

Financial Instructions

Contents	Page
1. Definitions & Abbreviations	4
2. Constitutional Provisions	4-6
3. Ministerial Financial Instructions - Background	6-7
4. Ministerial Financial Instructions	7
M2 1 Financial Framework	7
M2 2 Observation of Financial Instructions	7
M2 3 Duties of the Minister for Finance	8
M2 4 Duties of the PSF	8
M2 5 Ministerial draft estimates request	8
M2 6 Alignment of the estimates' format with the accounts to enable the reporting requirements of international accounting standards to be readily achieved	8
M2 7 Consideration of the economic cycle in the production of a multi- year budget	8-9
M2 8 Estimates of Recurrent Revenue and Expenditure and National Budget	9
M2 9 Departmental Recurrent Budgets	9
M2 10 Request for Ministerial draft estimates	9
M2 11 Classification of draft estimates of recurrent expenditure	9
M2 12 Classification of draft estimates of recurrent revenue	10
M2 13 Additional budget explanatory information	10
M2 14 Consultation with Ministers and Heads of Departments	10
M2 15 Adjustments to a draft Budget	10
M2 16 Consolidation of draft Budgets	10
M2 17 Matching of revenue with expenditure	11
M2 18 Publication of approved Budget (as the National Budget)	11
M2 19 Multi-year budget	11
M2 20 Capital and Operating Budgets	11
M2 21 Integrated and Consolidated Budget	12
M2 22 Accrual Budgeting	12
M2 23 Long term financial plan	12
M2 24 Sustainability report	12
M2 25 Production and adjustment of the Development Budget (Development Funds)	13
M2 26 Statutory requirements	13
M2 27 Preparation for development projects and budgets	13
M2 28 Application for Development Funds	14
M2 29 Project Reference Number for Development Project monitoring	14
M2 30 Limits to spending development funds	15

Chapter 2 Financial Framework

M2 31	Payments process for development project activities	15
M2 32	Account Code Control Cards	15
M2 33	Treasury Records	15
M2 34	Completing the development project	15-16
M2 35	Obligations imposed by donors	16
M2 36	Production and adjustment of the Government Capital and Operating Budget	16-17
M2 37	Overdrawn bank account for Government borrowing and Lending	17
M2 38	Authorisation for borrowing or lending	17
M2 39	Recording of loans	17
M2 40	Monitoring of loans	17
M2 41	Budgeting for the public debt	18
M2 42	Restructuring or cancellation	18
M2 43	Loan guarantees	18
M2 44	Requirement of Solomon Islands Law	18
M2 45.	Approval for Ministries to spend money, including supply provisions	18-19
M2 46.	Approval of AOs to incur expenditure	19
M2 47.	Variations in amounts that can be spent	19
M2 48.	Release of reserved funds	19-20
M2 49.	Variations (adjustments) in the approved budget	20
M2 50.	Transfer of funds between account codes	20-21
M2 51.	Supplementary budgets	21-22
M2 52.	Supplementary Budget Bill	22
M2 53.	Supplementary Budget laws	22
M2 54.	Authority to make Statutory payments	22
M2 55.	Departmental authority to spend	22-23
M2 56.	Ending the authority of all Warrants	23
M2 57.	Power to invest	23
M2 58.	Investment advice	23
5.	Permanent Secretary Financial Instruction - Background	23-24
6.	Permanent Secretary Financial Instructions	24
P2 1	Accurate coding of financial transactions	24
P2 2	Costing methodologies	24
P2 3	Preparation and presentation of the annual accounts	24
P2 4	Business activities by controlled entities – accrual accounting	24-25
P2 5	Annual accounts deadline	25
P2 6	Annual accounts basis – cash accounting	25
P2 7	Annual accounts basis – Accrual accounting	25
P2 8	Solomon Islands applicable accounting standards	26
P2 9	Guide to the ‘production’ of the annual accounts	26
P2 10	Guide to the ‘publication’ of the annual accounts	26
P2 11	Procedures, format and timing of monthly accounts to regularly	

Chapter 2 Financial Framework

monitor financial performance	26-27
P2 12 Carbon reporting	27
P2 13 Publication of monthly financial statements	27
P2 14 Responsibilities of AOs	27
7. Table 1: Selected sections of the PF&A Act.	28-29

1. Definitions & Abbreviations

ACT is the Public Finance and Audit Act 1978. (See Glossary “Act”)

SIG is the ‘Solomon Islands Government’.

PSF is the ‘Permanent Secretary, Finance and Treasury’.

AO is an ‘Accounting Officer’.

Borrowing means obtaining funds by SIG from any outside body, whether domestic or overseas, which must be repaid either with or without interest.

‘Lending’ means the transfer by SIG to an individual or organisation which will be repaid either with or without interest.

‘Minor’ or ‘Major’ underspending under Financial Instruction **M2 34** will be measured against a policy issued and reviewed annually by the PSF that takes into consideration both the percentage of the approved budget and a nominal threshold dollar value.

‘Significant change’ under Financial Instruction **M2 13** is all changes to estimates equal to or greater than a percentage of the current year approved or adjusted budget, or a nominal threshold dollar value as determined by the PSF and advised to Ministries by annual circular.

2. Constitutional Provisions

The Constitution includes the following relevant requirements:

100(1) All revenues or other moneys raised or received by or for the purposes of the Government (not being revenues or other moneys that are payable by or under any law into some other fund established for any specific purpose or that may, by or under any law, be retained by the authority that received them for the purpose of defraying the expenses of that authority) shall be paid into and form one Consolidated Fund.

(2) Parliament may make provision for the establishment of Special Funds, which shall not form part of the Consolidated Fund.

(3) The receipts, earnings and accruals of Special Funds established under this section and the balance of such funds at the close of each financial year shall not be paid into the Consolidated Fund but shall be retained for the purposes of those funds.

101(1) No money shall be issued from the Consolidated Fund except upon the authority of a warrant under the hand of the Minister of Finance.

(2) No warrant shall be issued by the Minister of Finance for the purpose of meeting any expenditure unless -

- (a) the expenditure has been authorised for the financial year during which the issue is to take place by an Appropriation Act;
- (b) the expenditure has been authorised in accordance with the provisions of section 103 or 104 of this Constitution; or
- (c) it is statutory expenditure.

102(1) The Minister of Finance shall cause to be prepared and laid before Parliament before the commencement of each financial year estimates of the revenues and expenditure of the Government for that year, provided that in exceptional circumstances which shall be explained to Parliament the Minister may cause the estimates to be laid before Parliament not later than ninety days after the commencement of the financial year.

(2) The heads of expenditure contained in the estimates (other than statutory expenditure) shall be included in a bill to be known as an Appropriation Bill which shall be introduced into Parliament to provide for the issue from the Consolidated Fund of the sums necessary to supply those heads and the appropriation of those sums for the purposes specified therein.

(3) If in respect of any financial year it is found that the sum appropriated by the Appropriation Act for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no sum has been appropriated by that law, a supplementary estimate showing the sums required shall be included in a Supplementary Appropriation Bill for appropriation.

(4) If at the close of account for any financial year it is found that any moneys have been expended on any head in excess of the sum appropriated for that head by an Appropriation Act or for a purpose for which no money has been appropriated, the excess or the sum expended but not appropriated as the case may be shall be included in a statement of heads in excess which, together with the report of the Public Accounts Committee thereon, shall be presented to Parliament.

(5) Statutory expenditure shall not be voted on by Parliament but, without further authority of Parliament, shall be paid out of the Consolidated Fund by warrant under the hand of the Minister of Finance.

