

ANNUAL REPORT

Solomon Islands Water Authority



2017



Our Vision

Safe water for a healthy nation

Our Mission

“To provide reliable and safe water supply and sewerage systems within our area of operations in Solomon Islands, while working in partnership with the community to plan, deliver and operate infrastructure in a manner that seeks to minimize the social and environmental impacts of our activities.”

Our Values

<i>Purposeful</i>	<i>Everything we do is aimed at delivering a better service.</i>
<i>Challenging</i>	<i>We strive for continuous improvements.</i>
<i>Customer Focused</i>	<i>We aim to excel the expectations of our customers.</i>
<i>One Team</i>	<i>We strive to work together as one team to achieve our corporate objectives</i>
<i>Ethical</i>	<i>We are open and honest about performance and meet our commitments in a reasonable manner</i>

Chairman's forward

It is my great pleasure to present the 2017 Annual Report for the Solomon Islands Water Authority (SIWA), trading as Solomon Water

We have again had a very good year, with a number of major accomplishments including the completion of the 30 Year Strategic Plan, 5 Year Action Plan and other works. The Plan provides us with a very clear vision of the road map we need to undertake in-order to meet the ever-growing demand placed on our services by our customers. By 2047 the population in Honiara will grow to around 300,000 people and this means finding 80ML/d of water to meet this demand. Ideally the plant needs to be operational before the 2023 Pacific Games.

We also need to improve the collection and disposal of wastewater into the environment which has huge health and economic benefits. The cost of implementing the full plan is about \$3 Bn. which will require significant funding. We are negotiating with the government and various donor agencies for possible funding. So far it has been very positive.

Besides this, Solomon Water has also embarked on another of its major projects, which is the design of a new office complex and warehouse facility to be constructed at Matanikau. Design is scheduled to be completed by mid May 2018, after which we will tender for the construction. This building is strategically very important and will enable the centralisation of all operations into one location, thus improving productivity and efficiency overall.

The construction of the new transmission main from Tasahe to East Kola and the 4 ML storage tank at East Kola is due to be commissioned in early 2018. These 2 major projects funded by the Australian Government through the Department of Foreign Affairs and Trade (DFAT) will increase storage capacity and supply of water to the eastern parts of Honiara City

Our financial performance is a little lower than hoped due to matters out of our control. We have also received a few qualifications in the audit, related mainly to the changeover to a new information management system, and we will work hard to make sure these, and the audit recommendations, are promptly resolved.

We did not receive any Community Service Obligation (CSO) from Government in 2017 and we urge Government to support us more fully in future. We also continue to carry vacancies on the Board of Directors, and whilst there is some positive progress with the new government, these roles have not yet been filled. Given the co-operation of the new government we are sure this will be quickly resolved so that the Board can function fully as mandated.

Despite all the challenges we will continue to strive to achieve our mission of providing reliable and safe water and wastewater services now and in the years to come.

For my fellow board members and myself it is gratifying to see the ongoing progress Solomon Water is making. I am proud of the 2017 results, although there is more to be achieved, and thank the General Manager, his executive and staff for their dedication and commitment to delivering the services its customers expect.

I look forward to the ongoing support of the Board, Executive Management and Staff in 2018 and the years to come. I commend this report to you.


Phil Bradford
Chairman

General Manager's Overview

I wish to thank the Board of Solomon Islands Water Authority for my re-appointment in late 2017 for a further 3 years. The trust they have in me to take the organisation forward is important for the ongoing stability and confidence within the organisation and amongst our key stakeholders and donor partners, particularly at this critical stage in our development.

2017 has, like previous years, brought many challenges but I am proud that we have finished the year on a strong note. My executive and staff must be commended for their efforts and support.

Solomon Water has again delivered a good financial result and managed a heavy workload. It is unfortunate that we have been unable to secure an unqualified audit, and we look forward to resolving these matters and achieving one in 2018.

The completion of the 30 Year Strategic Plan 2017-2047, 5 Year Action Plan and Tariff Review provide the direction for the future and have been invaluable in our negotiations with various donor partners whom we hope will assist us to achieve the Plan. These discussions are well advanced with the first tranche of funding due in early 2019. In the meantime we will have ADB funded advisors and consultants working in 2018 to prepare designs and contracts for construction of many works.

In 2017, a number of key milestones were achieved including introduction the MAQIG financial system, upgrading of IT servers, introduction of tablets for field staff, commencement of design of the new Matanikau office complex, upgrade of Auki water pipes, renovation of offices in Noro and Tulagi, completion of phase 1 fencing of Tuvaruhu Depot, ongoing replacement of water pipelines in Honiara, completion of the design of Auki new pump station and reservoirs and completion of a chlorine treatment facility in Auki. We are also nearing the completion of the 6.5 km Tasahe to East Kola transmission main and the 4ML storage tank at East Kola.

