



SOLOMON ISLANDS GOVERNMENT

SPECIAL AUDIT REPORT

**into the
Financial Affairs of the**

Department of Fisheries and Marine Resources

Prepared by:

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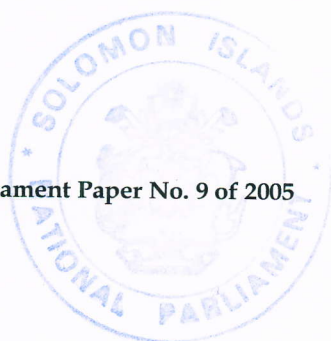


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FOREWORD

Background

I have pleasure in presenting this report on a Special Audit into the Financial Affairs of the Department of Fisheries and Marine Resources.

Solomon Islands is one of the very few island states in the region that has the biggest sea area. As such, the fisheries sector comprises one of the major resources that could contribute significantly to the economic development of the nation.

On the contrary, revenue from this sector over the years, appears to have either declined or not increased proportionately to the increase fishing activities, let alone the favourable international market prices. This has raised concerns, particularly in the management of the resources by the respective government department. Needless to say, the Department's resources have subjected to abuse and fraudulent or corrupt practices.

These, coupled with the inability of my office to perform its functions effectively, due to lack of resources raises the vulnerability of these resources to illicit dealings.

Audit

In spite of the number of irregularities noted in this report, it is not intended to be critical of any government, but rather tries to find a way forward to ensuring sound financial management in the public sector. The issues we identify cover the boundary between the executive and legislative branch of the government.

I have consulted widely within the Department and other organisation that play a key role in the industry. I am grateful to all who took part, for the helpful way in which they address the topic, and for the useful suggestions that we received.



Floyd Augustine Fatai
Auditor General

October 2005

Executive Summary

Our audit of the Department of Fisheries and Marine Resources was in recognition of the urgent need for the Solomon Islands Government to improve revenue collections and in response to a perception that potentially significantly greater revenue should have been collected than was reported over 2001 to 2003. Our focus was on the material area of fishing licences and other associated programs. In the audit we addressed efficiency and performance considerations as well as internal controls and compliance considerations.

The fisheries sector, which is almost exclusively tuna, makes an important contribution to the national economy. Fisheries have generally been the largest export earner, exceeded only by the timber industry in recent years. Licence fees from both domestic and foreign vessels are one of the major revenue earners for the Government. However, it only represents a low percentage of the catch. Revenue from the US Treaty agreements increased significantly in 2003 and a further increase is expected with the access of European Union vessels in the Solomon Island waters. Fisheries also provide a major contribution to the nation's Gross Domestic Product.

Key Findings

We summarize below our key findings which are further discussed in this Report:

✚ **Fishing Income – Not properly Accounted for (Irregularities/Corruption)**

- Fishing Licence Fees revenue recorded in the Consolidated Fund were \$4,948,923 (2001), \$4,089,052 (2002) and \$ 12,453,692 (2003). Based on reconstructed records we estimated the fees due for these periods to be \$13,161,072 (2001), \$17,355,923 (2002), \$28,155,148 (2003). This reflects an estimated short fall of \$37.2 million. We have identified the areas, noted in the Table below, where possible leakages of fishing licence fees have occurred, but the estimated amounts in some cases are only a rough indication of the amounts involved:

DESCRIPTION OF LEAKAGES FROM CONSOLIDATED FUND	AUDIT'S ESTIMATED AMOUNT	COMMENTS
<i>Diverted to Port Sampling & Training Accounts</i>	<i>\$3.85 Million</i>	<i>These accounts were subsequently closed by Ministry of Finance because of abuse. Consolidated Fund understated by the amount diverted into these accounts – operational expenses understated by the amount spent</i>
<i>Multilateral Income diverted to the Foreign Affairs Account</i>	<i>\$2.7 Million</i>	<i>Payments were made into the Foreign Affairs Multilateral account. Consolidated Fund understated by the amount diverted – operational expenses understated by the amount spent.</i>
<i>Misappropriation of Funds</i>	<i>\$3- 4 Million</i>	<p><i>Audit detected these and could be classified into 2 categories:</i></p> <ul style="list-style-type: none"> <i>Instances occurred between December 2002 to July 2003 – approx \$1.5 Million suspected that the proceeds were shared between the staff of the Ministry of Natural Resources;</i> <i>Occurred when cash requests for fishing licences and observer fees were made to Fishing Companies – collected by Fisheries Officers – could not be accounted for – some cash cheques and telegraphic transfers traced to Fisheries Officers or relatives bank accounts – suspected that proceeds were shared between fisheries officers.</i>
<i>Corruption Allegations</i>	<i>Unspecified</i>	<i>Corruption allegation were made in writing to Audit – in the main the validity of these appear to be supported by Audit's findings.</i>
<i>Offsetting Fishing Licence Fee Income (Contrary to Public Finance & Audit Act)</i>	<i>\$0.5 Million</i>	<i>A fishing company also involve in motor vehicles offset fishing income for the purchase of new cars and repairs of other vehicles for Fisheries. Audit noted that some of the new cars were registered privately.</i>
<i>Unpaid Fishing Licence Fees</i>	<i>\$9.3Million</i>	<i>According to reconstructed accounting records this amount is unaccounted for and will need to be followed up with various companies.</i>
<i>Understatement of Reported Actuals</i>	<i>\$8.86 Million</i>	<i>Audit traced fishing licence fees to CBSI for 2002 and 2003 amounting to \$7.5 Million & \$18 Million respectively, understating the reported actuals by \$3.4 Million (2002) & \$5.5 Million (2003) – suspected incorrect classification in the Consolidated fund.</i>

In our opinion, the overall irregularities and other shortcomings are not limited to the findings outlined in this report.

✚ Fisheries Administration – Director of Fisheries Powers

- The administration of fisheries sector has failed because key elements within the legislative structure and accountability framework, as laid down by the National Tuna Management and Development Plan, have either not been implemented or been discontinued, hence significantly weakening the transparency and accountability of the decision making process. Some of these elements include:
 - (i) The National Management and Development Plan has not been fully implemented;
 - (ii) The Fisheries (Tuna Fisheries) Regulations 1999 has not been gazetted;
 - (iii) Fisheries Advisory Council has ceased to function;
 - (iv) Tuna Management Committee has lapsed;
 - (v) Fisheries Management and Development Fund were not established.
- The Deputy Director of Fisheries (DDF) is exercising the powers of the Director of Fisheries who is empowered under Section 36 of the Fisheries Act. Prior to the DDF, these powers were exercise by the former Under Secretary who was later appointed to Permanent Secretary. It is not clear why the Permanent Secretary's successor as Under Secretary was not appointed and how a middle-ranking officer was appointed to carry out these functions. No instrument of appointment under the Act could be produced at the time of the audit.
- The Director of Fisheries' authority, currently exercised by the Deputy Director under the Fisheries Act, is very powerful and impacts on the accountability, transparency and integrity of the whole licensing process. Under the National Tuna Management and Development Plan, a Tuna Management Committee (TMC) was provided for. While much of the decision-making authority lies with the Director of Fisheries, the procedures outlined in the plan require the Director to act on the advice of the TMC. That means the Director or a person so delegated with such authority shall follow a clear decision made by the Committee. This process has been enshrined in the Fishing Regulations to cover a range of issues. In the absence of the TMC, the Deputy Director of Fisheries is solely exercising the powers under the Fisheries Act and Tuna Management Plan. We have noted many decisions which are in breach of the law as well as the Tuna Management Plan.

✦ Lack of Proper Fishing and Accounting Records

- Proper fishing licence records were not maintained and some important accounting records were deliberately destroyed which was a result of a breakdown of key controls. Due to insufficient records we, in the main, could not track fishing fees due, received and banked. As such we have reconstructed many of the records and confirmation of these records was verified with some companies. This enabled us to identify significant losses of public moneys resulting from poor management, fraud and misappropriation of public moneys.

✦ Locally Based Foreign Fishing Vessels – Fees Paid Well Short of Schedule Fees

- Fishing licence fees for “Locally Based Foreign Fishing Vessels” (LBFFV) are being negotiated at a rate well short of the schedule of fees in the 1998 Regulations, and in some cases, companies were paying less than the negotiated rate. For the period 2001 to 2003, we estimated that additional revenue of SBD\$14.4 million would have been achieved had the schedule of fees been used. This was made up of SBD\$3 million (2001), SBD\$3.14 million (2002) and SBD\$8.264 million (2003). In addition, there was a substantial loss of revenue due to the Government arising from Companies being allowed to pay rates less than the agreement rate. We further noted cases whereby very low rates are being paid due to the fact that agreements have not be revised for many years or there are no agreements in place.

✦ Bilateral Agreements – Improve Negotiations and Management

- Bilateral Agreements are negotiated on the basis of small access fee upfront with a formula based on 5% of the catch. This relies upon the accuracy of the catch and price, which is not being monitored properly by the Department, nor are proper records being maintained to manage the process. We noted that the Department relied mainly on the Companies to provide the information for them and little income was being received from the 5% of the catch formula. We estimated that for Taiwan and Korea agreements if up-front fees were applied, based on schedule or market fees, an additional income of \$16.2M (2001), \$20.2M (2002) and \$21.5M (2003) would have been achieved.
- Bilateral Agreements are being negotiated by the Minister, Permanent Secretary, Under Secretary and Director General but there did not seem to be much evidence that the Attorney General or Foreign Affairs had input into these negotiations, which is considered to be the normal process.

✦ Observer Fees – Not Properly Accounted for

- Annual observer fees payable to the Department for Bilateral and Locally based development agreements are well below the regional standard rate of US\$2,400 – US\$4,500 (according to Forum Fishing Agency). For locally based foreign vessels, we have noted that some companies are paying less than the agreed rate for annual

observer fees. In the case of local vessels, annual observer fees are being paid on the time based at sea instead of the schedule rate laid down in the Fisheries Regulation.

- Receipt of annual observer fees in many instances could not be traced to bank accounts, nor have the fees been properly accounted for in the Consolidated Fund. We have estimated these to be \$449,808 (2001), \$733,179 (2002) and \$1,429,318 (2003).
- Payment of observer allowances over the last few years have been based on several methods instead of going through the Consolidated Fund. Fisheries officers have been paid this allowance instead of the public service overtime rate and some fraudulent claims have been noted.

✚ **Port Sampling Account – Destruction of Records/Abuse**

- Port Sampling Account was used to divert fishing licence and annual observer fees from the Consolidated Fund. This account had been abused and many of the accounting records have been deliberately destroyed.

✚ **Organisational Structure – Disjointed / Proper Division of Functions**

- The Department's Organisational Structure is disjointed, lacks a proper division of functions and requires a review with the aim of strengthening financial and management controls within the organization.

Overall Recommendation

A number of recommendations have been made in the body of the report, however, it is considered that a general review should be carried out on the Department of Fisheries and Marine Resources, with the aim of reviewing the structure of the organization, the staffing arrangements and management practices. In addition, many of the breaches in the law should be referred to the appropriate authorities so that the proper processes can take place and recovery action be taken where Government funds have been improperly received by staff.

In order to strengthen the Department we recommend that wide-ranging remedial actions are required, however, these cannot be achieved unless the Fisheries Department receives substantial assistance from experts.

We note that consideration was being given some time ago to obtain assistance from ADB in strengthening the Fisheries Department. It is our view that this be pursued with some urgency. In particular, high priority should be given to assisting Fisheries in the implementation of the National Tuna Management and Development Plan, Fisheries and Financial Management Procedures and Contract Negotiations.

Conclusion

Our audit has revealed many serious shortcomings including breaches in the law and the Tuna Management Plan, non compliance with the Public Finance and Audit Act, Financial Instructions and General Orders, breakdown in the procedures and practices, as well as major deficiencies in internal controls which have left the Department of Fisheries and Marine Resources open to fraud and corruption.

Obviously, one of the contributing factors to the overall position in the Department was the tension period, but this is not considered to be the major reason for the poor state of the Department. Fisheries Management failed to exercise proper management and internal control practices within the Department with the result that the Licensing Section conducted business as if it were their own. There was a systematic, particularly with locally based foreign vessel companies, request by Fisheries for cash, and senior fisheries officers from the licensing section made collections, particularly for annual observer fees. Most of these collections could not be accounted for and we have traced some collections of public moneys to Fisheries Officers or their spouse's personal bank accounts.

We found that some sections of the Fisheries Department were reluctant to provide information to us, contrary to section 43 of the Public Finance and Audit Act, and many of the records were not properly maintained. As a result, the tracking of revenue received and due in this sector has been difficult, with large sums of money unaccounted for. There is no doubt that a significant amount of Fisheries revenue has been lost from the Government, which has had an impact on the economy.

In relation to Bilateral Agreements, it is considered that up-front payments should be negotiated, as the monitoring of the 5% of the catch formula appears to be a difficult task for the Department given the staffing situation. Although the tuna catch is variable, we consider that, with proper management practices, improved contract negotiations, and the strengthening of internal controls, this resource has the potential of earning SBD \$50 M or more per annum, particularly with new agreements from the European Union and New Zealand.

The Fisheries Department has failed to administer the tuna resource effectively and as the Department is the cornerstone of the fishing industry in the Solomon Islands, it is important that the National Tuna Management and Development Plan be fully implemented.

Another contributing factor to the shortcomings noted during the audit, is that no audits have been carried out since 1987, and as Fisheries revenue forms a material part of total government revenue, the Auditor General is not in a position to form an opinion on the Government Accounts, unless this area is audited annually.

1. INTRODUCTION

1.1 Background

The Auditor General, pursuant to the provision of Section 108 (3) of the Constitution, as read with Section 35 of the Public Finance and Audit Act, has authorised the audit of the Department of Fisheries and Marine Resources. Further authority was given under Section 36 (2) (b) of the Public Finance and Audit Act to engage public officers within the Internal Audit of the Ministry of Finance (MOF) to assist in carrying out the audit. This audit was in recognition of the urgent need for the Solomon Islands Government to improve revenue collection and in response to a perception that there are significant leakages of Fisheries revenues, due to the inadequacies of internal procedures.

The Department is responsible for the development of fisheries and marine resources in consultation and partnership with provincial and national governments. The main aim of the Department is to maximise social and economic benefits through sustainable development of the Solomon Islands fishing industry and other marine resources.