103(1) If the Appropriation Act in respect of any financial year has not come into operation by the beginning of that financial year, Parliament by resolution may empower the Minister of Finance to authorise the issue of moneys from the Consolidated Fund for the purpose of meeting expenditure necessary to carry on the public services at a level not exceeding the level of these services in the previous financial year, until the expiration of four months from the beginning of that financial year or the coming into operation of the Appropriation Act, whichever is the earlier.

(2) Where in respect of any financial year the Minister is satisfied that an urgent and unforeseen need has arisen to authorise for any purpose issues from the Consolidated Fund for expenditure in excess of the sum appropriated for that purpose by an Appropriation Act, or for a purpose for which no sum has been so appropriated, he may, subject to the provisions of any law or regulations for the time being in force in that regard, authorise, with the prior approval of the Cabinet, such issues by warrant and shall include such amount in a Supplementary Appropriation Bill for appropriation at the meeting of Parliament next following the date on which the warrant was issued:

(3) No expenditure shall be authorised or incurred under the preceding subsection unless Parliament has specified in advance of the expenditure the maximum amount of expenditure that may be incurred under that subsection.

104. Where at any time Parliament has been dissolved before any provision or any sufficient provision is made under this Chapter of this Constitution for the carrying on of the government of Solomon Islands, the Minister of Finance may issue a warrant for the payment out of the Consolidated Fund of such sums as he may consider necessary for the continuance of the public services until the expiry of a period of three months commencing with the date on which Parliament first meets after that dissolution, but a statement of the sums so authorised shall, as soon as practicable, be laid before Parliament and the aggregate sums shall be included, under the appropriate heads, in the next Appropriation Bill.

105(1) There shall be charged on the Consolidated Fund all debt charges for which the Government is liable.

105(2) For the purposes of this section debt charges include interest, sinking fund charges, the repayment or amortisation of debt, and all expenditure in connection with the raising of loans on the security of the revenue of the Government or the Consolidated Fund and the service and redemption of debt thereby created.

105(3) The Government shall not borrow money nor enter into a guarantee involving any financial liability except in accordance with such provisions as may be prescribed by Parliament.

In this chapter only, due to the extensive number of relevant provisions, the sections of the PF&A which are relevant to the financial framework are presented in the final section of these instructions (Table 1) to highlight the context and requirements for these instructions.

Hereinafter the collection of Ministerial and Permanent Secretary Instructions described in section 6(1) of the PF&A as 'Financial Instructions and Stores Instructions' will be simply referred to as the 'Financial Instructions' (FIs). Ministerial Financial Instructions numbering are preceded with an 'M' and the number of the chapter; e.g. M2; and Permanent Secretary Instructions numbering are preceded with a 'P' and the number of the chapter; e.g. P2.

3. Ministerial Financial Instructions - Background

The 'Financial Framework' instructions are issued by the Minister for Finance in accordance with section 6(2) of the Act (hereinafter referred to as a Ministerial Financial Instruction) for the better carrying out of the provisions and purposes of the Act.

The Ministerial Financial Instructions allow for a progressive implementation of financial management best practices in accordance with a long term strategy and plan approved by SIG and to achieve compliance with statutory requirements. This scheme includes a strategy of staggered or delayed implementation recognising that best practice financial management can only be systematically achieved within available resources and capacity. The scheme ensures that a comprehensive Financial Framework and an efficient and effective Financial Reporting Management system is developed, maintained and controlled; that recognises that

the overriding purpose of SIG accounts is to facilitate the efficient and effective achievement of the purposes of SIG. Further that SIG requires and needs a 'Financial Framework' to achieve good governance and accountability by:

- Facilitating the allocation of resources of SIG and all its entities by estimates
- Providing timely and accurate information to monitor the activities of Government and its entities
- Assisting with the determination of taxation policies, national income and similar statistics
- Progressively moving toward developing and monitoring a medium term fiscal framework.

4. Ministerial Financial Instructions

M2 1 Financial Framework

- 1.1 ¹The PSF shall with the approval of the Minister issue 'Financial Framework Financial Instructions' to every accounting and accountable officer in accordance with section 7(1) of the Act. The PSF-FFIs must be amended, from time to time as necessary, in accordance with developments in acceptable financial management practice. The 'Financial Framework' instructions issued by the PSF must include instructions for:
- (a) accurate and useful coding of financial transactions;
 - (b) costing methodologies to be applied;
 - (c) procedures, format and timing of monthly accounts to regularly monitor financial performance and;
 - (d) publication of financial information, by printed and electronic means including publication on the Ministry of Finance website, to better inform the community and other key stakeholders in regard to the Government's financial management performance.
- 1.2 The PSF-FFI may include delays in implementation of an FI until a date the Minister of Finance with the PSF considers that Government management and administration capacity exists to successfully implement the instruction.

M2 2 Observation of the Financial Instructions

- 2.1 All Officers must observe these Financial Instructions and apply them to achieve the six central principles whenever they are acting on behalf of SIG. Any instances of failing to observe any instruction will be dealt with in accordance with the 'Non-compliance, Misconduct and Penalties' section of Chapter 1.

¹ This Ministerial Financial Instruction delegates to the Permanent Secretary, Finance and Treasury the power to issue instructions on the stated accountable and accounting matters for which he is responsible.

M2 3 Duties of the Minister for Finance.

- 3.1 Present the budget for the next Financial Year to Parliament for approval **M2 16**
- 3.2 Issue directions to resolve an unsatisfactory draft budget **M2 17.4**
- 3.3 Approve allocation of funds from the Development Fund **M2 29.4**

M2 4 Duties of the PSF

- 4.1 Adjust the draft consolidated Budget **M2 15.1**
- 4.2 Combine the draft budgets into the ministerial format **M2 16.1**
- 4.3 Arrange for the publication and issue of the National Budget **M2 18.1**
- 4.4 Ensure that the published National Budget contains reference to the appointment of Accounting Officers **M2 18.2**
- 4.5 Authorise Accounting Officers to control and monitor new development projects **M2 29.7**
- 4.6 Ensuring a record is kept in Treasury of all development fund approvals **M2 29.9**

Estimates/Budgets

M2 5 Ministerial draft estimates request

- 5.1 The PSF shall on behalf of the Minister, request all AOs to prepare a draft Estimates of Recurrent Revenue and Expenditure (Budget) for their Ministry for the next financial year, together with a costed Establishment List, and New Service Proposals for both pay and non-pay items.
- 5.2 The PSF's request will set down the format for the draft Budget and the date by which the draft budget must be submitted to the Permanent Secretary. The request must be in writing and sent to AOs.

M2 6 Alignment of the estimates' format with the accounts to enable the reporting requirements of international accounting standards to be readily achieved

- 6.1 The format of the original and adjusted estimates presented to Parliament for approval must at least include summary level forms in Government Finance Statistic format, and other summary reports, to enable the result presented in annual accounts to be compared to the approved original and any adjusted estimate.
- 6.2 The format of the estimates will be varied depending on whether the accounts are prepared on a cash basis or an accrual basis.

M2 7 Consideration of the economic cycle in the production of a multi-year budget

- 7.1 The recommended recurrent estimates of expenditure shall take into account the forecast trend in the economic cycle for the next 5 financial years.
- 7.2 Surplus funds should be appropriated to an 'Economic Cycle Reserve Fund' in periods of higher economic growth and SIG receipts.
- 7.3 Surplus funds should be transferred from the 'Economic Cycle Reserve Fund' in periods of lower economic growth and lower SIG receipts.

[The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF].