We continue to have issues associated with land management and again request government support in securing permanent and unrestricted access to all our water supply infrastructure.

The "Cash Water" project has been slowed for a few reasons, and we hope to get Board signoff for full implementation in mid 2018. This initiative will reduce costs and conflict with customers especially in relation to disconnections of water for unpaid debts.

It has been a very busy and challenging year but with the ongoing support of the Chairman and the board of directors, my executive senior managers and staff, we have been able to finish the year on a strong note.



Ian Gooden
General Manager

About Solomon Islands Water Authority

Who we are.

Solomon Water is a water and sewerage business supplying potable water and collecting municipal effluent in the urban centres of Honiara. It also provides potable water services to Auki, Noro and Tulagi.

Solomon Islands Water Authority is an enterprise wholly owned by the Solomon Islands Government and uses the approved brand name Solomon Water for marketing and operational purposes.

What we want to achieve

Our Vision is:

Safe water for a healthy nation

How we will get there

We aim to provide reliable and safe water supply and municipal effluent collection services, to be profitable and sustainable, and to develop our business for the long-term benefit of Solomon Islands. We will do this by:

- Working closely with customers and stakeholders
- Delivering our services at reasonable cost
- Developing our people
- Investing in the right resources to provide a better service
- Educating and informing the public
- Continually improving how we do things
- Being a good employer

Statutory Functions of Solomon Water

The statutory functions of Solomon Water are defined in Section 7 of the Solomon Islands Water Authority Act, 1993 as follows:

- a) to control, regulate, develop, manage, conserve and utilise urban water resources in the best interests, of Solomon Islands;
- b) to formulate national policies relating to the control and use of urban water resources;
- c) to ensure that the water supplied for consumption meets the prescribed water quality standards;
- d) to provide, construct, operate, manage and maintain, buildings, works, systems and services for impounding, conserving and supplying water for domestic, industrial, commercial and other purposes;
- e) to provide, construct, operate, manage and maintain buildings, works, systems and services for the conveyance, treatment and disposal of sewage, disposal of trade and industrial waste and other connected purposes;
- f) and any other like function

Corporate Governance

The Solomon Islands Water Authority was established under the SIWA Act 1992 and is governed under the SOE Act 2007

Role of the Board

The Board is responsible for policy formulation, oversight of the operations and general administration of the affairs of Solomon Water as stipulated under SOE Act 2007, Section 6(4). The Board reports to the two Accountable Ministers responsible for SIWA - the Minister of Finance and Treasury, and the Minister of Mines, Energy and Rural Electrification.

Board Composition

Appointment of Board Directors is as stipulated under State Owned Enterprises Regulations 2010. Current Solomon Water Board is made up of the following persons:



Phil Bradford
Board Chairman



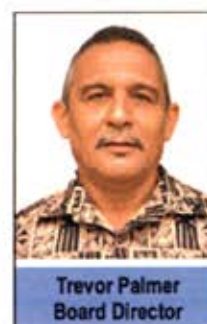
Carson Korowa
Board Director



Ethel Frances
Board Director



David Laurie
Board Director



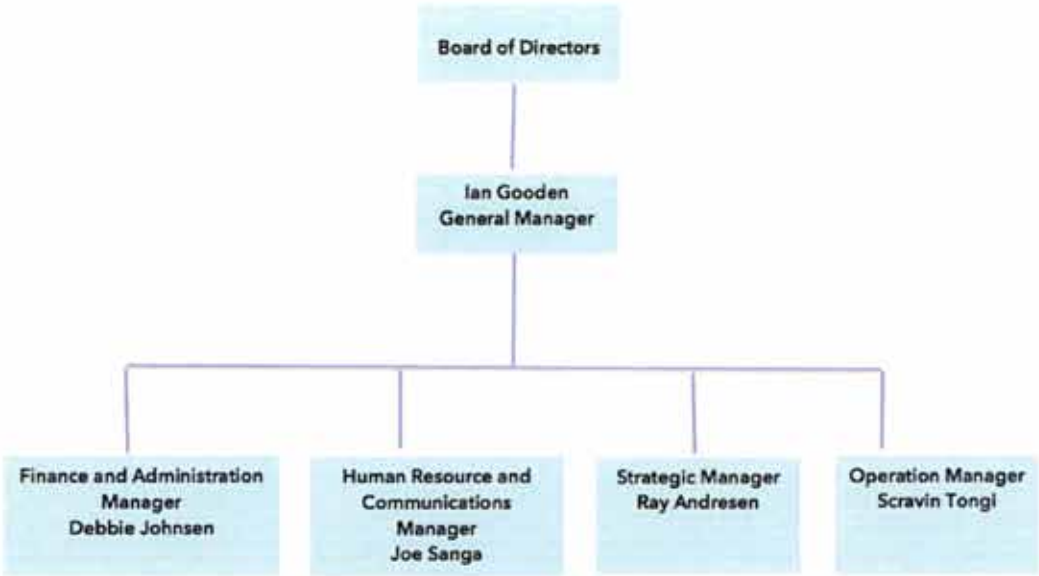
Trevor Palmer
Board Director

The board has advertised for, vetted, shortlisted and submitted applicants for new members to the 2 Accountable Ministers, Minister of Finance and Treasury and Minister of Mines Energy and Rural Electrification. Appointments for the 3 vacant positions are yet to be made. The other 4 positions will be advertised and filled in 2018.

An audit sub-committee chaired by Ethel Frances supports good governance and review reports and audits carried out by our Internal Auditor

Organisational Structure

SIWA has 136 staff in four departments operating under the direction of the General Manager as shown in the diagram below



Report on the Operations of Solomon Islands Water Authority

The SCO 2017 – 2019 identified 15 key strategic issues and challenges for Solomon Water through to 2019 and beyond, and these are listed below with comments on progress to date:

Strategic Issue identified	Annual Report Comments
Governance	
<p>Board member vacancies: There are currently 2 vacancies on the Board. The first was advertised in early 2015 and a shortlist submitted to the Accountable Ministers (AM's) in early 2015. In early 2016 a second shortlist was submitted for 4 vacancies being the one noted above plus 3 positions that expired in June 2014. To date no response has been received from the AM's. A further 3 member positions expired in June 2015 and recruitment for these roles has not yet commenced as the Board awaits response from the AM's.</p> <p>It is the Board's view that governance of Solomon Water is potentially being compromised as there are only 5 current members all of whom have expired terms of appointment. The Board believes that the entire Board recruitment process should be started over, with replacement of 4 directors, followed a few months later by the remaining 3 in order to ensure continuity of good governance.</p>	<p>Advertisements for 4 positions applications closed 31 August 2017. 22 Applicants applied.</p> <p>From the 22 applicants, a shortlist of 14 qualified candidates was submitted to the 2 AMs for their consideration.</p> <p>We look forward to progress on these appointments in the new year.</p>
External funding	
<p>The DFAT and JICA funded donor programs will both be complete by June 2017 and negotiations with various donor agencies have commenced. At the preparation of this SCO however there are no confirmed funds for capital work or expatriate advisors after June 2017.</p> <p>Solomon Islands Government provided Community Service Obligation (CSO) funding was not received in 2015. The first payment towards total funding of SBD 4.6m for 2016 has been received and this SCO anticipates a similar level of funding for 2017. The CSO funding is specific to supporting unsustainable provincial operations. It should be noted that Solomon water supplies water to areas of Guadalcanal province surrounding Honiara as well as informal settlements within Honiara for which CSO is not provided.</p>	<p>DFAT provided further AUD 2.1 m for the year to 30 June 2018.</p> <p>Strategic Plan funding commitments from various donors so far total USD65m.</p> <p>Further funding from other potential donors is being pursued.</p> <p>No CSO funding was provided by Government for 2017.</p>

Strategic Issue identified	Annual Report Comments
Strategic	
<p>The single most pressing matter facing Solomon Water is the rapid and on-going growth in Honiara. The population is forecast to be over 190 000 people by 2030 and we need to understand and begin planning and funding for this urgently. Integration with Honiara City Council and MID is essential. Solomon Water is well through the preparation of a 30 year Strategic Plan and Tariff review which should be finalised by April 2017. Communication with key stakeholders has occurred and the draft plan will be fully consulted upon in early 2017.</p> <p>A key component of the plan will be the urgent need for a major new water source for Honiara to accommodate the growing population.</p>	<p>30 Year Strategic Plan and 5 Year Action Plan completed 30 March 2017.</p> <p>Tariff Review discussions with MoFT started and will continue in 2018. A significant increase in Tariff is required to assist in funding of Strategic Plan projects.</p> <p>New Lungga River Water Intake, Water Treatment Plant and pipeline to be completed before 2023 Pacific Games is our single highest priority.</p> <p>Talks on SW taking over the Gizo water supply are progressing and this is likely within the next 18 months, subject to donor assistance.</p>
Operational and Technical	
<p>Connectivity and capacity of the water transmission system: Although the performance of the network has been greatly improved with the completion and hand-over of the JICA Grant Aid project (Project for the Improvement of Water Supply Systems for Honiara and Auki), there remain some significant weaknesses in the system that prevent Solomon Water from utilising its increased water resources in the most advantageous manner. A further approximately 6.5 km of 250/300mm transmission mains are required to provide flexibility in operation and facilitate the efficient transmission of water to the eastern parts of Honiara from sources in the west. The construction contract for this work has been awarded in October 2016 and completion of the project is expected in August 2017.</p> <p>A new reservoir in East Kola is also required, but this cannot progress, as donor funds for the project are not available. Solomon water will continue to work to construct this reservoir as soon as possible.</p>	<p>Contract awarded to Reeves International in October 2016. Most of the 6.5km transmission mains completed, however the contractor is well behind in delivery of this work.</p> <p>Tender for construction of East Kola reservoir awarded to Reeves International with the project progressing.</p> <p>Both projects are due for completion in April 2018.</p>