1.2 Mandate

The Public Finance and Audit Act provides that the Auditor General “shall have and may exercise all the powers and authority, and shall perform the duties conferred and imposed upon him by this Act and by Section 108 of the Constitution.” Under Section 35 of the Act, the Auditor-General is required to, inter alia, **ensure that Government revenue is collected and properly accounted for**. Further, the Auditor General is also required to ensure that **public expenditure conforms to the authority conferred by Parliament and that reasonable precautions are taken to safeguard against public waste**.

1.3 Legislation

The Department of Fisheries and Marine Resources is part of the Ministry of Natural Resources and operates under the Fisheries Act 1998, the Fisheries (Tuna Fisheries) Regulations 1999, and the Solomon Islands National Tuna Management and Development Plan. The Department is responsible for overall management of the fisheries sector, which includes the sustainable harvesting of marines resources, quality assurance of these resources for export, and development and promotion of local fisheries markets.

1.4 Audit Objective and Scope

The principal objective of our audit was to perform sufficient audit work for us to obtain assurance that the amounts required by the Fisheries Act and Regulations to be payable are properly identified and assessed, duly collected and correctly brought to account.

In this context, the scope of our audit:

- Focussed on revenue collections derived mainly from fishing licence fees and observer fees;
- Covered the period from 2001 to 2003 and involved the current procedures and systems;
- Examined some expenditure records, however, these were limited to problem areas.

Our audit is not all encompassing, but covers the material areas of Department of Fisheries and Marine Resources revenue procedures. It does not cover provincial areas as there was a European Union Development Project being carried out at the time of the audit in this area.

2. FISHERIES ADMINISTRATION

2.1 Introduction

The Fisheries Act 1998 (the Act) was assented to on 10th July 1998. Amongst other things, this Act¹:

- Revised the laws relating to Fisheries; and
- Made provision for the proper management and development of Fisheries Solomon Islands and repealed the Fisheries Act 1972.

The regulations arising from this Act have been prepared but have not yet been gazetted.

2.2 General Overview of the Legal Status and Framework

Section 7 of the Act provides for the preparation of a National Tuna and Management Plan. The Plan² was prepared in 2000 and provides for, amongst other things, the following:

- Statement of key government policies and strategies;
- Outline of legal decision making and consultative framework;
- Summary of broad principles, goals and indicators for evaluation; and
- Overview of licensing guidelines.

The Plan has no legal force in itself, although its provisions may be given legal force by being incorporated into fishing licence conditions and regulations.

The consultation and advisory structure under this Plan is designed to provide a transparent accountable decision-making process for management of tuna fisheries. The Plan also establishes interdisciplinary framework for the coordination, review and evaluation of the management strategies under this Plan. The focus for implementation of policies and strategic management will be the Tuna Management Committee (TMC). The consultation and advisory structure for tuna fisheries is illustrated in Figure 1 below.

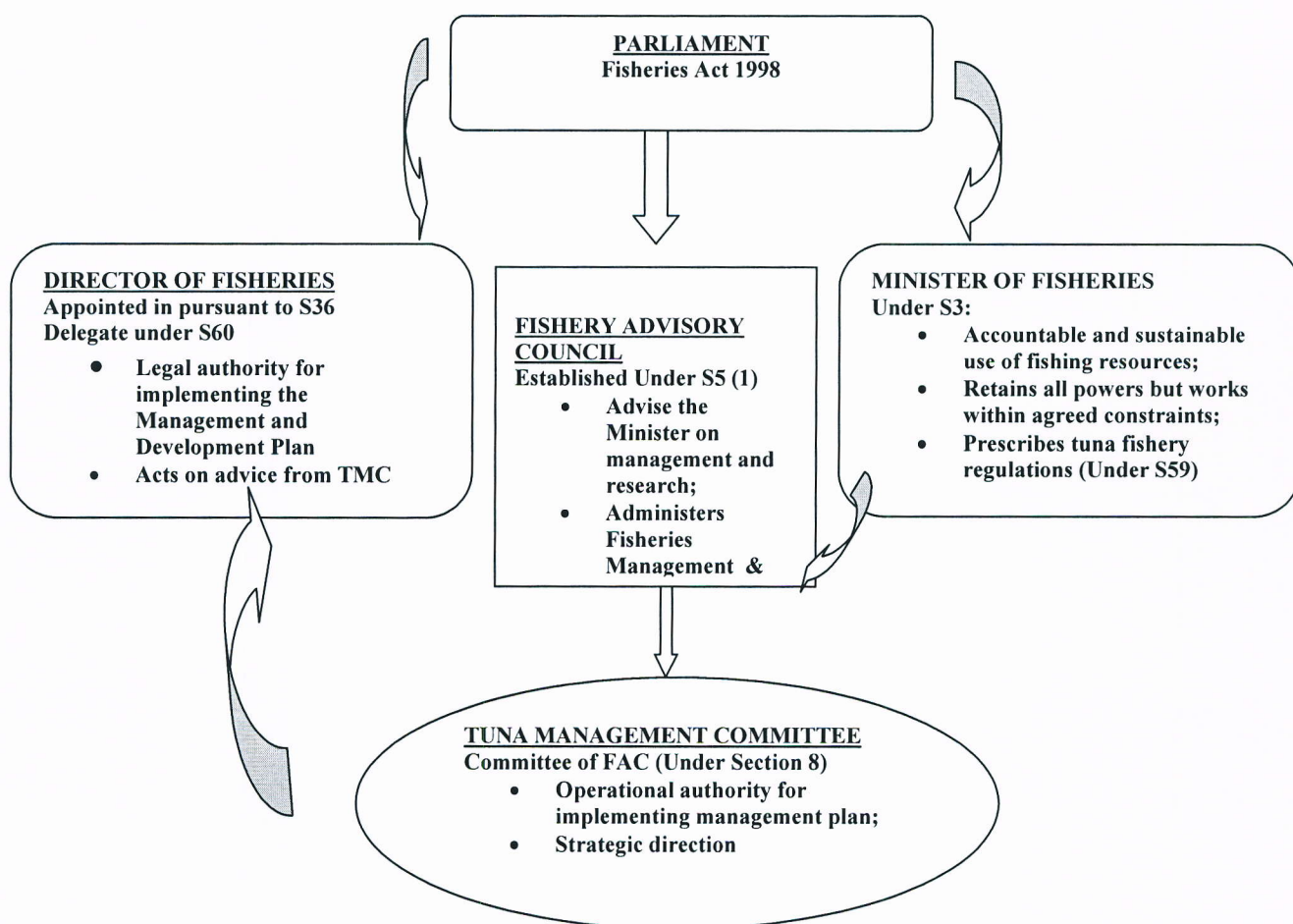
Under the framework, the Director of Fisheries has legal authority for implementing the Plan and in the decision-making process acts on advice from the TMC. The members of the TMC should include industry, government, NGOs, Director of Fisheries (ex officio). The role of the TMC is to provide, amongst other things, the following:

¹ Reference to the "Act" in this report, unless otherwise specified, means the "Fisheries Act".

² "Plan" means the "Tuna Management Plan".

- Strategic direction of tuna fisheries;
- Senior level coordination of Divisions for Implementation of the plan; and
- Establish sub-committees or ad-hoc working groups for technical advice or coordination of specific projects as required.

Decision-making Authority and Legal framework



**Figure 2.1: Policies and Strategic Management Structure
Tuna Management Committee (TMC)**

2.3 Summary of Finding and Recommendations:

The following findings and recommendations indicate that the aim of the 1998 legislation and the National Tuna Management and Development Plan to provide a transparent, accountable decision-making process for the tuna fisheries has broken down with key elements and controls not operating.

2.3.1 The Fisheries (Tuna Fisheries) Regulations 1999 – Not Gazetted

The Fisheries Act 1998 was assented to on 10th July 1998 and with this the Fisheries Act 1972 was repealed. Section 59 of the Fisheries Act 1998 provides for the Minister to make regulations. Under this Section “The Fisheries (Tuna Fisheries) Regulations 1999” have been prepared, however, at the time of the Audit the new regulations have not been gazetted.

Despite this, these Regulations are being applied without legal authority.

We further noted that the Schedule to the Regulation does not include any determined rate of fees. This would have not only formed the basis for any future fees resulting from increases approved by the Minister, but also ensured that a standard rate of fees is applied uniformly, hence provide consistency and predictability of revenue due in any one accounting period. It is not clear as to what schedule of fees is being used for local vessels.

The implication are that actions taken since 1999 have no legal backing, and proper practices and procedures are not being followed, resulting in a loss of revenue and corrupt activities.

Recommendation 1

We have recommended that the Fisheries (Tuna Fisheries) Regulations 1999 be reviewed and gazetted with some urgency.

2.3.2 Licensing Guidelines

Section 13 of the Fisheries Act provides for the Director in consultation with the Fishing Advisory Council to draw up licensing guidelines for endorsement by the Minister.

The licensing guidelines have been incorporated in the management and development plan and are not readily available to licensing staff.

It is considered that the licensing staffs are not aware of these guidelines, and separate copies should be provided to staff members of the licensing section.

In essence, from Audit’s perspective the implementation of the plan, including the licensing guidelines has not progressed to any great extent.

The implications are that licensing guidelines are not being followed, and the licensing system is open to misappropriation of funds and corrupt licensing practices, resulting in a loss of government revenue.

Recommendation 2

We recommended that licensing guidelines be properly formalised and distributed to staff for implementation.

2.3.3 National Tuna Management and Development Plan

Section 7 of the Fisheries Act provides for a "Fisheries Management and Development Plan". The Plan developed under Section 7 is known as the National Management and Development Plan (NMDP) and, as part of Forum Fisheries Agency (FFA) program of developing tuna management plans for a number of forum nations, the Solomon Islands' plan was funded in May 1998 under the Canada-South Pacific Oceans Development Program. The initial development was done by a project team based in the Department of Fisheries and Marine Resources, with substantial support from FFA.

The implementation of the Plan has not progressed very far since it was drawn up in 2000. FFA indicated that, due to the ethnic tensions in Solomon Islands, it had not taken any further action in assisting with the implementation of the National Plan until now, when the matter was discussed with the Permanent Secretary.

It is expected that subject to the availability of funds, FFA will give assistance in implementing the NMDP, not only in the Solomon's, but also in other member countries.

The NMDP is the cornerstone to the management of fisheries in the Solomon Islands and this has not been properly implemented. The implications are that, without the full implementation of the NMDP, and with the management and development procedures within the Department not in place this results in a lack of accountability and transparency, the Fisheries' operations would be open to corruption, misappropriation of funds and a loss of Government revenue.

Recommendation 3

That assistance is urgently sought from FFA to review and implement the National Management and Development Plan as soon as possible.

2.3.4 Fisheries Advisory Council - Lapsed

Section 5 of the Fisheries Act 1998 provides for the establishment of a Fisheries Advisory Council which shall advise the Minister on such matters relating to conservation, protection and development of fisheries in Solomon Islands, and such other matters as the Minister may from time to time require.

Some of the matters on which the Council shall advise the Minister are as follows:

- Fisheries management and development plans prepared under Section 7 of the Act;
- Proposals for fisheries development and research projects to be funded under the Fisheries Management and Development Fund, Section 6 of the Act; and
- Such other matters referred to it by the Minister or any Provincial Executive.

The Constitution and operation of the Council is set out in a schedule to the Act.

We have noted that the Council had lapsed around 2000 and has not operated for some three to four years.

According to Director General of Fisheries, there are moves to reactivate the Council.

The Fisheries Advisory Council forms an important element of the National Management and Development Plan and in particular a consultation and advisory structure.

The implications are that the legislative requirements are not being met and the aim of the National Management and Development Plan is not being achieved.

Recommendation 4

We strongly recommended that the Fisheries Advisory Council functions be reactivated as soon as possible.

2.3.5 Fisheries Management and Development Fund – Not Established

Section 6 of the Act provides for the establishment of a Fisheries Management and Development Fund (FMDP), with the aim of managing and developing fisheries in Solomon Islands.

The funding for this function would be sourced from:

- *Fifty per cent of the revenue derived from foreign fishing vessel licence fees and other charges in respect of foreign fishing vessels provided under Section 25 of the Act;*
- *Fifty per cent of the revenue derived from penalties for offences against this Act, or compounding of offences under this Act;*
- *Such moneys as may be donated to the Fund by any person, government (country) or organization; and*
- *Such other money as may be appropriated to the Fund by Parliament.*

Moneys held under this Fund may be defrayed for expenditure for all or any of the following purposes:

- Projects for the development of small-scale commercial fisheries in provincial waters;
- Research into the impact of bait fishing and other large-scale commercial and subsistence fisheries in provincial waters; and
- Assistance to provincial governments in the preparation and implementation of fisheries management and development plans under Section 7.

The expenditure from this Fund is to be approved by the Minister on the recommendation of the Council.

We have sighted no evidence to ascertain that the Fund had been established. According to the Under Secretary of the Department, one reason pertaining to non-establishment of this Fund is that there has not been sufficient revenue from fishing licences to warrant the establishment of it.

The implications are that the aim of the legislation to manage and develop fisheries in the Solomon Islands is not being met.

Recommendation 5

We recommended that the Department investigate the feasibility of establishing this Fund in the light of the current circumstances.

2.3.6 Tuna Management Committee - Lapsed

We observed that Section 8 of the Fisheries Act provides for the National Management and Development Plan.

This Plan allows for a decision-making authority and legal framework with the “Tuna Management Committee (TMC)” forming an integral part of the structure. The aim was to provide a transparent and accountable decision-making process for the management of the tuna industry. The Plan also establishes interdisciplinary framework for the coordination,

review and evaluation of the management strategies stated in the Plan. The TMC is the focus for implementation of policies and strategic management.

At the time of the audit we noted that the TMC has not operated for some time.

Since the TMC is an important element of the Plan, and exercises control over the decision-making process, the fact that it is non-operational implies that accountable and transparent decision-making processes for the management of tuna are non-existent.

The implications are that this situation is open to incorrect or corrupt decisions being made and that policies and strategic management decisions are not being implemented.

Recommendation 6

We recommended that the Department look seriously into reactivating the Tuna Management Committee as a matter of high priority.