M2 8 Estimates of Recurrent Revenue and Expenditure and National Budget

- 8.1 The National Budget must separately identify Recurrent Revenue and Recurrent Expenditure in compliance with the PF&A.
- 8.2 The Recurrent budget must separately identify any Capital expenditure and revenue, if any.
- 8.3 The Development Budget, Statutory expenditure and Special Funds must be separately identified, but also must be presented on a consolidated basis together with the Recurrent Budget to highlight the total resources available and deployed by SIG.

M2 9 Departmental Recurrent Budgets

- 9.1 An AO must decide how much of each accounts code will be spent each month. This is also known as a 'monthly cash flow' or 'monthly timing'. Most items will be spent evenly during the year. However, where a price advantage or discount can be obtained by bulk buying and the goods are non-perishable and sufficient storage space exists; then bulk buying is allowed.
- 9.2 An AO must prepare Recurrent Budgets that detail month by month spending. These monthly cash flows improve SIG cash flow management and are also for use within the Ministry to assist the AO to control the level of spending in the Financial Year.
- 9.3 An AO must prepare a copy of all Recurrent Budgets and send it to Treasury on time.

M2 10 Request for Ministerial draft estimates

- 10.1 PSF must issue a timetable for the preparation of the estimates at least 150 days prior to the commencement of the financial year to which the estimates shall apply.
- 10.2 AOs must ensure their draft Budget is submitted in the correct format and by the set date.
- 10.3 Any AO (not being a PS) who cannot meet the deadline for submitting the draft Budget must advise their Permanent Secretary, or if the AO is the PS, must advise the PSF immediately.
- 10.4 AOs must provide detailed working papers to show how Budget figures were calculated. These working papers must be kept and made available to Permanent Secretary and Auditor General as required.

M2 11 Classification of draft estimates of recurrent expenditure

- 11.1 Estimates of Recurrent Expenditure are divided into two main classifications: Personal Emoluments and Other Charges.
- 11.2 These classifications will be further divided as necessary by the Ministry subject to any instructions issued by the PSF to meet strategic and operational requirements of the Minister in accordance with section 4 of the PF&A.

M2 12 Classification of draft estimates of recurrent revenue

- 12.1 Draft Estimates of Recurrent Revenue will be divided as necessary by the Ministry; note should be taken of any specific guidance regarding classification of revenue that shall be issued by the PSF.
- 12.2 Draft Estimates of Revenue shall include all revenue generated by the activities of the Ministry whether or not parts of the revenue are collected and brought to account by another office.

M2 13 Additional budget explanatory information

- 13.1 AOs must provide additional brief notes that will explain how the draft Budget is made up. Special note should be made where there is any significant change from the current year's Budget. Revenue Account code budgets in excess of \$10,000 must have a detailed statement of how the total is calculated.

M2 14 Consultation with Ministers and Heads of Departments

- 14.1 In preparing the draft Budget, all AOs shall consult with the Heads of Department so that proposed activities of Departments shall be included in the Budget. An AO must not submit any draft Budget that is prepared without such consultation.
- 14.2 Before the draft Budget is submitted to the PSF, all AOs must consult with their Ministers and discuss in detail the content of the draft Budget. Submission of the draft Budget will imply that such discussions and consultations have taken place and that Ministers are aware of, and approve of, the contents of the draft Budget.

M2 15 Adjustments to a draft Budget

- 15.1 The PSF will examine all submitted draft Budgets and recommend adjustments to any draft Budget. Such recommendations will be discussed with AOs at formal meetings, the time and venue being notified in writing by the PSF.
- 15.2 At the end of the formal meetings and discussions, AOs will amend their draft Budgets to take into account any agreed adjustments and then submit their final draft Budget to the PSF within the advised time schedule.
- 15.3 Once the final draft Budget has been submitted to the PSF, no further alterations or adjustments can be made, except as specified in this Chapter.

M2 16 Consolidation of draft Budgets

- 16.1 Once all final draft Budgets have been received, the PSF will combine all the draft Budgets into a format that fulfils the Minister's responsibility, as specified in section 102 of the Constitution. The Minister will then present the National Budget for the next Financial Year to Parliament for approval.

M2 17 Matching of revenue with expenditure

- 17.1 Budgeted expenditure will be limited to the amount of Estimated Revenue, having regard to the economic cycle **M2 7** above.
- 17.2 If a shortfall results when the draft Budgets are combined, the PSF will report on the level of budget deficit to the Minister.
- 17.3 The Minister may accept the shortfall, taking into consideration the forecast accumulated result of the current year, or the PSF may be directed to hold further consultations with AOs to achieve savings to a level set down by the Minister.
- 17.4 If the revised estimate does not meet the criteria required, the Minister can issue directions to resolve the situation.

M2 18 Publication of approved Budget (as the National Budget)

- 18.1 Once the draft Budget has been approved by Parliament, it will be known as the National Budget. The PSF will arrange for the publication and issue of fully detailed National Budgets to all AOs and other public officers as necessary.
- 18.2 The PSF will ensure that the published National Budget contain reference to the appointment of AOs for each Ministry for the Financial Year in accordance with section 17(1) of the PF&A.
- 18.3 The published National Budget will contain reference to the law authorising payment of Statutory Expenditure.

M2 19 Multi-year budget

- 19.1 Preparing the annual estimates of revenue and expenditure in the format of an estimate for the budget year and a projection for the 2 years following the budget year, compared to the actual of the year preceding the year, as well as the adjusted estimate and estimated actual of the year, in which the budget is being prepared.²

M2 20 Capital and Operating Budgets

- 20.1 Preparing the annual estimates of expenditure that separately identify the capital expenditure elements and indicate that the capital component of the Consolidated Fund estimates has been prioritised on a whole of Government basis and disclose the estimates in accordance with Government Finance Statistic categorisation [The implementation of the capital expenditure estimates prioritisation part of this Ministerial Instruction is delayed until the annual estimates covering the year of a date to be determined by the Minister of Finance in consultation with the PSF and subject to a review of the Development Budget].

² Section 4 of the PF&A requires the Minister to instruct on the format. This is current practice for the Development Budget (from 2008). Medium-term fiscal frameworks are encouraged to anchor fiscal policy in the face of impending revenue pressures, assist with the prioritisation of spending, and attainment of debt sustainability (IMF July 16, 2007).

M2 21 Integrated and Consolidated Budget

- 21.1 Preparing the annual estimates of revenue and expenditure in a document that integrates the recurrent estimates with the development estimates, whilst still transparently documenting the receipt of external assistance in a manner that meets donor requirements and will facilitate compliance with IPSAS [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF]³.

M2 22 Accrual Budgeting

- 22.1 Preparing the annual estimates of revenue and expenditure in accordance with the accrual basis of accounting [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF at least 3 financial years following the application of accrual accounting to the annual accounts, and further that the implementation is also delayed until such time as SIG has considered and approved a recommendation that the benefits of implementation are greater than the costs of implementation].

M2 23 Long term financial plan

- 23.1 The PSF to develop and annually review a 10 year (long term) consolidated financial plan that forecasts the sustainability of the financial outcomes of SIG taking into consideration the economic cycle as a basis for determining annual budget targets. The long term financial plan must be supported by an infrastructure investment framework.⁴ [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with Minister responsible for planning and the PSF].⁵

M2 24 Sustainability report

- 24.1 Prepare and issue an annual sustainability report in accordance with the 'Public Sector Supplement' of the Global Reporting Initiative [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF]⁶.

³ Integration of recurrent and development budgets is considered international best practice, providing a consolidated view of all resources deployed to providing works and services as well as being consistent basis for international standard financial reporting compliance.