Strategic Issue identified	Annual Report Comments
<p>Condition and capacity of the small diameter distribution network: It is estimated that 40 km of distribution pipes are in urgent need of replacement due to their condition or limited hydraulic capacity. A further 50km of the network may require significant improvement. Until these problems are investigated and solved, Solomon Water will not be able to guarantee 100% water supply coverage in its areas of operation. However, a targeted program of mains replacement and improvement has been commenced and will continue on a prioritised basis during 2017 and beyond as funding permits.</p>	<p>7 km of new pipeline in Honiara laid. Programme on going.</p> <p>Major pipe replacement project underway in Auki, 80% complete.</p>
<p>Non-Revenue Water Losses – Non-revenue water is estimated to represent about 60% of the volume of water produced. The main losses are the result of physical leakage, direct unmetered connections and illegal connections. A detailed strategy and plan for NRW reduction has been formulated with assistance from JICA and implemented and will continue during 2017 and beyond. It is expected that the full program will take at least 5 years to complete.</p>	<p>NRW remains at 60%. 11 DMAs completed, 13 DMAs under progress, 3 outstanding out of the 27 in Honiara. Work in Auki and Noro yet to commence.</p> <p>On-going maintenance and monitoring of established DMAs remains a critical challenge.</p> <p>Increased revenue is partially due to the success of NRW projects.</p>
<p>Municipal waste collection and disposal – The standard and extent of Solomon Water's municipal sewerage system is limited and under-capacity. The environmental impact of the discharge of raw effluent to the sea and rivers is serious. Limited remedial work has commenced but more detailed analysis of the issue is intended through the Strategic Plan.</p> <p>This issue needs urgent attention and has serious implications for tourism, community health, and hygiene, especially as uncontrolled informal settlements around Honiara increase and frequently use the rivers and sea for washing, bathing and drinking.</p>	<p>Point Cruz Pump Station has now been upgraded and commissioned. The Pump Station is now fully fenced. KGVI Pump Station installed, with building yet to be refurbished.</p> <p>30 Year Strategic and 5 Year Action Plan for Wastewater is now completed and ready for implementation once funding is available.</p>

Strategic Issue identified	Annual Report Comments
Financial	
<p>Financial status – Solomon Water’s financial position has improved considerably in 2016, but remains volatile and will</p>	<p>Financial Position is generally stable and Solomon Water now funds its 2 expatriate executive</p>
<p>require a few more years of sustained performance before it can be relied upon to consider Solomon Water to be financially self-sufficient. 3 key roles are presently funded by Australian DFAT, without which the company would be making a substantial loss. Funding for these roles beyond June 2017 is not currently available.</p>	<p>management role.</p>
<p>Water and Waste Tariff – Agreement on an economic tariff level and structure that provides certainty in Solomon Water’s financial status is essential to the sustainability of a healthy water supply operator able to meet the increasing demands of the future. A new tariff model is being prepared as part of the Strategic Plan and consultation with the AM’s will occur in 2017. The Board anticipates that an increased tariff may be required to enable Solomon Water to begin to fund key staff and major capital works.</p>	<p>A full tariff review and development of a new tariff model now complete.</p> <p>SW is engaging with the Accountable Ministers on the tariff review.</p>
<p>Collection of Debt – The legal system in Solomon Islands to support the collection of debt is weak and does not provide the necessary level of support to assist Solomon Water in improving its debt situation. Significant progress has been made on the recovery of debt and policies have been put in place to better manage this into the future. A “cash water” system is currently being trialled, and if successful it is expected to extend to full implementation, particularly amongst domestic customers.</p>	<p>On-going improvement in debt collection and reduction in days receivable.</p>
<p>Government debt – The level of debt owed by SIG for water services provided to government organisations has improved but there remains a recurrent challenge in persuading organisations to pay their accounts on time. The Board’s policy on disconnection for unpaid accounts remains the only effective method of having long standing accounts cleared.</p>	<p>Review by Government of the legislation surrounding debt collection would be appreciated.</p> <p>Situation generally improving, although a few ministries continue to generate challenging debt. Disconnection policy is applied to all overdue accounts regardless of account holder.</p>