2.3.7 Director of Fisheries - Exercising Powers/Appointment/Breaches of the Law

The Director of Fisheries is appointed under Section 36 of the Fisheries Act, and under Section 60 can delegate his powers. The Deputy Director exercises the powers of the Director of Fisheries. He has wide powers under the Act and as part of the accountability process outlined in the regulations and Tuna Management Plan, he should act on the advice of the Tuna Management Committee. This process is enshrined in the Fisheries Regulations and covers a range of issues.

We have noted that:

Appointment

- Section 36 (1) of the Fisheries Act provides for *"the appointment of a Director of Fisheries, a Principal Licensing Officer and such other licensing officers, fisheries officers and other officers for carrying out the purposes and provisions of the Act"*. We have not sighted a legal instrument to appoint the Deputy Director of Fisheries in the place of the Director of Fisheries, as required under section 36 of the Act, nor has the Department provided to us any delegation of these function by the Director to the Deputy Director of Fisheries. In essence it is difficult to understand why these powers, which were exercised previously by the Under Secretary (prior to his appointment as the Permanent Secretary), were transferred to the Deputy Director, rather than the newly appointed Under Secretary or the acting Director General.

Tuna Management Committee

- The Tuna Management Committee is a major control over the Director's decision-making authority, and as this Committee has not been operating for several years, this has impacted on the accountability, transparency and integrity of the whole licensing process.
- In the absence of a Tuna Management Committee, the Deputy Director of Fisheries has been solely exercising the powers under the Fisheries Act. We have observed that many decisions appeared to be in conflict with the law and the Tuna Management Plan. Examples of these have been noted in agency agreements rather than development agreements are being entered into for locally based foreign fishing vessels as required by the Tuna Management Plan.

Breaches

- The Deputy Director of Fisheries had verbally, without any written approval or amendments to the contracts reduced the rates for fishing licence fees and observer fees under some locally based contracts. There is a lack of accountability and transparency in this action.
- Regulation 5 provides that *"no vessel shall be used for tuna fishing in Solomon Islands waters without a valid licence issued under these regulations"*. The Deputy Director of Fisheries has allowed fishing in these waters without the vessel first being licensed. In many cases, licences have been paid after fishing has commenced.
- We have noted that some licences have been issued without the appropriate vessels being entered on the regional register, as required by the law.
- Listed under irregularities are a number of instances where the Deputy Director has acted contrary to the Public Finance & Audit Act and Financial Instructions.

Conflict of Interest

- The General Orders (Chapter C - Section 102), provides that *"An officer whose remuneration is fixed, on the assumption that his whole time is at the disposal of the Government, is prohibited from ongoing trade or employing himself in any commercial or agricultural activity"* It has come to our notice that the Deputy Director of Fisheries has his own fish retailing and export business based in Honiara. This is contrary to the General Orders and is considered to be a serious conflict of interest, particularly as the Deputy Director of Fisheries does not operate fishing vessels himself, but relies on supply of fish from "vessel licence holders".

The implications are that the Deputy Director of Fisheries does not have a legal base to exercise the powers of the Director of Fisheries under Section 36 of the Act. With the Tuna Management Committee presently defunct the accountability process is undetermined. As a result of the current arrangement several laws are being breached as well as a serious conflict of interest and his close association with various agencies and as a result the whole system

established under the Act and the Regulations relating thereto is open to fraudulent and corrupt practices.

Recommendation 7

We have recommended that:

- **The Under Secretary or Director General and not the Deputy Director, under the organization structure, exercise the powers of the Director of Fisheries as stated under Section 36 of the Fisheries Act;**
- **An interim Tuna Committee be formed urgently (until such time as a formal committee is formed) to advise the Director of Fisheries;**
- **The conflict of interest together with the Deputy Director's close association with a number of agencies be investigated; and**
- **The breaches against the Fisheries Act, Regulations and the Tuna Management Plan to be addressed by the Department.**

3. FISHING LICENCES

3.1 Introduction

The Fisheries Act 1998 was assented to on 10th July 1998. This Act revised the laws relating to Fisheries and made provision for the proper management and development of the Fisheries sector in the Solomon Islands and to repeal the Fisheries Act enacted in 1972. The Regulations arising from this Act have been prepared, however, are not yet gazetted.

The income from the Department of Fisheries and Marine Resources comprises various components, with the most material component being fishing licence fees, hence, we focused our audit in this area

The aim of the audit was to assess the current procedures and practices so as to ensure that the income due from fishing licences has been received and was properly accounted for.

The basic types of fishing licences are:

- *Local Fishing Vessel Licences issued in pursuant to section 14 of the Act;*
- *Locally Based Foreign Fishing Vessel Licence issued pursuant to section 16 (8) (b) of the Act; or*
- *Foreign Fishing Vessel Licence issued pursuant to section 16 of the Act.*

In relation to the latter, there are basically two categories: foreign fishing vessels under bilateral agreements (namely Japan, Korea and Taiwan); and those under the multilateral agreement administered by the Forum Fisheries Agency.

Section 25 of the Act provides that the Minister pursuant to sections 16 and 23 of the Act may prescribe fees. In the case of foreign fishing licences such other charges as may be provided for in any access agreement or as the Minister may otherwise determine.

We have not conducted any audit on Fishing Licences for many years and given the availability of relevant information, the audit examination has covered the period from 1 January 2001 to 31 December 2003, and in addition, the current procedures were evaluated.

3.2 Summary of Audit Findings and Recommendations

We summarize below our findings and recommendations.

3.2.1 General Overview of Fishing Licence Income

We have noted that over the last three years there have been significant variations between the budgeted and actual figures. In addition we have also ascertained the estimated income from fees based on the reconstructed records.

Table 3-1 below illustrates our findings on the estimated revenue, as compared to the actual revenue reported, and our estimate of the revenue that should have been collected in 2001.

Table 3-1 *Summary of Fishing Licences - 2001*

Details	Estimated Revenue \$	Reported Actual \$	Audit Estimated Fees Due \$	Differences \$
Fishing Licences (Locals)	10,243,609	630,328	824,366	(194,038)
Fishing Licences (Foreign)	16,221,000	4,318,595	12,336,706	(8,018,111)
Total	26,464,609	4,948,923	13,161,072	(8,212,149)

The 2001 Budget estimates for local and foreign fishing licences appeared to have been significantly over estimated. We were not able to establish the basis on which these estimates were determined. However, actual revenue appeared to have been well understated. We consider that the leakages during 2001 were mainly due to funds being diverted to the Port Sampling Account and Training Account, as well as misappropriation of funds. As a result the Consolidated Fund is understated on both the expenditure and revenue side of the account and this is discussed later in this Report.

Table 3-2 below, shows the same comparative figures for the year 2002.

Table 3-2: *Summary of Fishing Licences - 2002*

Details	Estimated Revenue \$	Reported Actual \$	Audit Estimated Fees Due \$	Differences \$
Fishing Licences (Locals)	150,000	176,000	870,353	(694,353)
Fishing Licences (Foreign)	6,500,000	3,913,052	16,485,570	(12,572,518)
Total	6,650,000	4,089,052	17,355,923	(13,266,871)

The 2002 Budget estimates for foreign fishing licences appear to be reasonable, whilst the amount for local licences, which only takes into account Soltai and NFD, is significantly understated. Again, we have noted that funds were diverted from the Consolidated Fund to other accounts (mainly the Port Sampling Account). We further noted that in the case of multilateral agreements, payments of revenue have been deposited into a bank account maintained by the Department of Foreign Affairs.

We have also noted events of misappropriation of these funds during the period under review. As is pointed out later in the report, the Consolidated Fund is understated on both the expenditure and revenue side of the account.

Table 3-3: Fishing Licences – 2003

Details	Estimated Revenue \$	Reported Actuals \$	Audit Estimated Fees Due \$	Differences \$
Fishing Licences (Locals)	600,000	219,641	1,099,787	(880,146)
Fishing Licences (Foreign)	6,912,000	12,234,051	27,055,361	(14,821,310)
Total	7,512,000	12,453,692	28,155,148	(15,701,456)

Table 3-3 above, shows that the Budget estimates for 2003 was substantially understated. The actual revenue appeared to be significantly understated compared to our estimated fees due in that period.

Again, we have noted that this is due to funds being diverted to the Port Sampling Account and payments due under multilateral agreements being diverted to the bank account maintained by the Department of Foreign Affairs.

We have also noted substantial misappropriation occurring during this period. Again the Consolidated Fund is understated on both the expenditure and revenue side of the account.

For 2002 and 2003, we have traced fishing licence fees amounting to \$7.5 Million and \$17.95 Million respectively to the Central Bank of the Solomon Islands which indicate that the reported actual revenues were understated by \$3.4 Million (2002) and \$5.5 Million (2003). This understatement may have occurred through an incorrect classification of fishing licence fees in the Consolidated Fund.

Recommendation 7

It is recommended that:

- **The Budget Unit, in formulating the Fisheries budget, obtain all the necessary documentation to support the revenue and expenditure activities.**
- **The coding of fishing licence fees is correctly applied and that follow up action is taken by Treasury to ensure that the revenue has been properly classified when preparing the Government Accounts.**

3.2.2 Collection of Fishing Licence Fees

Section 100(1) of the Constitution of the Solomon Islands requires all revenue to be paid into the Consolidated Fund, unless an Act permits it to be retained and that all expenditure must be provided by an appropriation.

Fees Not Paid Into Consolidated Fund

We have noted that over the period under review 2001 – 2003 most of the fishing licence fees were not being paid into the Consolidated Fund. Contrary to the Constitution, the Public Finance & Audit Act and the Financial Instructions, a significant proportion of the income from fishing licence fees was being paid into the following bank accounts:

- SIG (Fisheries Training) ANZ Account 134331;
- SIG (Fisheries Port Sampling) NBSI Account 01-840082-801-1

It is understood that the fees were paid into these accounts to circumvent them going through the Consolidated Fund. We observed that as the Department could not get funds from the Government at that time, fishing licence fees were paid into these accounts in order to fund operational expenditure. However, we further noted that there was widespread abuse of these accounts and the Ministry of Finance was compelled to close the SIG (Fisheries Training) Account on 2 July 2001 and SIG (Fisheries Port Sampling) Account on 2 January 2004.

Inadequate Source Data and Accounting Records

Due to the lack of source data and accounting records, it was not possible to ensure that all revenue collected had been accounted for and banked. Many telegraphic transfers were not available at Department of Fisheries and Marine Resources, hence most of our information was obtained from the banks. Receipts books were not registered, bank reconciliations were not carried out and the cashbook could not be produced. In effect, most if not all relevant provisions of the Financial Instructions were breached.

Collection Process

Most bilateral fee payments were made to the Department by telegraphic transfers, however, we have noted that these were not recorded in a central cashbook, and in many instances, no record of them could be found at the Department.

In relation to locally based agreements, payments were made to the Licensing Division of the Department mainly by cash. In many cases these collections were preceded by letters requesting companies to pay cash, as the Department was in need of urgent funds. Given that the above accounts were operating outside the Consolidated Fund, for the purpose of funding the Department, there did not seem to be a need to seek cash payment for fees.

There appeared to be a systematic practice of collecting fishing licence and other fees from locally based companies in cash. We have noted that:

- *Large sums of cash receipts were collected and could not be accounted for;*
- *Where receipts were issued they were unofficial receipts (type in stationery shops) and not the official General Treasury Receipts (GTRs);*
- *In many instances receipts were not issued;*
- *Some cash cheques from companies for fishing licence fees were traced into personal and spouses accounts;*
- *Some Telegraphic Transfers from companies were traced into Fisheries Officers personal accounts;*
- *Fishing Licence fees were offset for new vehicles and vehicle repairs. Some of these vehicles are registered in personal names with Inland Revenue and not in the Fisheries Department's name;*
- *Multilateral payments for fishing licence fees from Forum Fishery Agency were diverted from the Consolidated Fund to the Department of Foreign Affairs; and*
- *Rates shown in some contracts have been reduced without any written approval or amendment to the contracts.*

The Department in many cases made written requests for cash to be paid by Companies. We were informed by some Companies, that the observer fees had to be paid before the licence fee, otherwise a licence would not be issued.

We have noted that the Principal Licensing Officer played a prominent role in the collection process.

The implications are that through the lack of proper internal controls and supervision, there has been widespread misappropriation of public moneys, as well as corrupt activities with a substantial loss of public moneys. These activities are set out in Sections 5 and 6 of this Report.

Recommendation 8

While some remedial action has already been taken, it is recommended that an entire review be carried out into the collection procedures, ensuring that the Financial Instructions are being followed and that there is a proper segregation of duties in the Licensing Section so that it should not have any input into this process. There should be an independent Finance/Accounts Section (working with the Accountant General in the Department of Finance and Treasury) dealing with the receipt of licence and observer fees. In addition, the Licensing Section should have no part in directing fishing companies to pay Telegraphic Transfers into a particular account or to make requests for cash payments. All Telegraphic Transfers should be paid into the Central Bank of Solomon Islands.

As an interim measure we have recommended that the Accountant General take over all the collection activities of Fisheries' fees and issuing GTRs.

3.2.3 Lack of Proper Fishing Licensing Records

The major key control relies on the fact that proper records are maintained to ensure that:

- *There is a record showing what licence and observer fees are due;*
- *What licence and observer fees have been paid (cash book) and banked;*
- *Reconciliation between the cash book and bank account; and*
- *Reconciliation between licence and observer fees showing any fees not paid.*

We have noted that the only records kept by the Licensing Section are adhoc files containing permits, activation advices and telegraphic transfers of funds.

We have further noted that primary documents required under the Financial Instructions have not been maintained, which include cashbooks to record general treasury receipts (GTR) issued for revenue received in respect of fishing licence or annual observer fees or debit notes to record revenues due. Revenue received from fishing companies or associations, including telegraphic transfers, were noted to have been banked in various bank accounts. In some cases the Port Sampling Account was the location in which licence fees have been paid into, however, in most cases only part of these fees have been paid to the Consolidated Fund.

It is practically impossible to monitor effectively the licence fees due and those paid under the current ad hoc arrangements. The lack of proper and complete records has made it impossible to effectively manage fishing licence fees, which has resulted in total lack of accountability and transparency.