⁴ An infrastructure investment framework identifies the level and service mix of affordable infrastructure capital expenditure taking into consideration the long term financial position of SIG and the ability of taxpayers to pay or other sources to fund the expenditure.

⁵ The objective of a 10 year financial plan is mainly to understand long term relationships between revenue, expenditure growth, borrowing and the economic cycle, understand sustainability and provide a basis for establishing annual budget targets within a broader context.

⁶ The Public Sector sustainability reporting guideline was developed by the Global Reporting Initiative (GRI) to capture the relevant sustainability reporting issues in the public sector and provide the basis for robust and useful reporting. As significant employers, providers of services, and consumers of resources, public agencies have a major impact on global progress towards sustainable development (GRI).

Development Budget

M2 25 Production and adjustment of the Development Budget (Development Funds)

- 25.1 All Development Budget Project Proposals must be submitted in June of each financial year because of the time needed to appraise and secure funding from donors. This is three months earlier than the deadline for submitting the Recurrent Budget in September of each financial year.
- 25.2 All Development Budget Project Proposals need to be presented in the required format if they are to be appraised and considered for Donor funding. The details of this special format are set out in the 'Solomon Islands Project Planning Guide' available from the Ministry Responsible for Planning.
- 25.3 After a Project Proposal has been appraised and approved, a detailed work plan needs to be prepared to secure funding for its implementation. A detailed work plan can be included with the Project Proposal, which will shorten the time needed to start the Development Budget Project.

M2 26 Statutory requirements

- 26.1 The Development Fund is administered according to section 5 (2) of the PF&A.

M2 27 Preparation for development projects and budgets

- 27.1 The Minister responsible for planning is responsible for presenting Development projects and budgets to Parliament for approval.
- 27.2 The Permanent Secretary for the Ministry Responsible for Planning will provide all Officers with guidelines for submitting development Project Proposals and budgets for the next financial year. [See the 'Solomon Islands Project Planning Guide' at the Ministry Responsible for Planning].
- 27.3 The guidelines will state the format and date by which the Project Proposals and budgets must be received by the Permanent Secretary in the Ministry Responsible for Planning to consult with their Ministers and Permanent Secretaries.
- 27.4 Ministries will provide details of new Project Proposals to the Ministry responsible for planning for appraisal. The Ministry responsible for planning will then negotiate with donors for funding for Project Proposals
- 27.5 The PSF presents all development Project Proposals appraised by the Ministry responsible for planning and donors to Cabinet for preliminary consideration.
- 27.6 The Minister responsible for planning compiles a list of development projects that do not have donor funding and submits these to the Minister for Finance for funding consideration.
- 27.7 Permanent Secretary to the Ministry responsible for planning for appraisal compiles the final consolidated development budget for Cabinet approval.
- 27.8 The Permanent Secretary responsible for Planning simultaneously advises all Officers who had submitted Project Proposals whether the development budgets have been approved or not approved.

M2 28 Application for Development Funds

- 28.1 All requests for development funds must go through the Ministry responsible for planning. No other Ministry is to approach aid donors to request funding. Ministries may only approach aid donors to discuss project design, management and costing before submitting their Development Project Proposals to the Ministry responsible for planning.
- 28.2 No Officer will spend funds on Development Projects until the project work plans have been approved by the Ministry responsible for planning. The Ministry responsible for planning will support ministries in developing work plans. [See the 'Solomon Islands Project Planning Guide' available from the Ministry Responsible for Planning].
- 28.3 All development project funding Proposals must include:
 - (a) estimated recurrent spending for the next three years; and
 - (b) income expected to be generated by the project over the next three years.

M2 29 Project Reference Number for Development Project monitoring

- 29.1 Written advice will be given to the relevant Ministry by the Permanent Secretary responsible for Planning when Development Project funds are received from the donor. The Ministry responsible for planning will assign a Project Reference Number to the project that identifies the Ministry responsible for implementing the project, the sector and the donor.
- 29.2 Treasury will keep a register of Project Reference Numbers and advise the Budget Division of the development project's number.
- 29.3 Treasury will keep a separate account book for each development project.
- 29.4 Once the Project Reference Number has been given to the project, the Minister of Finance will approve the allocation of the funds from Treasury's Development Fund to the Ministry's Permanent Secretary for the planned project.
- 29.5 A consolidated annual list of all Development Fund budget approvals will be sent to the Auditor-General within 10 working days of approval.
- 29.6 A consolidated annual list of all Development Fund budget variations will be sent to the Auditor-General within 10 working days of approval.
- 29.7 Once the development funds have been received by the Ministry, the Permanent Secretary will authorise the AO to control and monitor the new development project.
- 29.8 The AO can allocate funds to planned project activities up to the limit agreed to in the approval.
- 29.9 The PSF will ensure a record is kept in Treasury of all development fund approvals and approvals for Officers to spend development funds.
- 29.10 A summarisation of all Finance Officer approvals will be sent to the Auditor-General.

M2 30 Limits to spending development funds

- 30.1 Ministry Officers must not spend more than the total amount of the development fund provided by the donor. If donor funds are released in partial amounts (tranches), the PSF will decide on the spending limits.
- 30.2 Development Fund spending limits will remain the same throughout the life of the project or until new limits are set. The limits will not change at the end of the financial year in which they were set.

M2 31 Payments process for development project activities

- 31.1 The payment process using Payment Vouchers for development project activities will be the same as described in Chapter 7 (Supply Chain Management).

M2 32 Account Code Control Cards

- 32.1 AOs will keep Account Code Control Cards for planned development project activities as described in Chapter 7 (Supply Chain Management).
- 32.2 Account Code Control Cards for development projects will continue for the life of the project. There is no need to begin new records at the beginning of each financial year.

M2 33 Treasury Records for development project activities

- 33.1 Treasury will keep accounts to record receipt of all donor funds against specific development projects. Summaries of such funds by donor will also be kept.
- 33.2 Treasury will prepare monthly financial statements for all development projects including the following:
 - (a) total approved budget;
 - (b) total approved budget with adjustments;
 - (c) total donor funds received;
 - (d) total funds spent to date; and
 - (e) balance of funds to be spent.
- 33.3 Monthly financial statements will be sent to all AOs and Project Managers, Ministry responsible for planning and other stakeholders identified by the PSF.
- 33.4 Ministries can use these statements in any reports needed by donors.

M2 34 Completing the development project

- 34.1 The AO will advise Treasury when the Development Project has been completed. Treasury information will be reconciled against the Ministry Account Code Control Cards and allow three months for outstanding payments to be made. Checks will be made that any payments between Ministries have been made.
- 34.2 Once the Account Code Control Cards and Treasury information have been reconciled, a written report will be sent to the PSF and the Ministry responsible for planning showing any unspent funds or overspent funds.
- 34.3 The PSF will discuss with the AO and Ministry responsible for planning reasons for the under or over spending. Attention will be given to:

- (a) reasons for under or over spending;
 - (b) possible response from the donor to the under or over spending;
 - (c) whether the under or over spending is of a major or minor nature.
- 34.4 If there is minor under spending, the PSF shall recommend to the Minister for Finance that Parliamentary approval be sought to transfer the balance to the Consolidated Fund.
- 34.5 If major under or over spending is anticipated, taking cognisance of **M2 30** the Ministry responsible for planning will approach the donor and request:
- (a) additional funds be provided to make up for the anticipated over spent amount; or
 - (b) advice on what to do with the under spent amount;
 - (c) Ministry responsible for planning may suggest the balance is transferred to another approved development project and this is approved through the usual process.
- 34.6 Any balance on a development project will remain on the project account until instructions are given in writing by the PSF after the Ministry responsible for planning and Parliament have approved transfer of the funds or a decision has been agreed by the donor to reallocate the fund. Balances of development funds must not be transferred until the process outlined in **M2 34.4** or **34.5** above has been completed.
- 34.7 If a donor refuses to provide further funds or there is inadvertent minor overspending, the Ministry responsible for planning must make recurrent funds available to make up the amount overspent. This will be done by transferring funds from an existing budget item.

