213
<u>Financial Development & Economic Unit</u>			
	FEDU Payroll Total	166,870	50,718
	Other charges total	21,330	7,547
	Total	7,376,518	6,856,213
<u>TOTALS</u>			
	Payroll Total	15,951,379	11,178,653
	Other charges Total	89,063,629	77,030,239
	Grand Total	105,015,008	88,208,892
	Net Surplus (deficit)		16,806,116

Ministry of Finance & Treasury: Appropriated Development Budget

Description	Final Budget	Actual Expenditure
Upgrade Finance System (Maximise)	1,500,000	147,856
New Treasury Building	2,000,000	842,152
Village Resources Survey	52,000	22,458
New Payroll System	1,500,000	1,654,470
National Census	11,900,000	11,628,654
Secured Transaction (Office establishment)	400,000	0
Drafting WTO/Gatt Valuation legislation	1,000,000	0
Rehabilitation of Customs Building	800,000	0

ESTABLISHMENT AS AT 31 DECEMBER 2009						
UNIT	Grade	No of Estab. Posts	Filled posts Male	Filled posts Female	Totals	Vacant
Executive	SS4	1	1		1	
	SS2	2	1	1	2	
	8/9	1		1	1	
Corporate Services	12/13	1	1			
	10/11	1	1	1		
	8/9	2	1			1
	7/8	2	1	1		
	6/7	1	1			
	5/6	2	1	1	2	
	4/5	1				1
Totals HQ & admin		14	8	4	12	2
Economic Reform Unit	12/13	1	1		1	
	10/11	3	2	1	3	
	7/8	2	2		4	
	6/7	1		1	1	
Totals		7	5	2	7	
Totals						
Statistics Division	SS2	1	1		1	
	13	2	2		2	
	10/11	3	3		3	
	8/9	6	4	2	6	
	7/8	2		2	2	
	6/7	1	1		1	
	5/6					
	4/5	8	3	4	7	1
	3/4	3			0	3
Totals		26	14	8	22	4
Internal Audit	SS1	1	1		1	
	10/11	1	1		1	
	7/8	2	1		1	1
	5/6	2	1	1	2	
Totals		6	4		5	1

UNIT	Grade	No of Estab. Posts	Filled posts Male	Filled posts Female	Totals	Vacant
Debt Management	SS1	1	1		1	
	7/8	1	1		1	
	6/7	1	2		1	
	Totals	3	3		3	
Budget Unit	SS1	1		1	1	
	12/13	1	1		1	
	10/11	1	1		1	
	7/8	2	1	1	2	
	6/7	2	1	1	2	
	5/6	2	1	1	2	
	Totals	9	5	4	9	
Treasury	SS3	1				1
	SS1	2		1	1	1
	12/13	4	3	1	4	
	10/11	7	5		5	2
	7/8	9	6	3	9	
	6/7	11	5	4	9	2
	5/6	13	5	4	9	4
	4/5	13	4	8	12	1
	3/4	1				1
	Totals	63	28	21	49	14
ICT	SS1	1	1		1	
	11/12	2	2		2	
	10/11	1				1
	9/10	4	2		2	2
	7/8	2				2
	6/7	5	2		2	3
	Totals	15	7		7	8
Inland Revenue	SS3	1	1		1	
	13	1	1		1	
	11/12	5	5		5	
	9/10	16	10	4	14	2
	7/8	24	12	7	19	6
	6/7	42	20	18	38	4
	3/4	6	1	5	6	0
	Total	97	50	34	84	13

UNIT	Grade	No of Estab. Posts	Filled posts Male	Filled posts Female	Totals	Vacant
Customs and Excise	SS3	1	1		1	
	13	1	1		1	
	12	5	3	1	4	
	11/12	3	2	1	3	
	9/10	8	4	3	7	
	7/8	15	12	3	15	
	5/6	52	27	25	52	
	Totals	85	50	33	83	
Financial Economic						
Development Unit	12/13	1		1	1	
	10/11	3	3		3	
Totals		4	3	1	4	