From available files and documents, we have reconstructed many of the records and noted that:

- *Fishing Vessels have been used for commercial fishing or related activities without a valid licence being issued under Section 14 of the 1998 Fisheries Act, however, these vessels appear on the ships' register;*
- *Vessels have been issued with a valid licence, however, are not recorded on the ships' register;*
- *Outstanding amounts due for fishing licences have not been followed up, (eg. activation fees, etc); and*
- *Fisheries was not effectively monitoring and managing the returns from fishing licence fees from the various agreements such as bilateral, multilateral and locally based vessels.*

The implications are that poor record keeping of revenue and other records leads to poor financial management, misappropriation of funds and possible corrupt practices, resulting in a loss of government revenue and inefficient management of the tuna industry.

Recommendation 9

We have recommended that:

Proper records be established and maintained:

- **To show the history of events for each vessel licensed, such as permits granted, activations and accesses ;**
- **Recording the fishing licence fees due for each vessel and company; and**
- **For receipts books, cash book, etc, to be utilised as specified by the Financial Instructions.**

Monthly reconciliations to be carried out between:

- **Licensing records and the income received;**
- **Income received and Debit Notes issued; and**
- **Cash Book (licence fees) and the amounts banked/receipts to Treasury.**

Any arrears of revenue be identified and ensure that they are followed up and collected. Furthermore, revenue arrears identified in the reconciliation process above should be promptly followed up and collected.

Fishing licence fee returns be monitored from each agreement (i.e. bilateral, multilateral and locally based vessels).

3.2.4 Bilateral Agreements - Negotiation of Agreements

The Solomon Islands have Bilateral Agreements with Japan, Korea and Taiwan. According to the Department, negotiations for the Bilateral Contracts are generally carried out by the Minister, Permanent Secretary, Under Secretary, and Director General, with advice from Forum Fisheries Agency (FFA).

We have noted that the normal process is to include officers from the Department of Foreign Affairs and the Attorney General's Chamber in these negotiations. However, we have sighted no evidence to suggest that this process has been followed. We understand, however, that the Department has employed a Legal Advisor outside of the Public Service procedures.

In Table 3-4 below we summarize a brief outline of the terms of the relevant bilateral agreements.

Table 3-4: Summary of terms of the Bilateral Agreements

Country	Agreement Terms
<u>Japan</u>	<p>Purse Seine Vessels – Access fees fixed at Y1,000,000 pending accumulation of adequate catch data. If 5% of the actual catch value exceeds Y1,000,000, then additional fees equivalent to the difference in these figures ((actual value of catch x 5%) - Y1,000,000)) will be paid to the Government at a later date. In addition the 1st and 2nd activation fees are also paid for each vessel amounting to Y850,000 and Y950,000 respectively.</p> <p>Longline and Pole & Line - Access fees are based on catch per trip (MT) x monthly All – tuna Price x 5%.. 1st activation fee (Access fee – Y100,000 permit fee + Y50,000 for goods and service). 2nd activation fee (Access fee – Y50,000).</p>
<u>Korea</u>	<p>Purse Seine Vessels - A fee of US\$8,000 (comprising of US\$7,000 deposit and a permit fee of US\$1,000) is paid at the beginning of each licensing period for each vessel that operates in the Solomon Island waters. The access fee (Catch x Price x 5%) is to be determine on a quarterly basis and adjusted against the initial payment of US\$7,000.</p> <p>Longline Vessels - the licence fee for one year is US\$24,000.</p>
<u>Taiwan</u>	<p>Purse Seine Vessels - A fee of US\$8,500 (comprising of US\$1,000 permit fee and US\$7,500 access fee). This will be the amount retained by the Government even if no catch is taken in the Solomon Islands' EEZ. If 5% of the catch is more than the initial payment then the difference ((Catch x Value x 5%) – US\$7,500) would be paid to the Government .</p> <p>Longline vessels - The licence fee is made up of US\$1,000 permit fee per vessel and an access fee of US\$12,000 per vessel per year for the first 20 vessels. For additional vessels an access fee of US\$18,000 per vessel per year, plus US\$1,000 for each additional permit is payable.</p>

In our evaluation of these bilateral agreements, we have the following comments in relations to their terms.

Japan Agreement

We understand that this agreement is similar to agreements with other countries within the region. The agreement with Japan is very complex and incorporates an aid element, which is reflected in the goods and services component (See Section 3.2.10).

The terms of the agreement relies on a formula relating to 5% of the catch. We further noted that the Department had some difficulty applying this formula and relied mainly on the records and data provided by the Japanese companies.

In essence, we consider that there is room for some improvement in the agreement, however, it is understood that the agreement might be difficult to change.

Korea and Taiwan

These agreements involve a small access fee for each vessel, however, also provide for an additional payment at the end of the fishing period (based on the above formula), which is reliant upon the accuracy of the catch data and the price of the fish. The Department has difficulty in monitoring the relevant data (Section 3.2.10) and tend to rely on the data provided by the companies.

We consider that there is room to improve the bilateral agreements, with particular emphasis on those of Korea and Taiwan where upfront payments should be made. According to FFA, most of their member countries in the Region negotiate upfront fees and are receiving between US\$75,000 to US\$100,000 per vessel, which are more beneficial terms than those contained in the current Solomon Islands agreements.

The 1998 Schedule of Fees and Charges for locally based foreign vessels provides for Purse Seine US\$40,000, Longline US\$30,000 and Pole & Line US\$10,000. If we apply the Regional fee basis to the 1998 fees and charges, we have estimated the Market/Schedule Fees for these vessels to be Purse Seine US\$50,000, Longline US\$24,000 and Pole and Line US\$10,000 over the period under review.

Tables 3-5 and 3-6 below compare the above rates against the rates set out in the Bilateral Agreements. We have computed the difference in "*estimated additional revenue*" to be that which would have been received by the Government had these market or schedules rates been used. This demonstrates the need to ensure that Bilateral Agreements are negotiated in the best interest of the Solomon Islands Government.

Table 3-5: Comparative figures for Taiwanese Vessels

Details	Fees Received US\$	Market/ Schedule Fees US\$	Loss of Income per Vessel US\$	No Vessels	Total Loss Income. US\$	Less 5% of catch US\$	Additional Net Income US\$
2001							
Purse Seine	8,900	50,000	41,100	42	1,726,200		1,726,200
Longline	13,600	24,000	10,400	12	124,800		124,800
TOTAL							1,851,000
2002							
Purse Seine	8,900	50,000	41,100	38	1,561,800		1,561,800
Longline	13,600	24,000	10,400	12	124,800		124,800
TOTAL							1,686,600
2003							
Purse Seine	8,900	50,000	41,100	44	1,808,400		1,808,400
Longline	13,600	24,000	10,400	6	62,400		62,400
TOTAL							1,870,800

Table 3-6: Comparative figures for Korean Vessels

Details	Fees received US\$	Market/ Schedule Fees US\$	Loss Income Per Vessel US\$	No Vessels	Total Loss Income US\$	Less 5% of catch US\$	Additional Net Income US\$
2001							
Purse Seine	8,400	50,000	41,600	27	1,123,200	19,586	1,103,614
2002							
Purse Seine	8,400	50,000	41,600	26	1,081,600	6,040	1,075,560
2003							
Purse Seine	8,400	50,000	41,600	27	1,123,200	58,789	1,064,411

Summary of comparative additional revenue (Tables 3-5 and 3-6)

Details	2001 US\$	2002 US\$	2003 US\$	Additional Income
Taiwan	1,851,000	1,686,600	1,870,800	
Korea	1,103,614	1,075,560	1,064,411	
TOTAL	2,954,614	2,762,160	2,935,211	
Exchange Rate	.1822	.1365	.1365	
SBD EQUIVALENT	SBD\$16,216,322	SBD\$20,235,604	SBD\$21,503,377	SBD\$57,955,303

In spite of there being a number of variables, (i.e. exchange rate, number of boats etc.), we have demonstrated that the above tables indicate that even if the fees were based on the

Schedule of Fees listed in the 1998 Regulations, the Department would have been substantially better off than the rates negotiated under the Bilateral Agreements.

In essence, we consider that:

- If fees were based on fish caught, then the mechanism for monitoring of the catches and prices need to be efficient. At present the monitoring of catches appears to be ad hoc and the Department relies mainly on the figures given to them by the various Fishing Companies and/or Associations.
- In 2003, Solomon Islands had one of the best tuna seasons it has ever had and this is reflected in the Multilateral Agreement. We have noted that, although under the Korean Bilateral Agreements the five percent (5%) of the catch did rise significantly, this was, in our view, not sufficient to make up for the low up-front payments being received by fisheries under the current agreements.
- If upfront fees were to be paid to the Department, the administrative and monitoring procedures would be simplified and more predictable than the current method. It would also provide a substantial increase in fishing licence income to the government.

The implications are that unless effective negotiations takes place in regards to Bilateral Agreements, the return to the Government from the Solomon Islands tuna resource will not be fully utilised resulting in a loss of Government income.

Recommendation 10

We have recommended that:

- **Negotiating capacity of the Department of Fisheries and Marine Resources, in regards to Bilateral Agreements, be strengthened by either obtaining assistance from Forum Fisheries Agency or from an aid donor organization;**
- **Foreign Affairs and Attorney General's Office be fully involved in negotiating contracts;**
- **Consideration be given to up-front payments, rather than relying on the tuna catches, as it will be easier to manage and more predictable for fisheries to control;**
- **Proper management procedures and practices be strengthened over controlling the fishing revenue from the Bilateral Agreements;**
- **If the 5% Formula is to be applied, it should be properly monitored; and**
- **Proper management records should be maintained so that the outcomes of the Bilateral Agreements can be adequately monitored.**

3.2.5 Bilateral Agreements - Arrears

From the reconstructed records of Bilateral Agreements and by matching what was due, with what was paid with fisheries records, we have noted that around \$9.2 Million could not be accounted for.

Our reconstruction of the records is summarized in Table 3-7 below.

Table 3-7: *Summary of revenue not accounted for*

Companies	2001 \$	2002 \$	2003 \$
Korea Deep Sea Fisheries			62,038
Japan Far Seas Purse Seine Fishing Association	1,148,889	404,192	1,576,324
Japan Tuna Fisheries Co- operative Association Pole and Line	71,111	294,203	231,000
Taiwan Deep Sea Tuna Boat Owners and Export Association	1,837,612	2,162,333	1,549,483
Total	3,057,612	2,860,728	3,418,845

These payments were mainly for observer fees; permit fees and second activation fees. We were unable to verify the receipt of these payments and they will need to be followed up by the Department of Fisheries.

The implications are that, due to a lack of proper accounting records, the above amounts may not have been paid, resulting in a substantial loss of government revenue.

Recommendation 11

We have recommended that the Department of Fisheries and Marine Resources follow up the outstanding payments, (details of which are available at the OAG), with the relevant companies to ensure that all money owing to the Government has been paid.

3.2.6 Multilateral Treaty

The Multilateral Treaty refers to the Treaty on Fisheries between the Governments of certain Pacific Islands States and the Government of United States of America as given effect by the Fisheries (United States of America) (Treaty) Act.

The Solomon Islands Government is part of that multilateral treaty, whereby each country gets 15% equal share of the catch and 85% of the catch is distributed amongst the countries based on the tons of fish caught annually (period is 15th June to 14th June the following year – not calendar year) in the respective fishing zones of each country.

Table 3-8 below illustrates the funds received in relation to the Treaty for the period 2001-2003 and how Fisheries and Foreign Affairs have accounted for these funds.

Table 3-8: Summary of funds received under US multilateral treaty (2001 – 2003)

Year	Date Paid	Types of Fund	Amount US\$	Amount SBDS	CBSI (Con. Fund)	Port Sampling/ Training A/Cs	Foreign Affairs
2001	19.6.01	15% Equal Share	147,682	769,983		769,983	
	11.12.01	85% Catch Distrib.	80,037	439,953	439,953		
2002	25.6.02	15% Equal Share	147,321	1,033,821			1,033,821
	4.12.02	85% Catch Dist.	6,151	46,673	46,673		
2003		15% Equal Share	147,357	1,126,584	402,143		724,441
		85% Catch Dist	473,780	3,527,570	3,527,570		
Total			1,002,328	6,944,584	4,416,339	769,983	1,758,262

We have noted that there were leakages from the Consolidated Fund of \$769,983 to the Port Sampling Account and \$1,758,262 to the Foreign Affairs Multilateral Treaty Account (01-840072-0802-0) and to various missions around the world.

These leakages are, in our view, illegal, hence contravene the relevant provisos in the Constitution and Public Finance and Audit Act. In addition, these revenues are shown under the Department of Fisheries and Marine Resources in the Appropriation Acts and therefore controlled by Accounting Officer for the Department. It is not clear how Department of Foreign Affairs were able to divert some of these funds for their own use. Since the Accountable Officer of Fisheries should have the responsibility of monitoring and controlling

income derived from this source, the actions of the Accounting Officer for the Department of Foreign Affairs appears to have contravened Section 17 of the Public Finance and Audit Act.

We further observed that there is a wide gap in the 85% catch distribution in \$439,953 (2001), \$46,673 (2002) and \$3,527,570 (2003). According to Forum Fisheries Agency (FFA), the fish catch and their distribution across the Pacific is all to do with El Nino and La Nino oceanographic conditions, thus, depending on the season, the fish move from one side of the Pacific to the other. FFA also informed us that the 2003 distribution was the largest ever paid to the Solomon Islands, reflecting one of its best seasons ever.

The Agency also confirmed making many small payments to the Solomon Island Government, under both the Treaty and the Project Development Fund, amounting to many thousands of dollars for a wide range of activities. We were not in a position to examine these in depth because of staffing constraints but it would appear that many of these have not been properly accounted for in the Government Accounts.

The implications of diverting fishing income from the Consolidated Fund is, in our view, illegal, despite the fact that it may have been done, due to funding being unable to be obtained from the Ministry of Finance. It has severely understated fishing income in the Government Accounts, understated the expenditure and moreover created an environment whereby public funds were open to misappropriation, misuse and abuse.