Strategic Issue identified	Annual Report Comments
<p>Water supply to disadvantaged communities – The burgeoning increase in the population residing in informal settlements and the continued and uncontrolled development of these settlements imposes an increasing burden on Solomon Water, often through water theft. We foresee a demand for provision of water services to these communities despite the fact that Solomon Water cannot legally service properties that do not possess formal leases. The ability of these communities to pay for water services is also doubtful. A policy must be agreed with government on how the provision of a basic, lifeline water supply can be provided with government financial support through a new community service obligation contract.</p>	<p>No progress regarding agreement with Government on lifeline water supply to date. CSO targeted at provincial operations only, but significant problem in Honiara. No 2017 CSO received.</p> <p>Pre-paid “cash water” meters-programme for domestic customers trailed.</p> <p>Full implementation likely to occur in 2018.</p>
Land access	
<p>Land disputes and resource utilisation on Customary Land – The security of water resources and water supply continues to be threatened on a regular basis by landowners (customary or otherwise) claiming compensation for the abstraction of water or access to water infrastructure. A landmark court case in 2015 has clarified the issue and no compensation for flowing water is payable, however the landowners concerned in that case remain defiant and have caused considerable disruption to services and legal intervention. The Board has written to the Minister of Lands, Housing and Survey in September 2016 requesting urgent and permanent action to resolve the many landowner issues and awaits a response.</p>	<p>On-going major problem, with little progress by SIG, particularly with Kongulai source. Significant problems with informal settlements inside water catchments areas in Auki and Panatina emerging.</p> <p>Stronger Government support is essential to manage this issue, and it is proposed that compulsory acquisition of lands be undertaken.</p> <p>SIWA currently working closely with Ministry of Lands on Auki and Panatina Catchments.</p>
Organisational Effectiveness	
<p>Organisational capacity - Weaknesses in the capacity of the organisation to manage efficiently and effectively have been reduced but some remain. The executive leadership of Solomon water has stabilised and the current focus on rebuilding staff relationships, organisational capacity and culture is well advanced. Ongoing difficulties in securing quality and skilled staff, particularly in engineering, accounting and project management roles remains a concern.</p>	<p>Restructure of operations group completed.</p> <p>On-going difficulty securing certain experienced professional staff, especially in the engineering and finance areas.</p>

Strategic Issue identified	Annual Report Comments
<p>Accommodation and Operational depot Facilities – Solomon Waters Matanikau depot accommodation is old and decaying and the administration team moved to new temporary premises during 2015 to alleviate overcrowding issues. Solomon Water was also forced to relinquish its storage facilities on Ministry of Infrastructure land to make way for the new roundabout proposed at Matanikau.</p> <p>We lack even the basic facilities (e.g. stores, workshops and staff welfare facilities) required by a modern water and wastewater operator. The existing accommodation is now impairing the ability of Solomon Water to implement proposed performance improvements and deliver the expectations of our supporting donors. In late 2014 an application to SIG for assistance from the 2015 SIG development Budget was rejected.</p> <p>Plans for redevelopment of the Matanikau site are progressing and it is anticipated that a loan for this will be required in mid 2017. Solomon Water can fund this through revenue and operational and accommodation savings anticipated.</p>	<p>James Cubitt Architects from Australia have been contracted to carry out design of new Office Complex and Warehouse Facility.</p> <p>Once the design is completed, request for proposals for construction will be advertised.</p> <p>Funding may include loan financing, however alternative funding options are being explored.</p>

Objectives, Proposed Actions and Performance Targets

The table on the following pages outlines the objectives, proposed actions and performance targets that SIWA established in November 2016. The last column of the table reports on progress throughout 2017.