M2 35 Obligations imposed by donors

- 35.1 AOs will comply with conditions laid down by donors such as where procurements are ‘tied’ to a particular country.
- 35.2 Any specific donor funding reporting requirements must be consistent with international accounting standards applicable to SIG at that time.

Capital and Operating Budget

M2 36 Production and adjustment of the Government Capital and Operating Budget

- 36.1 The National Budget must separately identify all capital expenditure and capital revenue.
- 36.2 As a general principle, the capital expenditure budget must not exceed the capital revenue budget, taking into consideration development funds and capital borrowing.
- 36.3 The capital budget must be presented in Government Finance Statistical reporting format, as well as any other format useful for the management of implementation of the budget.
- 36.4 The capital budget must separately identify those amounts that are new capital investment and those that are for the renewal or rehabilitation of existing capital assets.

- 36.5 Before presenting the capital budget for approval or adjustment consideration must have been given to the impact on the operating budget of any new investment in capital expenditure.

Government borrowing and lending

M2 37 **Overdrawn bank account for government borrowing and lending**

- 37.1 SIG must not borrow money except as prescribed by section 32 of the PF&A.
- 37.2 No SIG bank account must be overdrawn by an amount in excess of that prescribed by Parliament at any time.
- 37.3 An authorised officer operating a SIG bank account must obtain prior written approval from the PSF before allowing the account to be overdrawn.
- 37.4 If the SIG account becomes overdrawn without the permission of the PSF or in excess of that prescribed by Parliament, the authorised officer operating the SIG bank account will be held personally responsible and will be required to repay SIG the cost of interest and other bank charges as ordered by the PSF, subject to section 22 of the PF&A.

M2 38 **Authorisation for borrowing or lending**

- 38.1 SIG may borrow money according to the Act or by a resolution of Parliament. The PSF will issue written instructions for obtaining or paying out loans.
- 38.2 With such instructions, issued under **M2 38.1** above, the appropriate officer will negotiate with potential lenders to draw up a draft loan proposal. The PSF with the person receiving the loan (if it is not SIG) will examine the draft proposal and coordinate any changes needed. The final draft proposal will form the loan agreement which will be presented to Parliament for approval.
- 38.3 The loan agreement will include the relationship between the lender and SIG as well as between SIG and the receiver of the loan if appropriate.

M2 39 **Recording of loans**

- 39.1 The PSF will ensure that both domestic and overseas loans are recorded using a suitable debt management system.
- 39.2 Full details of the loan agreement, including loan repayment schedules, interest payments, service fees and other items will be recorded in the system.
- 39.3 The debt management system must include all loan agreements for which SIG is directly or indirectly responsible, including borrowing on behalf of controlled entities or corporate bodies.

M2 40 **Monitoring of loans**

- 40.1 All payments to or by SIG on the servicing of loans must be recorded in the debt management system throughout the life of the loan.
- 40.2 There must be quarterly reports on the position of the public debt, or as set down by the PSF.
- 40.3 Any repayments that are late or unable to be paid must be reported to the PSF immediately. Appropriate action must be taken to recover the amount due.

M2 41 Budgeting for the public debt

- 41.1 The forecasting facility in the debt management system will be used to forecast revenue and spending estimates for preparation of the budget for the following year.
- 41.2 Provision must be made in the recurrent budget for exchange rate changes throughout the financial year.

M2 42 Restructuring or cancellation of loan

- 42.1 If the loan is restructured, Treasury information will be amended to include new schedules and loan details.
- 42.2 If the loan is cancelled, Treasury information will record the termination of the loan.

M2 43 Loan guarantees

- 43.1 A guarantee is defined as an agreement between SIG and a bank (or similar financial institution) which lends money to a person or organisation that if the borrower cannot make the repayments, SIG will pay the shortfall.
- 43.2 All payments, including interest, by SIG to honour loan guarantees must be paid from the Consolidated Fund in accordance with section 33(3) of the PF&A.
- 43.3 Provision must be made in the recurrent budget for allocation of funds to meet any guarantees that probably need to be honoured.

Authorities to incur expenditure

M2 44 Requirements of Solomon Islands Law

- 44.1 No money shall be paid from the Consolidated Fund except as directed by Chapter X of the Constitution.

M2 45 Approval for Ministries to spend money, including supply provisions

- 45.1 The Minister of Finance issues a General Warrant to Permanent Secretaries to spend money budgeted for by the Ministries.
- 45.2 If the Appropriation Act is not presented for that year, Parliament by resolution may empower the Minister of Finance to authorise the issue of moneys from the Consolidated Fund for the purpose of meeting expenditure necessary to carry on the public services at a level not exceeding the level of these services in the previous financial year, until the expiration of four months from the beginning of that financial year or until the Appropriation Act is passed by Parliament, whichever is earlier.
- 45.3 For the purposes of **M2 45.2** the level of expenditure necessary to carry on the level of services will be deemed to be one third of the previous year's budget.
- 45.4 Under these circumstances outlined in **M2 45.2** the Minister of Finance can, under a General Warrant, authorise the Permanent Secretaries of Ministries to make payments from the Consolidated Fund according to each Ministry's budget but not exceeding the total of one third of the sum applied to each head of the approved estimates of the previous financial year.

- 45.5 Copies of all General Warrants will be sent to the Auditor-General and the Accountant General.

M2 46 Approval of AOs to incur expenditure

- 46.1 Once the Permanent Secretaries of Ministries have been authorised to spend money, each AO, Finance Officer and Directors/Program Managers within the Ministries are approved under Accounting Warrants to incur expenditure.
- 46.2 The Accounting Warrant allows the authorised Finance Officer and Director/Program Manager to spend money to meet the cost of the planned services described in the Budget.
- 46.3 The Accounting Warrant may be limited by:
- (a) Permanent Secretary's who wish to keep control over special reserved funds;
 - (b) restrictions if Appropriation Act not presented to Parliament, see **M2 45**
- 46.4 The Accounting Warrant will include details of:
- (a) warrant number, year of account and date of issue;
 - (b) description by accounts code of the money to be spent by the Ministry;
 - (c) reference number to be quoted on all Purchase Requisition and Payment Vouchers issued by the approved AO.
- 46.5 Accounting Warrants instruct the AO on how to:
- (a) make the opening entries in the Account Code Control Card;
 - (b) quote the reference number on Purchase Requisitions and Payment Vouchers;
 - (c) follow any other instructions from the Permanent Secretary.
- 46.6 The PSF will keep a record of all Accounting Warrants issued, noting any reserved funds kept under the control of the PSF. Account records must be adjusted when these funds are spent, see 'Release of Reserved Funds' **M2 48**
- 46.7 Copies of all Accounting Warrants must be sent to the Auditor-General and Accountant General.