Recommendation 12

We have recommended that:

- **The Department of Fisheries and Marine Resources ensure that funds received through the Multilateral Treaty and Project Development Fund are properly accounted for;**
- **A clear demarcation is made between the Department of Foreign Affairs and the Department of Fisheries and Marine Resources as to which organization has the accounting responsibility for these funds;**
- **Monitor closely the 85% distribution and ensures that Solomon Islands receives their entitlements; and**
- **The Department of Foreign Affairs provide a detailed explanation of the use of these funds that were paid into Foreign Affairs Multilateral Treaty Account.**

3.2.7 Local Fishing Vessels and Locally Based Foreign Fishing Vessels - Agency Agreements

The Fisheries (Tuna Fisheries) Regulation 66 Section (i) provides that *“except for a locally based foreign fishing vessel, no foreign fishing vessel will be licensed except under an Access*

Agreement that provides for the appointment of an agent in Solomon Islands and Section (ii) the Agent shall be company incorporated in Solomon Islands and shall have the licensee's and the operator's authority to act on their behalf."

Locally based foreign vessels do not require an access agreement, however, they need to have a "locally based agreement" or "development agreement" approved by the Government, in order to be issued with a licence under the Tuna Management Plan.

Under Section 25 of the Act, licence fees for local and foreign fishing vessels will be prescribed by the Minister in the 1998 Regulations.

Tables 3-9 and 3-10 below show the comparison of rates as prescribe by the Minister in the Regulations, as against agreements made with relevant agencies.

Table 3-9: Comparative fees for Locally Based Foreign Fishing Vessels

Vessels	Schedule of Fees (1998 Regulations)	Global Investments	Tuna Pacific	Warken	Solgreen	Mako
Purse Seine	US\$40,000	US\$10,000		*US\$24,000		+US\$30,000
Long Line	US\$30,000		^US\$24,000	*US\$16,000	US\$10,000	+US\$24,000
Shark Long Line	US\$10,000	US\$5,000				
Pole & Line	US\$10,000					
Carrier	US\$600					US\$600
Survey	US\$10,000					
Observer Fees	US\$1,000	US\$1,000	US\$1,000	US\$1,000	US\$200	US\$1,000

Note:

* Incremental factor of US\$2,000 per vessel for the third and subsequent years - stabilising at year six: Purse Seiner US\$32,000, Longliner US\$24,000 (Which is considered current market price)

+ Only pays US\$20,000 for Purse Seine and US\$10,000 (6 months) for Long line contrary to the agreement.

^ Allows pro-rata US\$ 12,000 for 6 months

Table 3-10: Comparative fees for Local Fishing Vessels

Vessels	Schedule of Fees (1998 Regulations)	NFD	Soltai
Purse Seine	SBD\$20,000	SBD\$20,000	
Long Line	SBD\$10,000		
Shark Long Line			
Pole & Line	SBD\$3,000		SBD\$3,000
Carrier	US\$600	US\$600	
Survey	SBD\$3,000	SBD\$3,000	
Observer Fees	US\$200	US\$200	US\$200

Table 3-9 and 3-10 above, shows significant disparities between the Schedule of Fishing licence fees and those negotiated with the agencies, indicating that the fishing licence fees being received by the agencies fall well short of the Schedule of Fees. For the period 2001 to 2003, we have estimated that additional revenue of SBD\$14.4 million would have been achieved had Schedule of Fees been used. This was made up of SBD\$3 million (2001), SBD\$3.14 million (2002) and SBD\$8.264 million (2003). In addition, there was a substantial loss of Government revenue arising from Companies being allowed to pay rates less than the agreement rate. We have also noted cases whereby very low rates have been applied due to the fact that agreements were not revised for many years or there are no agreements in place.

We further noted that for locally based foreign vessels, most agreements entered into were agency type, rather than development agreements. This has led to commitments for infrastructure development and employment of nationals not being realised and has led to what has been described as a “sell out” of the country’s resources. We are concerned that these agreements are inconsistent with the Tuna Management Plan and are not in the best interest of the Solomon Islands.

We further observed that the role of locally based companies appears to have expanded from the original intention which was to have a representative in the Solomon Islands in case of a dispute. It would seem now that they are becoming retail outlets for the selling of licences to fishing vessel owners.

In recent years, there has been proliferation of locally based companies, which have re-emerged after these companies were curtailed in the mid 1990s. The need to have these companies or locally based foreign fishing vessels is questionable, as these vessels can be licensed directly by the owner without going through an agency.

Through the licensing of a number of vessels with these Locally Based Companies, we have discovered a number of issues, including breaches of the Act and the Tuna Management Plan, as follows:

- As indicated above the fishing licence fees stated in the locally based agreements for foreign fishing vessels are in the main significantly below the scheduled fishing licence fees, with a substantial loss of Government revenue;
- Locally Based Agreements are being negotiated with Companies predominately by the Deputy Director of Fisheries, with the agreed rates being reduced on the verbal authority of the Deputy Director;
- It is suspected that some agencies are selling licences to fishing vessel owners for substantially higher rates than the agreement rate negotiated with the Department;
- Some agreements between the Government and locally based companies, such as Global Investments and Solgreen, could not be produced for verification, and in the case of Solgreen the Deputy Director of Fisheries stated there was no agreement;
- Agreements with some companies are of an agency type rather than development agreements. These agreements are totally inconsistent with the spirit of the Tuna Management Plan and are not in the best interest of the Solomon Islands.
- Section 16 of the Act provides that no foreign fishing vessels shall be used in the Solomon Island waters without a valid licence, yet some companies are allowed to fish before a licence is issued. We have noted in the case of Solgreen that licences are issued on credit with instalments being paid, despite the fact that this Company has a long history of breaching the Fisheries Act;
- Some companies are getting paid upfront from vessel owners, however, only pay Fisheries on a pro-rata basis, relating to the time the vessels spend fishing;
- A number of locally based foreign fishing vessels have not been entered on the Regional Register, as required by law, before a fishing licence can be issued.(See paragraph 3.2.13)
- We further noted that Tuna Pacific:
 - (i) Is not incorporated in the Solomon Islands as required by Regulation 66;
 - (ii) Operates from Fiji and does not have an office in Solomon Islands, and as a result should be subject to an access agreement rather than a locally based agreement;
 - (iii) Was the only company that did not confirm the schedules we prepared – we estimate that the company owes the Department in excess of SBD1.0 million.

The implications are that many locally based foreign fishing vessels are contravening the Fisheries Act, there is a substantial loss of Government income and the overall system is open to fraudulent and corrupt activities.

The details of the agencies and the relevant finding are set out at Attachment A.

Recommendation 13

We recommended that:

- A detailed investigation be carried out into the current agreements and practices of licensing locally based foreign fishing vessels, with particular emphasis on the reason behind the agreement licence fees being substantial lower than the schedule fees;
- Agreements should only be made on the basis of development and in accordance with the Tuna Management Plan;
- The legality of some agents licensing practices should be further investigated and the action of making pro-rata payments to Fisheries, when receiving full payments from fishing vessel owners, should also be examined;
- The Fisheries Act and Regulation be properly applied and enforced;
- Contracted fishing licence fee should not be amended unless proper approval is given by appropriate authorities (Tuna Management Committee) and any practice of a sole officer verbally reducing rates should cease immediately;
- No credit should be given for fishing licence fees;
- The number of agencies/companies be rationalised and those operating be of good standing;
- The matter of Tuna Pacific's classification as a locally based company to be clarified, together with taking follow up action on outstanding fees owing by the Company.

3.2.8 Segregation of Duties - Access Agreement/Licensing Function/Collection/Recording of the Fee

Internal control is recognised as a very important feature of the modern management technique. One fundamental characteristic of a good internal control structure is to ensure that there is clear segregation of duties in key areas.

This appears to be non-existent in the Department's organizational structure. We have noted there is no clear division of duties between a number of functions, particularly in the negotiating agreements, carrying out the licensing function and the collection and recording of fishing licence fees.

The Deputy Director of Fisheries appears to solely carry out the negotiations for both local fishing vessels and locally based foreign fishing vessels agreements. He is also responsible for issuing the licences and collecting the fishing licence fees.

Officers in the Licensing Section are in the position to issues licences, perform enforcement duties, record and collect fishing licence fees.

Both access and locally based agreements should be negotiated by a separate group to the Licensing Section. On the basis of these Agreements, the Deputy Director of Fisheries should issue licences. A separate section, namely an Accounts Section, should carry out collection and recording of fishing licence fees.

Recommendation 14

We recommended that a clear division of duties be formulated in the following manner:

- **All agreements should be negotiated by a separate team to those issuing licences in the licensing section;**
- **No agreement should be negotiated by only one officer;**
- **The Licensing Section should only issue licences;**
- **Collection of licence fee payments should be carried out by the Accounts Section; and**
- **Enforcement Officers should not be involved in licensing procedures.**

3.2.9 Japanese Agreement - Goods and Services

Under the bilateral Japanese Agreement, a component is for "Goods and Services". The Agreement provides for Y50,000 and the Overseas Fishery Cooperation Foundation (OFCF) contributes another Y150,000 amounting to Y200,000 per vessel. S.I Fisheries notify OFCF of their requirement and the goods to the value of Y200,000 per vessel are purchased by OFCF in Japan at the end of the fishing period.

The goods take the form of fishing nets, fishing gear, outboard motors and small fishing boats. We have noted that some of the equipment was distributed to fishing centres in the provinces and some equipment has been sold. They are received into the Solomon Islands duty free.

We have noted that there is no proper inventory maintained by the Department for these goods that have been purchased, in accordance with Financial Instructions 601 and 602.

Furthermore, we were advised that previously a Stores Officer was in charge of this property, however, this is no longer the case.

In addition, we have noted that the valuation placed on the goods purchased by OFCP has, in some cases, been inflated and as a consequence the Department is not receiving the goods for market value.

The implications are that the shortcomings in the system could result in fraud, and theft or loss of property.

Recommendation 15

We recommended that:

- **A Stores Officer be appointed to take charge of these properties;**
- **Appropriate inventory records to be maintained as per the Financial Instructions; and**
- **Mechanisms are put in place whereby goods are received by Fisheries to the value due, in accordance with the Japanese component for "Goods and Services".**

3.2.10 Licensing Section – Monitoring Catch

In monitoring the catch, the operator of a fishing vessel shall provide to the Government information relating to the catch location and catch on board the vessel in the following manner:

Facsimile or E-mail Reports

- (i) *Entry Report – an entry report shall be made within 24 hours prior to the estimated time of entry into the Solomon Islands EEZ in the form as per Attachment 7A;*
- (ii) *Weekly Position of Catch Report – a weekly position and catch report shall be made each Wednesday, while within Solomon Islands EEZ in the form as per Attachment 7B;*
- (iii) *Departure Report – A departure report shall be made with 48 hours after departure from the Solomon Islands EEZ, together with the last weekly position and catch report, in the form as per Attachment 7C.*

The operator shall forward by fax or email to the Government a trip completion report within seven days after completion of a fishing trip in the form as per attachment 7D.

An Inspection of the Licensing Section on 20 February 2004, revealed that:

- The current procedures were evidently being carried out on an ad-hoc basis;
- The standard procedures were not being properly implemented;
- The computer program was unreliable, in that all the input data was not being taken up; and
- The Deputy Director General (Licensing, Surveillance and Enforcements Section) stated that they relied mainly on the Company figures given to the Department in the catch summaries at the end of the fishing period.

It was agreed that this was not satisfactory, however, more recently tuna has been transhipped at Honiara and as a result they have been able to get the actual figures.

The Deputy Director indicated that based on their records and calculations they respond with acceptance or non-acceptance. He further stated, however, that the Department often ends up agreeing to the Association's records and computations. Differences that normally arise are:

- Actual landed catch;
- Tuna prices;
- Under reporting or not reporting.

It is claimed that the Department do not have sufficient resources in almost, if not, all areas of monitoring.

The implications are that, in the absence of a proper monitoring process of the catch, Fisheries could suffer a loss of revenue.

Recommendation 16

We recommended that the Department of Fisheries and Marine Resources exercise more stringent supervision over the monitoring processes of the catch.

3.2.11 Enforcement

Part III, Section 36 of the Fisheries Act provides for the appointment of authorised officers for the purpose of enforcement of this Act. This provision gives power to authorised officers to make arrests (Section 38). The powers of an authorised officer are set out in Section 37. In fact, all Fisheries officers, seconded provincial fisheries officers are authorised officers. Appointed Fisheries Observers too are authorised officers.

The Licensing, Surveillance and Enforcement Division (LSE) were developed within the Department to coordinate these enforcement tasks. The Enforcement Section of the Division ensures that the provisions of the Act are complied with and offenders are apprehended.

This Section monitors the activities of the fishing companies, Fish Processing Establishment Companies and the general public. The Division also undertakes and participates in awareness on fisheries law and resources management.

Normally, reports of infringements are relayed to this Division (LSE). Upon receipt of such reports, enforcement officers are required to investigate the reported case to ascertain the offence committed. Once a case has been established, the matter is either taken to court or settled out of court.

Over the period of the audit examination, it was noted that the enforcement of the Act has been ineffective in that infringements and the income from fines were low. In addition during the audit a number of breaches to the Act had been noted and apparently ignored by the Enforcement Section. Examples of these breaches include vessels not on the regional register whilst operating within SI waters, and vessels operating when fees have not been paid.

The implication is that the lack of enforcement is allowing some vessels to operate illegally and is harming the integrity, accountability and the overall operations of the Fisheries Department.

Recommendation 17

We recommended that the Enforcement Section be reviewed with a general upgrading of fisheries operations.

3.2.12 Organisational Structure

The Department of Fisheries and Marine Resources forms part of the Ministry of Natural Resources (MNR) and like other Departments within the MNR, share one common administrative and accounting unit in the Ministry.

We noted that there is a need to review the Department's organisational structure to, amongst other things, provide for:

- A proper division of functions within the Departmental organization structure including a clear demarcation between issuing of licences and the collection of revenue in the Licensing Section;
- Examination of the role of the common administrative and accounting unit and its suitability for the effectiveness of financial control and management of fishing income within the Department;

- Procedures be put in place to ensure that permits for foreign fishing vessels or licences for local vessels be issued when processing the licensing of vessels;
- Permits under Regulation 7 of the 1999 Regulations be issued in lieu of those laid down in the 1981 regulations;
- Procedure for providing an issuance letter subject to permits being issued to be clarified.