OUTPUT	PROPOSED ACTIONS		TARGET COMPLETION	PERFORMANCE TARGETS / PROGRESS TO DATE
Improved Level of Services	IMPROVING THE CAPACITY OF THE NETWORK			
	1. Improving the connectivity and reliability of water supply Installation of approximately 6km of 300/250mm transmission main from Titige through to East Kola'a			2016 Work has commenced. Contractor significantly behind programme. Completion date now scheduled for April 2018.
	1. Drilling of 2 boreholes at Panatina			2015 and ongoing program Pending funding (to be outsourced)
	2. Replacement of small diameter network – eliminate poor pipework, upgrade pipeline capacity			Project commenced and progressing. Honiara replaced 7 km so far as well as 6 km in Auki.
	REDUCING NON-REVENUE WATER LOSSES			NRW remains at 60%
	1. Counterpart funding for the JICA Non-Revenue Water Reduction Technical Cooperation Project – provision of pipes, fittings and materials & etc.			Initial pilot project ended October 2015 Complete
	2. Creation of Demand Management Areas (DMA's) through the installation of pressure management equipment, flow meters, isolation valves and data loggers/transmitters			Ongoing program 41% completed, 49% in progress, 12% outstanding. Need to rectify Bulk Meter Issues to improve data recording.
	3. Non-Revenue water reduction counter-measures performed in Leakage Control Zones (LCZ's)			30% target set. Maintenance and monitoring ongoing.

OUTPUT	PROPOSED ACTIONS	TARGET COMPLETION	PERFORMANCE TARGETS / PROGRESS TO DATE
	IMPROVING OPERATIONAL AND TECHNICAL MANAGEMENT		
	1. Development of network hydraulic model	2014	Funding received late 2015, project completed 2016. Still to calibrate.
	2. System monitoring management and control – pressures and flows, reservoir levels, pump failures. (SCADA)		Installed complete. Ongoing monitoring and Contractor yet to rectify a number of issues.
	3. Installation of stand-by generators at key pumping stations		Completed 2016. 3 extra generators installed 2016 and 2017.
	4. Security at operational sites		7 major sites fenced. Ongoing programme for remainder of sites.
	IMPROVING AND MAINTAINING WATER QUALITY		
	1. Enhancements to disinfection equipment – chlorine residual monitoring	Pilot trials in 2015	SCADA monitoring completed but no reading obtained yet. Still have issues to sort out.
	2. Extended water quality monitoring – installation of sampling points throughout the network.	2014	Full system monitoring ongoing. Non-stationary sites over 50 installed, 8 stationary sites yet to install.
	3. Enhanced storage facilities for sodium hypochlorite	2015	Complete
	4. Catchment area management		Auki and Panatina Catchment Areas negotiation for registration in progress. Land Board to sit March 2018.
	5. Drinking Water Safety planning and implementation of plan recommendations	2015(Continuing)	Draft Plan completed. Still to finalise.

OUTPUT		PROPOSED ACTIONS		TARGET COMPLETION	PERFORMANCE TARGETS / PROGRESS TO DATE
Improved customer care and communications	PROTECTING THE ENVIRONMENT	1. Refurbishment of sewage pumping stations at Point Cruz and King George VI	2015		Point Cruz Pumps commissioned December 2016. KGV pumps installed but still to refurbish building.
		2. Extension and repair of sewer sea outfalls	2016		Pending funding. Will be addressed in the 5 Year Action Plan (2017-2021).
		3. Development of a high-level Sewerage Master Plan	2016		Complete
	Improved customer care and communications	1. Improving customer care	2015		Completed but with continuous improvement
		➢ Introduce an ICT-based Customer Relations Management system	2015		
		➢ Enhance the ease of water payments	Continuous activities		Completed but with continuous improvement.
		2. Improving the image of Solomon Water	Continuous activities		Complete. Content to be updated.
		➢ Communication campaign planning			
		➢ Development of a website for Solomon Water			
		➢ Customer attitude surveys	2016		Yet to be carried out. However, Egis Eau will be carrying out Customer Survey as part of PPA 2018.
	Strengthened financial and management administration	1. Improving Financial management	2015		System introduced. Ongoing monitoring and support.
		➢ Introduce a new customer billing system for improved billing efficiency and accuracy and data availability to support technical and operational activities.	Ongoing		Continued management of aged debtors through write off.
		➢ Strengthening of the Debt Collection activity	Ongoing		Cash Water to be rolled out. Trial period lapsed, faults rectified.
		➢ Introduction of cost and management accounting			
		➢ Introduction of ICT-based Inventory Management and procurement	2016		MAQIG installed complete. Inventory and Procurement component to be