M2 47 Variations in amounts that can be spent

- 47.1 Money spent by authorised AOs must not exceed the limits described on the Accounting Warrant even if reserved funds decrease the amount of money approved in the budget.
- 47.2 Money spent by AOs must not exceed the amounts set out in the Accounting Warrants, even if reserved funds are transferred back into accounts codes. No variation is to be made between Ministry account codes or between account codes within a program/division except as allowed by **M2 49**

M2 48 Release of reserved funds

- 48.1 If funds allocated to an accounts code have been spent and reserved funds are available in the budget, the AO may apply for release of the reserved funds.
- 48.2 The application form for releasing the reserved funds must be completed and sent to Treasury. Details such as the original amount in the budget, the amounts listed on the Accounting Warrant, amounts reserved and amount to be released must be included.

- 48.3 A written explanation of the reason for releasing the reserved funds must also be included.
- 48.4 The current financial situation of the Ministry will be analysed prior to approval being given.
- 48.5 No AO can spend or commit funds that exceed the amount on the Accounting Warrant in anticipation of release of the reserved funds before approval has been given to release the funds. The AO must allow enough time for Treasury to consider the application and to consult the Minister and PSF, if necessary.
- 48.6 The Minister for Finance may authorise the release of all or part of the reserved funds as requested through a De-reservation Warrant to the PSF.
- 48.7 Once the De-reservation Warrant has been received, the PSF will approve the spending of the reserved funds described in the written approval by issuing another Accounting Warrant for the responsible AO.
- 48.8 Accounting Warrant issue and responsibilities of the AO are described in **M2 46**

M2 49 Variations (adjustments) in the approved budget

- 49.1 Approved budgets may only be varied by:
 - (a) transfer process within a Ministry;
 - (b) Minister of Finance obtaining Cabinet approval for issue of a Contingency Warrant for release of special additional funds;
 - (c) a Supplementary Appropriation Bill being passed to grant additional funds.
- 49.2 No AO can spend or commit any additional funds asked for before approval has been given. The AO must allow enough time for Parliament to consider the request and to consult the Minister and PSF, if necessary.

M2 50 Transfer of funds between account codes

- 50.1 AO can apply for a transfer of funds between accounts codes of the one Department/Division if:
 - (a) additional funds are needed on an accounts code
 - (b) a new accounts code is needed for items not budgeted for
 - (c) excess unused funds can be used for accounts codes within the same Department/Division.
- 50.2 Transfer of funds between Divisions requires the permission of the Minister of Finance.
- 50.3 Application for transfer of funds will be submitted by the AO on the Transfer of Funds form.
- 50.4 Funds transfer details will include: the original amount approved in the budget, any reserved funds or surpluses previously applied for, and any previous fund transfers applied for and approved.
- 50.5 A written explanation for the need for the transfer of funds must also be provided.
- 50.6 The Minister for Finance will approve the transfer of all or part of the requested funds if:

- (a) Budget to the Ministry is not exceeded by the transfer
 - (b) where a new Division is created by the transfer, the new item is within the responsibility of the Ministry.
- 50.7 The PSF will adjust account records to document the issue of Funds Transfer Warrants.
- 50.8 Copies of all Funds Transfer Warrants will be sent to the Auditor-General and Accountant General.
- 50.9 Transfers must not be made between personal emoluments and other charges.
- 50.10 Unspent approved funds on account codes are not a reason to transfer funds between account codes. Resultant additional spending is not allowed by the Minister for Finance.
- 50.11 Once the Funds Transfer Warrant has been received, the AO will record the additional funds in the Accounts Code Control Card and reduce the amounts from the accounts code from which the funds have been transferred.
- 50.12 The AO will make sure that approved transferred funds are spent for the specific purpose for which they have been authorised. Any further variation must be approved through another application for a Funds Transfer Warrant.

Supplementary estimates/budgets

M2 51 Supplementary budgets

- 51.1 The AO must apply for a Supplementary Budget when additional funds are needed:
- (a) on any accounts code;
 - (b) for a new accounts code not included in the budget;
 - (c) and a transfer is not possible for all or part of the sum;
 - (d) and reserved funds have been released.
- 51.2 The AO must complete the Application for Supplementary Budget form. Details to be shown on the form include: the original approved budget, any reserved funds, any surpluses, any previous fund transfers applied for and any prior supplementary budgets approved. The current financial situation of the Ministry must be also described on the form. A written explanation for the need for the Supplementary Budget must also be given.
- 51.3 If additional funds are required to create a new accounts code which is outside the responsibility of the Ministry, an application for Supplementary Budget will be completed by the AO and an explanation of the need for the new code provided.
- 51.4 An application for a Supplementary Budget will only be considered if:
- (a) failure to approve additional funds would be harmful to SIG or public interest;
 - (b) waiting for extra funds until the next annual budget would be harmful to the SIG or public interest;
 - (c) the need for additional funds could not have been foreseen during preparation of the annual budget.

- 51.5 If the Minister of Finance considers the additional funds are necessary, a Contingency Warrant will be signed under section 15 of the PF&A to provide an advance from the Consolidated Fund while waiting for Parliament to pass the Supplementary Budget Bill.
- 51.6 Copies of all approvals for Supplementary Budgets must be sent to the Auditor-General and the Accountant General.
- 51.7 Once the Contingency Warrant has been received, the PSF will approve the spending of the additional funds by filling out another Authority to spend form for the responsible AO. This process is described in **M2 46**

M2 52 Supplementary Budget Bill

- 52.1 The Minister for Finance must include all approved additional funds approved through Contingency Warrants in a Supplementary Appropriation Bill for approval at the next meeting of Parliament after the date on which the approval was given. [See **M2 51**]
- 52.2 The Minister will also seek approval through the Supplementary Appropriation Bill for additional funds allowed under **M2 51**, but not yet approved by the Minister by way of a Contingency Warrant.

M2 53 Supplementary Budget laws

- 53.1 Once the Supplementary Appropriation Bill has been passed by Parliament, the Contingency Warrant ceases and advances made from the Consolidated Fund are authorised by means of a General Warrant.
- 53.2 Under the Supplementary Appropriation Act, approved additional funds not authorised under a Contingency Warrant can be paid from the Consolidated Fund under a General Warrant issued by the Minister to the Permanent Secretary in the Ministry.
- 53.3 Copies of all General Warrants must be sent to the Auditor-General and the Accountant General.
- 53.4 Once the General Warrant has been received, the PSF will approve the spending of the additional funds by filling out another Authority to spend form for the responsible AO.

M2 54 Authority to make Statutory payments

- 54.1 The Minister for Finance will authorise the PSF through a General Warrant to pay annual Statutory expenses through the Consolidated Fund.
- 54.2 A copy of the General Warrant will be sent to the Auditor-General and the Accountant General.

M2 55 Departmental authority to spend

- 55.1 If necessary, an authorised AO may authorize another AO to spend money on his/her behalf and within the funds under the control of the authorised AO.
- 55.2 This authority is given via a Departmental Warrant by the AO. The Departmental Warrant must give full details of the relevant accounts code for which authority has been given and shall specify the maximum amount of spending possible under the warrant.

- 55.3 Departmental Warrants must not be used to make payments just for the convenience of the AO under normal payment procedures.
- 55.4 An AO to whom a Departmental Warrant is issued cannot give authority to any other officer.
- 55.5 Copies of all Departmental Warrants must be sent to the PSF, the Auditor-General and the Accountant General.

M2 56 Ending the authority of all Warrants

- 56.1 All Accounting Warrants, Funds Transfer Warrants, Contingency Warrants, Departmental Warrants and any other warrants that authorise AOs to spend money cease on the last day of the financial year, or on an earlier date if notified by the PSF.
- 56.2 Authorised AOs must not improperly commit any funds under the Warrant that is about to cease.