3.2.15 Approval Required Before Tuna Licences can be Issued

When issuing a fishing licence the following approvals are required from different agencies and could include:

- *Investment Board: Approval of all applications, except those of local companies;*
- *Marine Division: Safety certificate;*
- *Labour Division: Work permit for foreigners requiring them;*
- *Immigration Division: Port Arrival;*
- *Surveillance Force: Notification of presence of vessel;*
- *SIPA: Port arrival;*
- *Customs: Export duty, bank guarantee, paid up arrears;*
- *Commissioner of Inland Revenue: Withholding Tax;*
- *Foreign Fishery Agency: Good standing on Regional Register and registration of VMS.*

The Tuna Management Plan suggested a checklist based on the above of all approvals required by different agencies of the Government of Solomon Islands before each type of fishing licences can be issued.

An examination of the licence files did not reveal any checklist or other procedure in place to ensure that all these approvals have been obtained.

Implications are that important approvals that are required in order to obtain the licence could be overlooked, resulting in licences' being incorrectly issued.

Recommendation 21

We recommended that every licence issued be accompanied by a signed checklist as evidence that the appropriate approvals have been obtained.

4. OBSERVER PROGRAM

4.1 Introduction

We have noted that the three main functions of an Observer Programme in the FFA Region are:

- (a) *To assist in ensuring that vessels comply with the provisions of Treaty, arrangements, and the laws and regulations of FFA member states;*
- (b) *To improve the scientific information available on the region's tuna resources, so that these resources might be wisely managed;*
- (c) *to improve the information available to FFA member governments on fishing activities in their waters for purposes assisting the development of national tuna fishing operations and national fisheries management and development policies.*

We further noted that the observer programmes may also serve to develop fishing skills of nationals of the FFA Pacific Island States, and thus promote greater employment opportunities on fishing vessels.

The observer programme is designed to be effective, yet have minimum impact on the fishing operations of the vessels involved.

4.2 Summary of Audit Findings and Recommendations

We summarize below our findings and recommendations in this area.

4.2.1 Observer Fees – Annual Fees

Regulation 86 provides that:

- (1) *The operator shall pay the Director in respect of each observer on his or her vessel, such annual fee as may be prescribed in the management plan.*

As indicated above the fishing vessel operator is required to pay the Director of Fisheries in respect of each observer on his or her vessel such annual fee as may be prescribed in the management plan. For local vessels these are set out in the schedule of fees and charges at US\$200. In relation to Access Agreements and Locally Based and Development Agreements these are stated in the agreement.

The Standard Agreement in this Region is between US\$2,400 and US\$4,500 but this includes any emergency airfares. However, Solomon Islands annual observation fees charged by the Department are much less, however, the companies are required to provide emergency airfares. We have noted in Table 4-1 the annual observer fees agreed (where an agreement exists) by the respective companies and the actual amount being paid by each company.

Table 4-1: Summary of Observer fees by Companies

Name of Company	Vessel Type	Agreement Amount	Amount Paid
<u>Locally Based Foreign Vessels</u>			
Global	Shark Long Liner	US\$1000	US\$200
Mako	Purse Seine	US \$1000	US \$200
Warken	Purse Seine	US \$1000	US \$400
Solgreen	Long Line	US \$200	US \$200
Tuna Pacific Agency	Long Line	US\$1000	US\$1000
<u>Local Vessels</u>			
		(Schedule Amount)	
NFD	Purse Seine	US\$200	Based on days at Sea
Soltai	Pole & Line	US\$200	Based on days at Sea
<u>Bilateral</u>			
Korean Deep Sea	Purse Seine	US\$400	US\$400
Japan Far Sea Purseine Fishing Association	Purse Seine	Yen 50,000 (US\$300)	Yen 50,000 (US\$300)
Taiwan Deep Sea	Purse Seine	US\$600	US\$600

The abovementioned Table indicates that:

- *Observer Fees charged by Solomon Island Fisheries Department are well below the standard rate according to Forum Fishery Agency;*
- *Some locally based companies are paying well below the agreed rate within the Agreements. We have been informed that this was a verbal agreement with the Director of Fisheries. We have not been able to obtain any written authority to the*

companies, nor any amendment to the agreements that would authorize any changes in observer fees;

- *Local vessels are not paying annual fees as required by the regulations, but rather are paying on days at sea.*
- *Bilateral agreements vary a great deal but all companies are paying well below the Region's Standard Rate;*
- *Many of the fees are so low that they would not support the costs of an observer being placed on fishing vessels.*

Recommendations 22

We recommended that the Fisheries Department review:

- **Observer's Annual Fees, including Bilateral Agreements, to determine whether it is appropriate to increase them during the next contract negotiations , particularly in light of what it is costing the Department to fund allowances for observers on these vessels;**
- **Locally Based Foreign Fishing Vessels agreements and determine the reasons behind some firms paying less than the agreed rate;**
- **The position of local vessels and determine why, in some cases, observer fees are based on the days at sea and not the annual observer fees as prescribed in the Schedule to the Regulations.**

4.2.2 Collection of Annual Observer Fees

The Constitution of the Solomon Islands requires all revenue to be paid into the Consolidated Fund, unless an Act permits it to be retained, and that all expenditure must be provided by an appropriation.

In the period under review, 2001 – 2003, we could not identify any observer fees being paid into the Consolidated Fund. It was noted, however, that the fees were paid into:

- SIG (Fisheries Training) ANZ Account 134331;
- SIG (Fisheries Port Sampling) NBSI Account No:01-840082-0801-1.

Similar to the case of fishing licence fees, some annual observer fees were illegally paid into these accounts to circumvent going through the Consolidated Fund, however, most of these fees were collected in cash and we could not account for them. Recently, observer allowances were paid mainly from the Port Sampling Accounts (PSA). We further observed that fishing licence fees paid into the PSA were used to fund the observer fees. As indicated in Section 2, the above two accounts were subsequently closed because of abuse.

We could not satisfactorily account for annual observer fees collected in cash. In particular there appeared to be a systematic method of collecting cash payments for annual observer fees from locally based companies. We have noted that the Fisheries Department, in many cases, made written requests (commonly stated to meet “urgent commitments”) for cash to be paid. We have been informed that they were told that the annual observer fees had to be paid before the licence fee, otherwise a licence would not be issued.

We further noted that the Principal Licensing Officer played a pivotal role in the revenue collection process. Whilst in most cases receipts were not given, it was noted in other cases, where unofficial receipts (other than the GTRs) were provided.

Table 4-2 below comprises our estimates of annual observer fees that should have been reflected in the Consolidated Fund. It also indicates that there are many thousands of dollars of observer fees unaccounted for.

Table 4-2: Comparative of Estimated Annual Observer Fees

Name of Company	2001 (\$)	2002 (\$)	2003 (\$)
<u>Locally Based</u>			
Global	51,347	180,000	376,000
Mako		33,333	29,542
Warken			22,156
Solgreen	23,106	16,000	16,248
Tuna Pacific Agency	32,092	13,333	524,372
TOTAL	106,545	242,666	968,979
<u>Local Vessels</u>			
NFD	6,418	8,000	19,202
Soltai		21,333	16,248
TOTAL	6,418	29,333	35,450
<u>Bilateral</u>			
Korean Deep Sea	69,319	69,333	79,763
Japan Far Sea Purseine Fishing Association	75,555	77,844	71,651

Taiwan Deep Sea Tuna Boat Owners and Export Association (Purse Seiners)	30,808	101,333	132,939
Japan Tuna Fisheries Cooperative Association (Pole & Line)	53,333	164,670	118,380
Taiwan Deep Sea Tuna Boatowners and Exporters Association (longliners)	107,830	48,000	22,156
TOTAL	336,845	461,180	424,889
TOTAL FEES	449,808	733,179	1,429,318

Recommendation 23

We recommended that:

- **Fishery Officers involved in the Licensing Section do not have access to the receipt of observer fees so that there is adequate segregation of duties;**
- **All observer fees be paid by cheque or telegraphic transfers payable to the Central Bank of Solomon Islands;**
- **No letters of request for the payment of cash be sent out by Fisheries Officers, and in cases where this might occur severe disciplinary action be taken.**
- **Written collections procedures are developed for the collection of annual observer fees.**

4.2.3 Observers Allowance Payments

The Fisheries (Tuna Fisheries) Regulation 86 provides that:

- (2) The operator shall pay an observer on his or her check rate the following daily allowance:
 - (i) Observers on a foreign vessel, US\$50.00; and

(ii) Observers on a local fishing vessel, US\$20.00.

(3) Payment under this Regulation shall be paid to the observers through the Director.

We noted that observers enter into a contract with the Department and they are paid on the basis of the days they are on board the fishing vessel. The contracted observer must have accredited qualifications acquired from the training carried out at Forum Fishery Agency.

(i) Contract Rates

At present the Department pays its Observers US\$20 per day for foreign vessels and SBD\$50 per day for local vessels in lieu of US\$50 and US\$20 respectively as per Regulation 86.

We are uncertain as to why the Regulations state one rate whilst the Department is applying another. The implication is that the observers are being under paid.

Recommendation 24

It is recommended that this matter be clarified and, if necessary, it may require amending the Regulation or paying the Schedule rate.

(ii) Payment Method

We observed that the correct method of the payment of observer allowances should be for the funds received for annual observer fees from fishing vessel owners to be paid to the Consolidated Fund and an allocation are made in the budget for the payment of observer's allowances.

We have noted, however, that the payment method has varied considerably over the last few years:

- The standard method was discontinued when the Government ran out of funds; then
- Vessels paid the observers directly, rather than paying the fee to SI Government with the Licence – This method was not in accordance with the Regulations and was not satisfactory as it could pave way for incidents of conflict of interest; then
- Funds from the annual fees for observer allowances were paid to the Port Sampling Account and observer allowances were paid from this account. This, in our view, is illegal in that the funds should have been paid into and out of the Consolidated Fund in accordance with the Constitution. In effect these funds were never recorded in the Government accounts and eventually the Port Sampling Account was closed because of abuse.

The payment methods used by the Department over the period under review have been noted to be illegal and contrary to the Constitution. The implications of this is that the annual fees for observers paid by fishing vessel owners have not been reflected in the Government accounts, nor have the payments of allowances been made to observers. In addition this method has not been properly controlled and was open to abuse.

We have noted that the proper processes are now being put in place, however, there are problems in relation to the annual fees being fully paid into the Consolidated Fund and control over the budget for observer allowances by the Department.

Recommendation 25

We recommended that:

- **The payment of observer allowances be made in accordance with the standard method and that this method be properly documented so that all staff members are aware of the procedures;**
- **The current mechanism of paying observer allowances to be reviewed as some problems have existed in the past when these were made through the imprest system.**

(iii) Incorrect Payment of Observer Allowances

Observers contracted to the Department of Fisheries and Marine Resources are the only persons who should be paid observer allowances. It is also noted that observers should be paid the allowance only for the duties that are stated in the contract.

In our examination of the records, we have noted that the following payments were being made as observer allowances:

- Fisheries Officers being paid observer allowances for transshipment duties;
- Accountant being paid observers allowances for the carrying out his duties of preparing the overtime and allowance claims; and
- The number of hours stated as on duty is obviously overstated.

It is quite clear that only contracted observers can claim this allowance and fisheries officers are only entitled to Public Service overtime.

We also noted that the hours recorded on many overtime claims are overstated. It is essential that proper procedures be in place to ensure that prior approval is given to work overtime and that the appropriate officer approves the payment of overtime in accordance with the General Orders (GO).

In the cases where hours are overstated, strong disciplinary action should be taken to charge the officer(s) if necessary, with offences and suspension and that all necessary actions are taken to recover any irregular payments. Serious cases should be referred to the Public Service Department and the Police for appropriate action.

Recommendation 26**It is recommended that:**

- **A clear distinction be made between Fisheries Officers and Observers in regards to the allowances being paid;**
- **Each claim for observer allowances and overtime claims be independently checked, taking into consideration rostered overtime schedule, prior approval to work overtime and proper authority to pay overtime;**
- **Excess hours claimed should be readily identified and strong disciplinary action be taken against any officer falsifying overtime or allowance claims (See Section 6.2.12).**

(iv) Other Matters

Further to the matters raised above, we have also noted the following, which in our view, are of paramount importance to ensure effectiveness, efficiency and proper accounting for the observer program:

- We were unable to vouch payments for observer allowances in 2001 and 2002 due to the lack of source documents. For example, in 2002 we observed that 185 trips were made, whilst vouchers relating to only fourteen observer payments were made available to us for examination. The records for the other 171 trips were not available. We further noted that many of these records were deliberately burnt by a senior officer of the Department;
- Observers are currently being placed on local vessels, however, not on foreign vessels operating under the Bilateral Agreements – it is understood this is a regional problem and is being dealt with;
- At the time of the audit only nine out of the fourteen observer employment contracts could be produced to us. It is understood that some conditions of the contracts are not being applied such as gratuity payments;
- Budgets for observer program and monitoring, control and surveillance for years 2001, 2002 and 2003 were not prepared and the 2004 budget was prepared on the request of Treasury Division of DOFT. Problems appear to be occurring in the application of this budget. For the three years where there were not budgets, these payments were made from the Port Sampling Account.

Recommendation 27

We recommended that:

- All source documents be retained for audit verification and that any deliberate action in destroying documents should be severely dealt with by the Department;
- Observers should be placed on foreign vessels in accordance with bilateral agreements;
- All employment contracts should be held in a secure place and that some issues relating to these contract should be reviewed, which may result in some contracts requiring redrafting;
- Budget for the observer program needs to be properly applied, in that only allowances for observers should be paid from it and no other allowances. The Budget will need to be further developed for 2005.

4.2.4 Trained Observers

The Tuna Management Plan requires that the Department of Fisheries and Marine Resources needs to ensure adequate staff are assigned to operating the Observer Program, and to encourage continuity of trained staff in the positions. FFA provides professional training of observers.

We have reviewed a list of contracted observers against the training records at FFA and it was noted that one observer had not been trained. Discussions with the Assistant Coordinator (Observers) revealed that this particular observer was not trained and the Observer Coordinator employed him because they were related.

The implications are that the procedures were breached and an untrained person was employed in the position and will unable to carry out the duties as competently as a trained person. This could have an adverse effect on the efficiency of the observer program. It is also contrary to the recruiting process, as the best person for the job should be selected.

Recommendation 28

We recommended that only trained observer be employed and that senior officers who breach such procedures should be disciplined accordingly.

5. PORT SAMPLING ACCOUNT

5.1 Introduction

The Port Sampling Project Account was opened initially as a project account for the port sampling program. It was initially closed on 12th July 2002 and subsequently reopened on 17th July 2002. The Ministry of Finance finally closed it on 2 January 2004 in the interest of good governance and accountability.