OUTPUT		PROPOSED ACTIONS	TARGET COMPLETION	PERFORMANCE TARGETS / PROGRESS TO DATE
Improved organisational capacity.				finalised in 2018
		1. Strengthening of HR management <ul style="list-style-type: none"> ➤ Development of a HR plan ➤ Strengthening the people Management group ➤ HR systems and tools ➤ Performance management ➤ Learning and Development ➤ OHS & Welfare 	Ongoing activities	HR Plan ongoing implementation. Biometric timekeeping in operation. People Management Systems (PMS) implemented. Training done. Staff Appraisals due March 2018. Trainings implemented & ongoing.
		2. Strengthening corporate management	2016	OHS Staff yet to be recruited.
		3. Improving organisational effectiveness through IT		2016 restructuring of second tier management complete.
		4. Assets and Facilities <ul style="list-style-type: none"> ➤ Accommodation in Honiara 	2016	Database implemented. Ongoing improvements. Design of new Office & warehouse facility progressing with construction anticipated to start around August 2018.
Improved strategic planning.		➤ Development of a 5 year Water Supply Master Plan ➤ Development of a Master Plan for Wastewater Collection and Treatment and options analysis	2016 ongoing	30 Year Strategic plan & 5 Year Action Plan complete. Final copies provided to all key stakeholders. To be officially Launched in February 2018.
		➤ Water Sector Regulation and Tariff Reform		Tariff complete. Negotiations taking place with Government for approval.
		➤ Private sector participation		To be considered.

SOLOMON ISLANDS WATER AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Contents

Table of contents	1
Directors' report	2-3
Statement by directors	4
Independent auditor's report	5-6
Statement of comprehensive income	7
Statement of changes in equity	8
Statement of financial position	9
Statement of cash flows	10
Notes to the financial statements	11-31

**SOLOMON ISLANDS WATER AUTHORITY
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

Directors' Report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of the Solomon Islands Water Authority ("the Authority") at 31 December 2017 the related statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended on that date and report as follows:

Directors

The names of the Directors in office at the date of this report are:

- Mr Phil Bradford
- Mr David Laurie
- Mr Carson Korowa
- Mr Trevor Palmer
- Ms. Ethel Frances

State of affairs

In complying with the Solomon Islands Water Authority Act and the State Owned Enterprises Act of 2007 the Directors hereby submit the financial statements of Authority consisting of the statement of financial position as at 31 December 2017 statement of comprehensive income, statement of changes in equity and statement of cash flows of the Authority for the year then ended.

Principal Activities

The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands. There was no significant change in the nature of this activity during the financial year

Results

The operating profit for the year was SBD 7,336,197 (2016: SBD 25,271,515).

Dividends

The Directors recommend that no dividends be declared for the financial year (2016: nil).

Reserves

The Directors acknowledge that no transfer be made to or from reserves.

Bad and Doubtful Debts

Prior to the completion of the Authority's financial statements, the Directors took reasonable steps to ascertain that action had been taken in relation to writing off of bad debts and the provision for doubtful debts. In the opinion of the Directors, adequate provision has been made for doubtful debts.

As at the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad debts, or the provision for doubtful debts in the Authority inadequate to any substantial extent.

Non Current Assets

Prior to the completion of the financial statements of the Authority the Directors took reasonable steps to ascertain whether any non current assets were unlikely to be realised in the ordinary course of business compared to their values as shown in the accounting records of the Authority Where necessary these assets have been written down or adequate provision has been made to bring the values of such assets to an amount that they might be expected to realise.

As at the date of this report, the Directors are not aware of any circumstances which would render the values attributed to non current assets in the Authority's financial statements misleading.

**SOLOMON ISLANDS WATER AUTHORITY
DIRECTORS' REPORT - continued
FOR THE YEAR ENDED 31 DECEMBER 2017**

Basis of Accounting

The Directors believe the basis of the preparation of the financial statements is appropriate and the Authority will be able to continue in operation for at least twelve months from the date of this statement. Accordingly the Directors believe the classification and carrying amounts of assets and liabilities as stated in these financial statements to be appropriate.

Unusual Transactions

Apart from these matters and other matters specifically referred to in the financial statements, in the opinion of the Directors, the results of the operations of the Authority during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature likely in the opinion of the Directors, to affect substantially the results of the operations of the Authority in the current financial year other than those reflected in the financial statements.

Events Subsequent to Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Authority the results of those operations, or the state of affairs of the Authority in future financial years.

Other Circumstances

As at the date of this report:

- a) no charge on the assets of the Authority has been given since the end of the financial year to secure the liabilities of any other person;
- b) no contingent liabilities have arisen since the end of the financial year for which the Authority could become liable; and
- c) no contingent liabilities or other liabilities of the Authority have become or are likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Authority to meet its obligations as and when they fall due.

As at the date of this report, the Directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the Authority's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the Authority misleading or inappropriate.

Directors' Benefits

Since the beginning of this financial year no Director has received or become entitled to receive a benefit other than those included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements or received as the fixed salary of a full-time employee of the Authority) by reason of a contract made by the Authority with the Director or with a firm of which he is a member or with a Authority in which he has a substantial financial interest.