Investment of surplus money

M2 57 Power to invest

- 57.1 The PSF may invest money that is temporarily surplus and under SIG control. The PSF must, in making an investment:
 - (a) exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons;
 - (b) avoid investments that are speculative or hazardous in nature.
- 57.2 The PSF, so far as may be appropriate in the circumstances, have regard to:
 - (a) nature of and risk associated with any existing investments;
 - (b) desirability of maintaining the real value of the capital;
 - (c) income of the investment;
 - (d) risk of capital or income loss or depreciation;
 - (e) potential for capital appreciation;
 - (f) probable income return and the timing of the income return;
 - (g) length of the term of a proposed investment;
 - (h) liquidity and marketability of a proposed investment;
 - (i) likelihood of inflation affecting the value of a proposed investment;
 - (j) costs of making a proposed investment.

M2 58 Investment advice

- 58.1 The PSF may obtain and consider independent and impartial advice about the investment of funds or the management of its investments from a person whom the PSF reasonably believes to be competent to give the advice.

5. Permanent Secretary Financial Instructions - Background

These instructions are issued by the Permanent Secretary in accordance with section 7(1) of the Public Finance and Audit Act, 1978, as amended, (hereinafter referred to as a Permanent Secretary instruction) and in accordance with the Ministerial 'financial framework' instructions relating to certain accounting or accountable matters.

These accounting matters instructions relate to the implementation and management of the Financial Framework in terms of the Ministerial instruction.

6. Permanent Secretary Financial Instructions

Accurate Coding

P2 1 Accurate coding of financial transactions

- 1.1 Every financial transaction for revenue, expenditure, assets or liabilities must be accurately coded in accordance with the nature of the transaction.
- 1.2 The availability of a budget is not justification for inaccurately coding a financial transaction.

Costing

P2 2 Costing methodologies

- 2.1 The Accountant General will determine the methodologies for the determination of full costing of service outputs using either internal pricing between Ministries, activity based costing (ABC) or a combination of internal pricing and ABC [The full implementation of this PSF instruction is delayed until a date to be determined by the PSF/].

Monitoring

P2 3 Preparation and presentation of the annual accounts

- 3.1 Preparation and presentation of the annual accounts must be in accordance with the International Public Sector Accounting Standards Board (IPSAS) accounting standard 'Financial Reporting Under the Cash Basis of Accounting' (Part 1)⁷ and the presentation of a Cash Flow Statement in accordance with IPSAS2⁸ [The implementation of part of this Ministerial Instruction relating to consolidation of all controlled entities is delayed until a date to be determined by the Minister of Finance in consultation with the PSF].⁹
- 3.2 The Minister may determine a date when this FI will not apply if superseded by **P2 7**.
- 3.3 The annual accounts must include, if required, the deficiency or shortfall statement required by section 20 of the PF&A.
- 3.4 The annual accounts must include all of the reporting requirements of section 38 of the PF&A.

P2 4 Business activities by controlled entities – accrual accounting

- 4.1 Every controlled entity predominantly undertaking a business activity requiring the establishment of service or goods sale prices shall apply the accrual basis of accounting [The implementation of this Ministerial

⁷ Part 1 of the Cash Basis of Accounting IPSAS is compulsory; part 2 contains recommended additional disclosures.

⁸ Compliance with the cash basis of accounting IPSAS will also allow completion of a cash flow statement.

⁹ Subject to a review of the status of annual account preparation in controlled entities and their financial year having a different end date to 31 December.

Instruction is delayed in accordance with a timetable to be approved by Cabinet taking into consideration the financial year end dates of the controlled entities and the status of finalised audits in consultation with the Auditor-General].¹⁰

P2 5 Annual accounts deadline

- 5.1 Transmission of the annual accounts to the Auditor-General within 2 months after the end of the financial year and the consolidated accounts within 3 months after the end of the financial year [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF].¹¹

P2 6 Annual accounts basis – cash accounting

- 6.1 Preparation and presentation of the annual accounts in accordance with the International Public Sector Accounting Standards Board (IPSAS) accounting standard ‘Financial Reporting Under the Cash Basis of Accounting’ (Parts 1 and 2) including the publication of relevant tables in accordance with Government Finance Statistics¹² requirements [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF].¹³

P2 7 Annual accounts basis – Accrual accounting

- 7.1 Preparation and presentation of the annual accounts in accordance with the accrual basis of accounting and all relevant International Public Sector Accounting Standards Board (IPSAS) accounting standards including Disclosure of Financial Information about the General Government Sector (IPSAS22). [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF, and further that the implementation in respect to the aspect of accrual accounting relating to the capitalisation and depreciation or amortisation of assets is delayed until such time as SIG has considered and approved a report that the benefits of implementation is greater than the costs of implementation].¹⁴

¹⁰ The ability to consolidate the financial information of controlled entities, required by the ‘Cash IPSAS’, will depend on the quality of the controlled entity’s financial statements, to be measured by the date of the most recent audit, whether their financial year ends on a different date to the Government and whether severe external long term restrictions exist that prevent the controlling entity from benefitting from the controlled entity’s activities.

¹¹ Best practice is generally considered to be that Government accounts are completed within 2 months and consolidated accounts are completed within 3 months. The Public Finance and Audit Act provides for a maximum date of 6 months.

¹² Government Finance Statistics (GFS) formats are explained in the International Monetary Fund manual 2001. The primary purpose of the GFS Manual is to provide a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any country (IMF). The IMF has minimum data reporting requirements for its members, unless they can prove they do not have the capacity to produce the information. <http://www.imf.org/external/pubs/ft/gfs/manual/>

¹³ The optional requirements of Part 2 mainly relate to ‘encouraged’ additional disclosures; e.g. going concern, extraordinary items, joint ventures, external assistance, migration to accrual accounting.

¹⁴ Views have been expressed by a number of international academics that the costs of implementation of full accrual accounting and budgeting exceed the benefits. Many countries still account on a cash basis, or use the accrual basis without asset capitalisation.

P2 8 Solomon Islands applicable accounting standards

- 8.1 The PSF to establish and maintain a mechanism for the examination of the applicability of accrual accounting based IPSAS to the circumstances of the Solomon Islands [The implementation of this Ministerial Instruction is delayed until a date to be determined by the Minister of Finance in consultation with the PSF].¹⁵

P2 9 Guide to the ‘production’ of the annual accounts

- 9.1 Accountant-General will issue a year-end procedure and reporting timetable at least 60 days before the end of the financial year, and provide any necessary guidance.
- 9.2 Ministry annual accounts and reports. The AO must-
- (a) prepare annual accounts and all annual reports required by the FIs;
 - (b) submit the annual account and all annual reports to the PSF;
 - (c) ensure that the annual account and all annual reports to the PSF are submitted within 15 days of the beginning of the next Financial Year.
- 9.3 Prior to the production of the SIG annual accounts:
- (a) the CBSI be requested by the PSF to provide a reconciled schedule of borrowing
 - (b) all account reconciliations referred to in **P2 11.3** have been completed.
- 9.4 Amounts presented in the financial statements and notes are to be rounded to the nearest thousand dollars.

P2 10 Guide to the ‘publication’ of the annual accounts

- 10.1 Publication of financial information, by printed and electronic means including publication on the Ministry of Finance website, to better inform the community and other key stakeholders in regard to the Government’s financial management performance.
- 10.2 The audited annual accounts must immediately be published on the Ministry of Finance website.