The account was not being used for the purpose it was originally opened for, but rather fishing licence fees and observer fees were deposited into it instead of the Consolidated Fund. In addition, expenditure was being incurred outside the normal procedures and was not reflected in the Consolidated Fund.

5.2 Summary of Audit Findings and Recommendations

In spite of the bank account being closed, we have noted a number of issues relating thereto, as follows:

- *The absence of proper procedures governing the operations of the bank account;*
- *The types of revenue and expenditure transactions processed through the account; and*
- *Deliberate destruction of accounting records resulting in a poor audit trail.*

In addition, this Section has also dealt with expenditure controls and the appointment of delegated officers in accordance with the Financial Instructions.

5.2.1 Port Sampling Account – Cash Cheques/ Lack of Supporting Vouchers

Financial Instruction 385 states that “**all cheques drawn on a Government Bank Account shall be crossed with two parallel lines and endorsed “Not Negotiable” and “Account Payee Only” except as allowed in sub-sections (2) and (3).**”

We have noted that there were cheques made out for cash that did not fall within the exceptions allowed under the Financial Instructions. In addition, because of the destruction of supporting vouchers the authenticity of many of these payments could not be verified.

In the absence of compliance to proper procedures governing payments and the lack of supporting vouchers, the implications are that many of these cash payments could have been of a fraudulent nature.

Recommendation 29

All cheques should be closely monitored by signatories who must comply with Financial Instruction 385 and all cheque payments must be supported by a properly authorised voucher.

5.2.2 Port Sampling Project Account – Illegally Opened

Chapter 15 of the Financial Instructions (FI) sets out the statutory and administrative requirements for Government banking facilities. In particular FI 382 provides that:

- (i) “No Government bank account shall be opened without prior written approval of the Permanent Secretary.”
- (ii) Where it is considered necessary to open a Government Bank Account, the Accounting Officer concerned shall submit a written request to the Permanent Secretary giving reason why such facility was needed.
- (iii) Permanent Secretary shall write to the bank and make the necessary arrangements for the opening of the account and the supply of the initial specimen signatures of the authorised signatories to the account”.

In 1997, a proposal was put up to open the “Port Sampling Account” for the Regional Tuna Assessment and Monitoring Project. According to Bank records it was opened on 18 July 1997.

However, there was no evidence that this account was approved by the Permanent Secretary to be opened as required by Financial Instruction 382.

In the absence of the original approval to open this account it would appear that the bank account was opened illegally.

The account has recently closed on 2 January 2004 by the Permanent Secretary amidst allegations of abuse and in the interest of good governance and accountability.

A similar situation occurred with the illegal opening of the “Observer Program Account” by the Department which was closed for the same reasons in 2000.

FI 382(5) further requires that the Auditor-General shall be informed of “all opening and closures of Government bank accounts.”

In essence the Ministry of Finance and the Auditor General through the financial instructions and audit processes had a significant responsibility to monitor not only the opening of bank accounts but also maintenance of the account. The responsibilities have obviously not been adhered to. It therefore raises the question of “How can they adhere to their responsibilities if they are unaware of this account existing (i.e. not notified in accordance with FIs)”.

The implications are that there may have been substantial loss of public funds through fraud and/or misappropriation.

Recommendation 30

We recommended that the provisions of Chapter 15 of the Financial Instructions be strictly complied with. Failing this, responsible officers should be disciplined.

5.2.3 Port Sampling Project Account – New System

The Port Sampling Account was closed on 2 January 2004, and a collection and receipt procedure as outlined in the Finance Instructions was to be followed.

At the time of the audit, the system was not operating and audit noted several cheques amounting to \$30,000 on hand, with no entries in the receipt books or cashbook.

In effect the Revenue Collector claimed that he was still waiting on his appointment as a revenue collector to be made before processing the cheques.

The Ministry of Finance was informed and Ministry Officers were sent to the Fisheries Department in order to rectify the matter.

The implications are a loss and possible misappropriation of public moneys.

Recommendation 31

Ministry of Finance should provide training in collection and receipting processes. In addition, to provide further follow up action to ensure that these procedures are being followed.

5.2.4 Payments from the Port Sampling Account in lieu of Consolidated Fund

Section 100 (1) of the Constitution requires that revenue be paid into the Consolidated Fund and section 101 of the same prescribes that no funds shall be withdrawn from there unless in the manner stipulated therein. FI 171 further re-iterates this statutory requirement.

In this context, we noted that Section 101 authorises the Minister to issue moneys and make payments from the Consolidated Fund, of such sums that shall have been approved to meet the Government's expenditure for the financial year, by the coming into operation of any Appropriation or Supplementary Appropriation Act.

An examination of the Port Sampling Account indicated that recurrent expenditure has been paid from this account and not as described above. This is contrary to the provisions of the Constitution referred to above and as a result it has substantially understated expenditure in the Government Financial Statements shown under the Department's vote over the last several years.

The implication is that the expenditure could have been of a fraudulent nature and that the expenditure for the Department has been understated in the Consolidated Fund.

Recommendation 32

We recommended that all expenditure should be paid through the Consolidated Fund using payment vouchers, rather than the imprest system, although this may be construed as being paid out of the Consolidated Fund. In this way, all payments would be subject to effective scrutiny prior to them being made.

5.2.5 Fishing Licence and Observer Fees Paid into Port Sampling Account in lieu of Consolidated Funds

Under Section 102 of the Constitution, the Minister shall present to Parliament, before the commencement of each financial year, estimates of the revenue and expenditure of the Government for that year which, when approved by Parliament, shall be known as the Appropriation Act or the National Budget.

We note that the fishing licence fees and annual observer fees form part of the revenue in the annual appropriation (budget), which should be paid into the Consolidated Fund. We further noted that revenue in respect of fishing licence fees and annual observer fees were paid into the Port Sampling Account instead of the Consolidated Fund.

The implications are that this has the effect of understating the Consolidated Fund and as a consequence understates the revenue shown in the Government Financial Statements.

Recommendation 33

It is recommended that all recurrent revenue be paid directly into the Consolidated Fund.

5.2.6 Port Sampling Account - Misappropriation of Money and Destruction of Accounting Records

Financial Instruction 57 requires that any material irregularity to be reported to the Permanent Secretary with a copy to the Auditor General and his Accounting Officer.

In our examination of the accounts and records relating to the Port Sampling Account, we have noted irregularities in relation to the management and control of that account which we consider to be of a very serious nature. Details of this case are discussed in section 6 of this report. We further noted that the officer involved, though suspended for about two months, has been redeployed to another Department performing similar functions.

Whilst we are uncertain as to whether or not proper disciplinary procedures have been followed, we are concerned that the provisions of FI 57 have not been complied with and the officer involved has, in our view, committed a serious crime not only with the misappropriation of public money, but also the destruction of important accounting records.

The implications are that this case which, amongst other things, involved the destruction of records pertaining to many of the transactions in the Port Sampling Account and the misappropriated public funds, may not have been properly dealt with.

Recommendation 34

We recommended that the provisions of Financial Instruction 57 be strictly complied with and Accounting Officers be made aware of the repercussions should they fail to comply. Our recommendation on the actions of the officer is provided in section 6 of the report.

5.2.7 Authority to Sign Vouchers

Financial Instruction 206 provides that “all purchase orders, requisitions, payment vouchers or other accounting documents that require signing to become valid documents, must be signed by the Accounting Officer or his authorised substitute. Any such delegation must be approved in writing by the Permanent Secretary following a written request from the Accounting Officer for such delegation.”

Written requests to the Permanent Secretary are normally done through Treasury Form 15 or the “Authority to Incur Expenditure.” Permanent Secretary must ensure that there is adequate records maintained of all Accounting Officers and delegated officers authorised to incur expenditure.

In our review of the records maintained with the Department, no such record existed, nor was one produced for our examination.

The implications are that unauthorised officers may authorize expenditure and fraudulent transactions could take place.

Recommendation 35

We recommended that a record of authorised officers, appointed in accordance with Financial Instructions, be maintained in accordance with Financial Instruction 206 and that record be made available as and when required for audit.

5.2.8 Submitting a Written Return – Details of Delegated Officers

Financial Instruction 209 provides that “not later than 31 January of each financial year, all Accounting Officers must submit in written return to the Permanent Secretary, confirming details of delegated officers under his control, and submitting three new specimen signatures of himself and delegated officers. The Permanent Secretary shall ensure that the record of signatories is checked against each annual return.

At the time of our audit there was no evidence sighted to suggest that this Instruction was being followed.

The implications are that the properly delegated officers are not exercising the controls over Fisheries operations.

Recommendation 36

We recommended submission of return confirming details of delegated officer to the Permanent Secretary in accordance with Financial Instruction 209 be strictly adhered to.

5.2.9 Control Weaknesses Over Expenditure

An examination of expenditure in the Port Sampling account revealed a number of major control weaknesses and shortcomings, which contravenes the Financial Instructions. These are as follows:

- (i) Requisitions and Payment Vouchers were being signed by the one officer and in some cases these were signed by officers not delegated;
- (ii) We noted there were many instances whereby the requisitioning officer's signature was forged (See Section 6.2.13);
- (iii) Payment vouchers and requisitions issued for 2002/2003 did not have evidence to prove that the services had been rendered;

- (iv) Cash book has not been maintained, except for the period 17 April 03 to 1 August 03;
- (v) Many payments were made that did not have supporting documents such as requisitions and payment vouchers;
- (vi) Many cheques were made out for cash;
- (vii) Many requisitions were made out by the Chief Accountant, however, were not approved by the Permanent Secretary;
- (viii) Many requisitions were noted where the requisition officer's signature had been forged and the requisitions were not authorised by the Accounting Officer. On the basis of this documentation, payments were made and cheques drawn for cash and subsequently collected by the Supervisor whom we suspect of forging the signature of the requisition officer (see Section 6.2.10 for more details).

The implications are that in the absence of proper controls over expenditure, fraudulent payment could be made.

Recommendation 37

We recommended that, although the Port Sampling Account is now closed, it is imperative that proper procedures be followed and it is incumbent on the Accounting Officer to ensure that these processes are properly applied.

5.2.10 Port Sampling Project Account – Unusual Expenditure

In our examination of the accounts and records pertaining to the Port Sampling Account, we have noted a number of unusual expenditure items that do not appear to be consistent, in nature, with normal recurrent expenditure. These are noted in the Table below.

Cheque No.	Details	Amount \$
299343	Assistant Observer Coordinator paid this amount for reimbursement of motel rent for 15 months – June 2002 to August 2003.	7,425.00
356479	Coordinator of the Observer Program was paid a total of \$4,500 for burial costs of his son. It was paid in 2 instalments of \$3,000 and \$1,500.	1,500.00
356495		3,000.00
329280	The Principal Licensing Officer (PLO) was paid for his private rented house occupied by a Fisheries Enforcement Officer. The government rented the house, but due to the Government's cash flow problems the rent from 2001 to 2002 was in arrears. The understanding was that when Treasury pays the arrears to the PLO, he was to reimburse the amount paid from the Port Sampling Account and from audits checks this amount has not been paid back into the Port Sampling Account.	17,550.00
299396	The Personal Secretary to the Permanent Secretary and Minister was paid Observer overtime allowance.	1,041.25

299398	Senior Accountant was paid for the hire of his hilux vehicle registration No A9920 for the period 11 – 24/12/03 @ \$300 per day. We could not obtain any quotations or agreement for this.	3,000.00
299387	A public officer, related to the Personal Secretary to the Permanent Secretary was paid for the hire of an outboard motor vessel and canoe for 20 days @ \$500 per day. This was for the transportation of Observers from Fisheries Office to fishing boats anchored off Point Cruz Wharf. There were no quotations or agreements available at the time of the audit.	10,000.00

The implications are that some of the above payments do not fall into the category of public expenditure and should not have been paid, whilst others appeared to have been paid without proper authority resulting in the loss of public funds.

Recommendation 38

Although this is only a sample and as many of the accounting documents have been destroyed it is recommended that Fisheries where possible follow up some of these payments authenticity and where applicable take recovery action.

6. IRREGULARITIES

6.1 Introductions

The undermentioned irregularities were noted during the audit of the Fisheries for the period 1 January 2001 to 2003. Audit does not consider that the irregularities in this period are limited to those noted in this paper, but considers these to be a general cross section of activities that occurred during that period. Audit also considers that some irregular practices are still occurring. Many of these instances noted are of a serious nature and should be fully investigated by the appropriate authorities to determine whether criminal action should be taken.

6.2 Summary of Irregularities

The following is a summary of irregularities noted by Audit.

6.2.1. **Misappropriation (Ex Gratia Payments) of Fishing Licence Fees – SBD\$1,310,192.45**

The Ministry of Natural Resources comprises of three Departments, namely Department of Fisheries and Marine Resources, Department of Forests Environment and Conservation, and the Department of Mines and Energy.

The staff of the Ministry had pursued for a recognition allowance (ex – gratia payment) and formed a central house committee early in May 2003 to negotiate with the authorities. The allowance was in recognition of the adversity suffered during the tension period from August 2000 to 2002.

It was argued that other Ministries and Departments had received such allowances, however, the Ministry of Natural Resources did not. The request was refused three times by Cabinet.

Senior Officers of Fisheries, in particular the Licensing Division arranged to have public funds fraudulently paid to themselves and other staff. The Principal Licensing Officer (PLO) and the officers responsible for collecting licences played a prominent role.

The Assistant Accountant aided the diversion of funds for these fraudulent payments and received funds from Tuna Pacific Agencies Ltd. in her name amounting to USD \$100,000, which is equivalent to SBD \$740,000. This amount was received by telegraphic transfer on 18 July 2003 at the ANZ Bank and was withdrawn on the same day.

In addition to the funds noted above, the Principal Licensing Officer confirmed that money was received from the other sources. This was made in response to a letter from the Auditor General on 27 October 2003. Table 6-1 below shows a summary of the sources within the

Department of Fisheries and Marine Resources from which funds were obtained.