Revenue Details (IRD)

YEAR ON YEAR COMPARISONS OF REVENUE (SBD at December)

Tax Type	2005	2006	2007	2008	2009	Var over 2008	% of var
Company tax	58.713	77.267	103.323	185.480	214.794	29.314	16%
Personal tax	95.946	112.157	141.108	189.251	228.321	39.070	21%
- SIG	27.864	31.366	49.133	68.038	86.026	17.988	26%
- Others	68.082	80.791	91.975	121.213	146.475	25.262	21%
Withholding Tax	31.475	33.645	48.377	74.411	96.549	22.138	30%
Goods Tax	149.172	169.581	249.018	331.346	324.05	-7.296	-2.2%
- Customs	63.874	69.253	109.872	118.746	135.381	16.635	14%
- Registrants	70.146	81.072	112.455	212.600	188.600	-24.000	-11%
Sales Tax	21.519	23.896	33.821	37.119	41.596	4.477	12%
Stamp Duty	4.917	5.543	9.174	11.360	14.109	2.749	24%
License	3.783	4.720	4.544	4.551	5.529	0.978	21%
Total Collection	365.525	426.809	589.365	833.518	924.948	91.43	11%
Budget	306.948	385.926	461.901	796.000	902.038		
Variance	58.576	40.883	127.464	37.518	22.91		
% Variance	19.10%	10.6%	27.6%	4.70%	2.54%		

ARREARS				
Year	2008	Value	2009	Value
Cases on hand at the start	151	23.3m	361	43.3M
Cases cleared	64	12.4m	133	26.9M
New cases	274	51.3m	129	18.2M
Cases on Hand at year end	361	43.3m	357	37.9M
Arrears Collected		31.3m		37.8M

Lodgment of Returns

Income Tax

Year	% lodged by year end
2007	30%
2008	34%
2009	28%

Volumes increased in 2009 but % decreased due to large number of new businesses registered who have not filed yet.

PAYE Returns

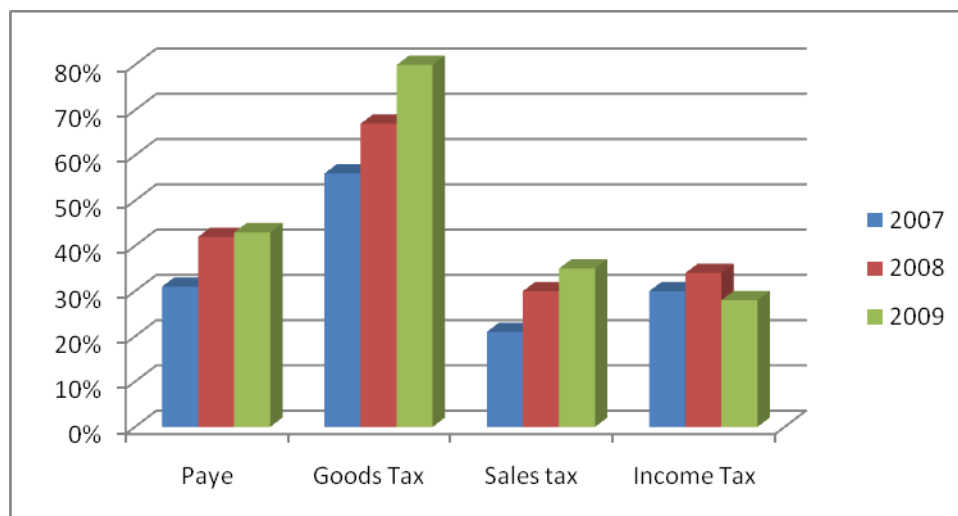
Year	% of returns lodged on time
2007	31%
2008	42%
2009	43%

Goods Tax

Year	% of returns lodged on time
2007	56%
2008	67%
2009	80%

Sales Tax

Year	% of returns lodged on time
2007	21%
2008	30%
2009	35%



ICT – Support