P2 11 Procedures, format and timing of monthly accounts to regularly monitor financial performance

- 11.1 The Accountant General will determine the format of the monthly account to effectively monitor SIG and Ministry financial performance.
- 11.2 The Accountant General must maintain a list of all assets, liabilities, clearing or suspense accounts and the public officer designated to reconcile the account.
- 11.3 All accounts must be reconciled by the designated public officer prior to the compilation and issue of each monthly report.
- 11.4 The monthly report should include appropriate charts to adequately explain financial performance.

¹⁵ Other countries have Accounting Standards Boards, but a ministry committee and an OAG representative could suffice.

- 11.5 The format should include a comparison of monthly and year-to-date results with the original budget, adjusted budget and year-to-date budget targets.
- 11.6 The monthly account must include an analysis of debtors in arrears.
- 11.7 Monthly accounts must be submitted to the PSF within 10 working days of the end of the month to which the report relates.

P2 12 Carbon reporting

- 12.1 Carbon and emissions reporting with annual accounts to be developed by the PSF.

P2 13 Publication of monthly financial statements

- 13.1 The monthly financial statements must be published on the Ministry of Finance website within 10 working days of the end of the month to which they relate.

Control and recording of recurrent spending

P2 14 Responsibilities of AOs

- 14.1 All AOs who receive any type of Warrants that allow spending of Government money are responsible for-
 - (a) exercising proper control over and keeping proper records of any spending against these Warrants;
 - (b) ensuring that any spending is essential to Government and is being provided in the most economic, efficient and effective manner; and
 - (c) ensuring that all spending is in accordance with the six central principles that guide the use of public resources. Refer to Chapter 7, 'Supply Chain Management'.
- 14.2 If an AO finds it more efficient to delegate some duties, the delegates must always comply with these FIs or any other Instructions that may apply. Note: An AO can delegate duties, but cannot delegate overall responsibility under these FIs.

Table 1: Selected relevant sections of the Public Finance and Audit Act (PF&A), 1978, as amended

Section 4 - “The estimates of revenue and expenditure prescribed by section 102 of the Constitution shall be in such form as the Minister may from time to time direct...”
Section 5 - “The Minister with the approval of the Cabinet is authorised to make financial provision for the establishment of Special Funds”.
Section 6(1) “The Minister shall so supervise the finances of the Government as to ensure that a full account is made to Parliament and for such purpose shall, subject to the provisions of this Act, have the management of the Consolidated Fund and the supervision, control and direction of all matters relating to the financial affairs of the Government”.
Section 6(2) “For the purpose of ensuring compliance with the provisions of subsection (1) the Minister may issue instructions to be called Financial Instructions and Stores Instructions for the better carrying out of the provisions and purposes of this Act”.
Section 7(1) “Every accounting officer and every accountable officer shall obey all instructions that may from time to time be issued by the Permanent Secretary in respect of all accounting or accountable matters for which he is responsible”.
Section 11 “Every appropriation by Parliament of public moneys in respect of any financial year shall lapse and cease to have any effect at the close of that financial year”.
Section 17(1) “An accounting officer shall be designated in the annual estimates of revenue and expenditure in respect of each head for any financial year to control and account for the expenditure of moneys applied to that head by an Appropriation Act: Provided that the Minister may at any time by writing under his hand appoint any other public officer to be the accounting officer for any head.
Section 18 “If in the opinion of the Minister the public interest renders it necessary or expedient to vary the sums assigned to any subhead within any head shown in the estimates of expenditure for any financial year, or to create a new subhead within such head, he may at his discretion direct by means of a warrant to be known as a virement warrant under his hand that there shall be applied in aid of any subhead which may be deficient or in aid of any new subhead a further sum out of any surplus arising on any subhead within the same head: Provided that—(a) the sum appropriated to any head by an Appropriation Act and by any Supplementary Appropriation Act is not thereby exceeded; and (b) the purpose and scope of any new subhead shall be within the purpose and scope of the head within which it is created”.
Section 20 “If at the close of account for any financial year it is found that there is a deficiency or shortfall in the collection of the estimated revenue prescribed by section 102 of the Constitution, such deficiency or shortfall shall be included in a statement together with the report of the Public Accounts Committee and be presented to Parliament”.
Section 21 “(1) A separate account shall be maintained for each Special Fund and may receive funds either by an appropriation or at the direction of the Minister from other sources. (2) In accordance with section 100(3) of the Constitution, section 11 shall not apply to any Special Funds established or deemed to have been established under section 5. (3) The Minister may authorise the investment of moneys standing to the credit of Special Funds in like manner to that provided by section 12(1) for the Consolidated Fund. (4) The Minister may give directions for the control and management of any Special Fund.
Section 32 “The Government shall not borrow money except in accordance with the provisions of an Act or resolution of Parliament. (2) Any moneys borrowed under the provisions of subsection (1) shall be paid into and form part of the Consolidated Fund. (3) Under this section the borrowing of money by way of advance from a bank or overseas agents may be by fluctuating overdraft”.
Section 33(1) “The Minister may subject to the provisions of this section, guarantee in such manner as he may think fit the repayment of the principal money of, and the payment of interest and other charges on, any loan raised or made by any person either within or outside Solomon Islands”.
Section 33(2) No such loan shall be guaranteed— (a) unless the Minister approves the purpose of the loan and is satisfied that the servicing of the loan is within the capacity of the borrower; and (b) until provision has been made to the satisfaction of the Minister— (i) for appropriating and duly applying the loan for such purpose; (ii) to ensure that any part of the loan which cannot be applied for such purpose will either not be

drawn or will be applied to such other purposes as the Minister may approve;

(iii) for charging on the income and assets of the borrower, or any other income which may be made available for the purpose, the principal of, and the interest and other charges on, the loan, or if such charging is not in the opinion of the Minister practicable, otherwise to ensure the repayment of the said principal, interest and charges;

(iv) for charging on the income and assets of the borrower the repayment to the Government of any sum paid out of the general revenues under subsection (3) hereof with such interest on the said sum as may be specified by the Minister, or if such charging is not in the opinion of the Minister practicable, otherwise to ensure the repayment of the said sum and interest;

(v) for raising or securing the raising of sufficient money to meet the above charges.

Section 33(3) “Any sum required for fulfilling any guarantee given under this section shall be charged on and paid out of the Consolidated Fund without further appropriation than this Act and any sum received by way of any repayment of any sum so paid shall be paid into and form part of the Consolidated Fund.

Section 35(1) In exercising the powers conferred by section 108(3) of the Constitution of audit and examination of accounts the Auditor-General may require evidence so far as is reasonably practicable - (f) that adequate Regulations and Instructions exist for the guidance of accounting officers.

Section 38(1) “Subject as hereinafter appearing, within a period of six months after the end of each financial year there shall be prepared and transmitted to the Auditor-General:

(a) by the Permanent Secretary, signed statements of account showing fully the financial position of Solomon Islands Government at the end of the financial year which shall include—

- (i) a statement of assets and liabilities;
- (ii) a statement of receipts and payments;
- (iii) a comparative statement of actual and estimated revenue;
- (iv) a comparative statement of actual and estimated expenditure;
- (v) a statement of Special Funds;
- (vi) a statement of advances;
- (vii) a statement of deposits;
- (viii) a statement of guarantees entered into by Government;
- (ix) a statement of investments;
- (x) a statement of the public debt;
- (xi) a statement of outstanding loans made by the Government;
- (xii) tabular summaries of unallocated stores and manufacturing accounts; and
- (xiii) a statement of losses, abandoned claims and ex gratia payments;

(b) by each accounting officer, for each financial year and for the heads or the moneys for which he is responsible, such statements of account as the Permanent Secretary may specify”.