Table 6-1: Summary of fund sources

Company	Date	Amount	Comments
Global Investments	20.6.03	\$350,000.00	Money for licence fees (cash and cheques) were given Officers of the Accounts and Personnel Section.
	26.6.03	\$120,000.00	Money paid in cash and handed to a member of the responsible committee.
Tuna Pacific	18.7.03	\$740,192.45	Transferred to an account, but was cashed by the bank and collected by Deputy Director of Research and Legal Advisor
		\$1,310,192.45	

According to the Principal Licensing Officer the money was distributed to the Fisheries officers as follows:

Date	Amount of Payout	Amount Received by each Fisheries Officer
20.6.03	\$350,000	\$2,300
26.6.03	\$120,000	\$2,700
18.7.03	\$740,192.45	\$6,900
		\$11,900

It has been estimated that \$1,458,000 of public funds have been fraudulently diverted to pay for the unauthorised allowances. The Auditor General started this investigation in August 2003 and reported the findings to the Permanent Secretary - Ministry of Finance around March 2004.

6.2.2 Misappropriation of Fishing Licence Funds SBD \$110,849.74

Solomon Islands Marine Resources Ltd (SIMR) paid for three purse seine local fishing licences at cost of US\$5,000 each (totalling US\$15,000).

On the 19 June 2003, SIMR forwarded to a commercial bank in Honiara, a bank cheque for the sum of US\$30,000, which was equivalent to SBD\$110,849.74. The cheque was made out in favour of Department of Fisheries & Marine Resources for the three licences.

On 3 July 2003, officials of the Department of Fisheries & Marine Resources requested that the bank cheque be converted to cash and paid to the Principal Licensing Officer (Licensing, Surveillance and Enforcement).

Enquiries with the Bank revealed that they were extremely concerned about this payment and expressed it to both parties. The cash was passed to the Principal Licensing Officer and the Legal Officer on 4 July 2003.

Furthermore, our examination of the records revealed that this money had never been accounted for in the Port Sampling Account or the CBSI.

We further noted that that these funds may have been used as part of the illegal payout to staff for ex-gratia payments.

6.2.3 Misappropriation of Fishing Licence Funds SBD \$553,016

Global Investments, a locally based fishing company, paid cash for Fishing Licences to the Principal Licensing Officer to the amount of \$553,016. We have confirmed in the third party confirmation that this money has not be accounted for. The payments were as follows:

DATE	AMOUNT (\$)	REMARKS
20.6.03	360,000.00	Funds received by PLO
27.6.03	150,000.00	As above
8.8.03	43,016.00	As above
Total	\$553,016.00	

We further noted the following in relation to the above amounts:

- \$360,000 was paid through a series of "cash" cheque given to PLO;
- \$150,000 was also made through a series of "cash" cheques. This was confirmed with a written acknowledgement from PLO as having received this amount; and
- \$43,016 this was paid in cash and we have a written acknowledgement from the PLO as having received this amount.

These amounts were part of the ex-gratia payment made to Fisheries Officers, although, in the PLO's statement, he stated that the total amount used for this purpose was \$350,000.

6.2.4 Money paid to Private Account by TT Transfer – Japan Far Seas – Yen 3,214,000 (SBD \$197,515)

We further noted that an additional Fishing Fee calculation from 1 October 2001 – 30 September 2003 amounting to Yen 3,214,000 was paid by Japan Far Seas Purse Seine Fishing Association. An Enforcement Officer of the Department wrote to Japan Far Sea Purse Seine Fishing Association on the 22 January 2002, requesting this amount to be paid to the Deputy Director of Fisheries (Licensing, Surveillance and Enforcement).

Our investigations revealed that a telegraphic transfer dated 5 February 2003 from Japan Far Seas for Yen 3,200,000 (SBD \$197,515), relating to an additional payment for purse seine vessels, was deposited to the Deputy Director's personal account with a local commercial bank.

This is contrary to the understanding under the bilateral agreement with Japan Far Seas Purse Seine Fishing Association, which stipulates that all revenue, in this respect, should be paid into the Consolidated Fund.

In our opinion, the above is a clear case of misappropriation of government funds.

6.2.5 Other Moneys paid to Private Account by TT Transfers

The Government has a locally based or development agreement with Tuna Pacific Agency Ltd for Tuna Longline Vessels concerning fishing by the company in Solomon Islands waters.

Audit examination revealed that over a period from 2001 to 2003, 4 telegraphic transfers from Tuna Pacific and 1 from CKP Fishing Company (which we understand is the parent company of Tuna Pacific) totalling US\$10,247 (SBD\$67,853) for fishing licence fees and other associated fishing revenue were paid into a private bank account in the name of the Deputy Director of Fisheries.

We noted that some transactions were unclear as to the purpose of the revenue but others clearly related to Government revenue.

We therefore conclude that:

- (a) The transfers made from Tuna Pacific Agency, a company that deals in fishing business with the Government, hence, these are not only contrary to the general code of practice in the General Orders, but are clear cases of conflict of interest; and

- (b) Payments related to Government are suspected to have been fraudulently or corruptly gained by the Deputy Director of Fisheries.

6.2.6 Unaccounted for Annual Observer Fees

Our examination indicated that observer fees income has been collected in cash, mainly by the Principal Licensing Officer, and not accounted for. The following Companies have confirmed that they have been asked to pay cash for observer fees:

Global Investments	Estimated fee \$126,000	Collected by PLO
Solgreen	Estimated fee \$46,200	Collected by PLO/ Assistant Accountant
Warken	Estimated fee \$5,868.40	Collected by PLO

It was noted that the Warken payment was made on an unofficial receipt No. 59 which was signed for by the Principal Licensing Officer. This apparently was revenue in respect of observer fees; however, we were not able to verify it.

We noted that this practice of collecting cash for locally based companies has obviously been operating over the period of the audit. As far as we were able to determine, none of these collections have ever been brought to account in the Consolidated Fund.

6.2.7 Fishery Division Licence Fees Bank Cheque (Warken Fisheries) – Unaccounted for Bank Cheque - \$128,885

We have examined fishing licence fees for purse seiners Evelyn Da Rosa (Fishing Vessel) (FV) and Proud Heritage (FV) which are owned by Warken.

We have noted the following in respect of the above:

- Evelyn Da Rosa (FV) – (17.5.03 – 16.5.04) – The confirmation letter from Warken indicates that the Company has paid US \$24,000 but no receipts were given by the Department of Fisheries. – An inquiry with the Firm's management indicates that "the payment was made on 23 December 2002, in advance for the licence of the above vessel. A request was made for the management of the firm to write out the cheque to cash which they did and gave the cheque to a Fisheries Officer. It is understood that the proceeds were divided between a number of officers within the Ministry of Natural Resources each receiving SBD \$2,500".

The Ministry of Finance closed these accounts because of abuse. In our examination of the records relating thereto, we noted the following:

- In 2001, the Principal Licensing Officer in relation to 3 different transactions paid \$89,550 into his spouse's account;
- Funds received for fishing licence fees by way of cash cheques were identified by signature on the back of paid cheques. We identified where Fishery Officers signed as having collected a total of \$164,500 and in one instance we were able to trace a cheque into a private bank account.

We found no evidence to confirm that these amounts had been accounted for in the Government Revenue.

6.2.10 Port Sampling Account - Irregularities

(i) Misappropriation of money and destruction of accounting records

Financial Instruction 57 requires any material irregularity to be reported to the Permanent Secretary with a copy to the Auditor General and his Accounting Officer.

The following irregularity is considered very serious and the officer (Assistant Accountant) involved was only suspended for 2 months and has subsequently been reinstated in another Ministry.

In April 2003, the Department of Fisheries and Marine Resources carried out an investigation where, in essence, several cheques were cashed and payments were purported to be made to several people who denied receiving the money. The amount was in the vicinity of \$33,665.

Cheque No	Details	Amount	Remarks
776867 (23.12.03)	Solgreen	11,220.62	Observer fees already paid from Port Sampling account – refund kept by the individual
776956 (10.2.03)	Programme Coordinator	10,000.00	Cheque cashed \$5000 suppositively paid to Fisheries Officer who denied being paid this amount. Another \$5000 for stationery - where recycled receipts were used
776957	Deputy Director	3,808.78	\$2000 cash never receipted
776991	Observers Allow. Reim Solgreen	4,704.07	Replacement cheque 777000 \$8635.62 (for cheques 776991 & 776995) never receipted and could not be traced
776995		3,931.55	

The person involved with the above also destroyed the following accounting records up to and including part of 2002:

- All cheque butt were thrown away;
- All used payment vouchers were burnt;
- All used Requisitions books were burnt;
- There were no filling system kept for the Sampling Account;
- No Receipts;
- No Bank Reconciliation as the main cause of weaknesses in the control system;
- Ledger card system was not maintained.

It is believed that the person involved was the source of other enquires relating to missing property and missing cash.

(ii) Suspected fraud

We noted a number of instances where the requisition officer's signature had been forged and the requisition had not been authorised by the Accounting Officer. On the basis of this documentation payments were made and cheques drawn for cash and collected by the Supervisor (Assistant Accountant) who Audit suspects of forging the signature of the requisitioning officer. Some of these are listed below:

Date	Cheque No.	Amount \$	Requisition No	Details	Comments
14.10.02	681465	5,550	MFMR/27/02	Observer allowance – Observer	Claimed he has received the money.
1.12.02	96323	4,000	MFMR/81/02	Air conditioner – Private Seller	Private Seller claims he did sell the air conditioner second-hand – it is understood when the Supervisor departed fisheries he took the air conditioner with him.
9.12.02	96344	3,034.90	MFMR/23/02	Observer Allowances – Observer	Claimed he has received the money.

There was no evidence that an acquittance was received for the cash and we are of the opinion that these transactions were fraudulent with the possibility that the money may have

been shared between the officers. In any regard the transactions are illegal as the source documents for approval had been forged and the financial instructions not followed.

6.2.11 Government and Other Motor Vehicle paid with Fishing Licence Fees

Public Finance and Audit Act provides for estimates of expenditure to be charged against the Consolidated Fund. In the case of the purchase of motor vehicles these should be provided for in the budget process and purchased through the Department of Works in accordance with the Government Stores Instructions.

Audit noted that a number of motor vehicles have been purchased by the Department of Fisheries without going through the proper processes. In addition, it was also noted that offsetting licence fees funded some of these.

Mako, which is also associated with Kosol, owes an estimated \$500,000 in fishing licence fees to Fisheries Department. Kosol has indicated that they had offset some of their fishing licence fees against the repairs and purchase of new motor vehicles. It is Audits understanding that fishing licence fees from Global Investments have also funded some of these vehicles.

According to Kosol they have offset the following vehicles against fishing licence revenue:

Sold Date	Vehicle Model	Duty Fee Price \$	Received (Fishing Income offset) \$	Remarks
14.8.01	A9106 (Elantra)	68,000.00	68,000.00	New Car
23.11.01	A9277 (Sonata)	85,633.10	35,000.00 50,633.00	New Car
15.3.02	A9446 (Grandeur)	120,000.00	85,000.00 10,000.00 15,750.00	New Car
27.8.02	A9678 (Elantra)	50,000.00	50,000.00	Trade in 9446
17.12.02	A9695 (Truck)	41,000.00	53,362.20	Trade in A9277
Total		364,633.10	367,745.20	

It was claimed that \$3,112.10 was offset against repairs.

We noted that:

- The above schedule provided by Kosol shows A9446 as only offsetting \$110,750 against the cost of \$120,000 and A9695 offsetting \$53,362.20 against a cost of only \$41,000.
- A9446 a Hyundai Grandeur sedan was registered on 1 March 2002 in Deputy Director of Fisheries name. The car was traded in on 27 August 2002 only 5 months after it was supposedly purchased by Fisheries Department. It was claimed that Deputy Director of Fisheries purchased the vehicle from Kosol (SI) Ltd. after it was traded in by the Department of Fisheries and Marine Resources. The Company will not provide any further details on the purchase to audit.
- We have estimated that Mako (or Kosol) owes \$500,000 to Fisheries Department while it claims that it has offset \$367,745. Which is a significant variance, although Kosol claims that the Fisheries Department owes \$60,000 for vehicle repairs.
- According to Fisheries records A9678 is Hyundai Grandeur and not an Elantra.
- The matter of duty free cars is questionable as these have been registered as a "G" or "X" and in the case where Deputy Director purchased the car personally, as the vehicle was disposed of under 2 years, he should have been subject to Custom duty as the car was disposed of under 2 years.
- We understand from the Permanent Secretary that the Deputy Director and not the Permanent Secretary who is the Accounting Officer negotiated these transactions with Kosol.
- Offsetting public funds is contrary to the Financial Instructions and is illegal.

In addition, we identified ten vehicles currently held in one way or another by Fisheries Department. Some action is being taken to rationalise these vehicles by the Permanent Secretary but it is considered that there is a wide range of shortcomings in the acquisition, disposal and control of motor vehicles within the Department. In particular the acquisition of vehicles through aid projects needs to be properly monitored and the illegal process of the Department purchasing or disposing of vehicles outside of the prescribed procedures should immediately be ceased.

We concluded that:

- Many of these transactions, including the offsetting of fishing licence fees against purchases of new cars and repairs, purchasing and disposing of vehicles outside of the prescribed procedures contravenes the Public Finance and Audit Act;
- The close association of the parties represents a conflict of interest which opens the processes up to fraud and corruption.

6.2.12 Overtime - Fraudulent Claim

In our examination of overtime claims we have noted that many claims had been made whereby the hours claimed were overstated. In the sample tested, we observed that the Senior Accountant, who is responsible for preparation of the overtime, had raised overtime on payment voucher amounting to \$3,132.25 in his own name.

We consider this to be a fraudulent claim and that the Senior Accountant should be held accountable for his actions. Furthermore we have noted other dubious expense claims made by the Senior Accountant. In particular, the payment of \$14,000 for the use of his Toyota Hilux for observer duties. The Permanent Secretary had approved this but in view of the number of vehicles available to Fisheries the need to hire this vehicle is questionable.

We concluded that many of these transactions contravened the Public Finance and Audit Act and the close association of the parties could have represented a conflict of interest which left the process open to fraud and corruption.

Recommendation 39**We recommended that:**

- These matters to be referred to RAMSI to determine whether a criminal investigation should be carried out in relation to the above matters. It is also suggested that disciplinary action be taken by Fisheries Department in connection with some of the above matters.
- Recovery action be taken, where possible, and in particular illegal payments made to staff for ex-gratia payments.