For and on behalf of the Board and in accordance with a resolution of the Directors.

Dated this 26th day of March 2018.



Director



Director

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017**

In the opinion of the Directors:

- a) the accompanying income statement of the Authority is drawn up so as to give a true and fair view of the results of the Authority for the year ended 31 December 2017;
- (b) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity for the year ended 31 December 2017
- c) the accompanying statement of financial position of the Authority is drawn up so as to give a true and fair view of the state of affairs of the Authority as at 31 December 2017;
- d) the accompanying statements of cash flows of the Authority is drawn up so to give a true and fair view of the cash flows of the Authority for the year ended 31 December 2017;
- e) at the date of this statement there are reasonable grounds to believe the Authority will be able to pay its debts as and when they fall due; and
- (f) all related party transactions have been adequately recorded in the books of the Authority

For and on behalf of the Board and in accordance with a resolution of the Directors.

Dated this 28th day of March 2018.


.....
Director


.....
Director



INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Water Authority trading as Solomon Water

Report on the Audit of the Financial Statements

Qualified Opinion

I have in joint consultation with the Board of the Authority pursuant to the Solomon Islands Water Authority Act 1992 contracted Ernst & Young Fiji which is part of the EY International network to assist me to audit the accompanying financial statements of Solomon Islands Water Authority ("the Authority"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

The Authority changed legacy accounting and payroll software in August 2017. The data migration process was performed by the new ERP staff based on data provided by the Authority. The process of extraction from legacy system, import into the new ERP and subsequent reconciliation and adjustments had not been documented in sufficient detail, which has resulted in numerous errors and ongoing adjustments in the general ledger and subsidiary ledger. This has further raised concern while reconciling the major areas of the accounting functionalities such as bank reconciliations, inventory reconciliations, other assets and employee leave liabilities. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors with support of the new ERP staff. As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, other assets, employee leave liabilities, reconciling bank transactions and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

I conducted my audit in accordance with International Standards on Auditing (ISA). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the *International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to my audit of the financial statements in Solomon Islands and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Responsibilities of Management and Directors for the Financial Statements

Management and Directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with IFRS, and for such internal control as the management and Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management and Directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management and Directors either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

The management and Directors are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not guaranteed that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or aggregate, they could reasonably be expected to influence the economic decisions of users taken on basis of the financial statements.

As part of an audit in accordance with ISA, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policy used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's and Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as going concern. If I conclude that material uncertainty exist, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statement represent the underline transactions and events in a manner that achieves fair presentation.

I communicate with the management and Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

I also provide management and Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguard.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Solomon Islands State Owned Enterprise Act 2007, in our opinion:

- a) proper books of account have been kept by the Authority, so far as it appears from my examination of those books, and
- b) the accompanying financial statements:
 - i) are in agreement with the books of account; and
 - ii) to the best of our information and according to the explanations given to me, give the information required by the Solomon Islands State Owned Enterprise Act 2007 in the manner so required.



Peter Lokay
Auditor – General
30 March 2018

Office of the Auditor General
Honiara, Solomon Islands

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 SBD	2016 SBD
Continuing operations			
Operating income	2.1	88,815,469	91,874,650
Other income	2.2	11,739,611	20,520,328
		<u>100,555,080</u>	<u>112,394,978</u>
Expenses			
Corporate expenses	2.3	16,187,158	(9,016,179)
Depreciation and amortisation		10,987,832	10,996,517
Salaries and employee benefits	2.4	(23,046,333)	(20,078,728)
Impairment of financial assets		(2,941,664)	(6,579,663)
Repairs and maintenance		(9,471,123)	(7,782,085)
Tools and uniforms		(761,896)	1,006,192
Utilities		(27,525,352)	(28,959,547)
Water treatment		1,163,264	(884,804)
Other expenses	2.5	(932,050)	1,613,546
		<u>(93,016,672)</u>	<u>(86,917,261)</u>
Finance costs	2.6	(202,211)	(206,202)
Net profit for the year		<u>7,336,197</u>	<u>25,271,515</u>
Other comprehensive income			
Other comprehensive income			
Total comprehensive income for the year		<u><u>7,336,197</u></u>	<u><u>25,271,515</u></u>

The accompanying notes form an integral part of the statement of comprehensive income.

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 SBD	2016 SBD Restated *
Contributed capital			
Balance at the beginning of the year		59,625,874	59,625,874
Additional capital contribution			
Balance at the end of the year	12	<u>59,625,874</u>	<u>59,625,874</u>
Asset revaluation reserve			
Balance at the beginning of the year		142,169,998	142,169,998
Movement during the year			
Balance at the end of the year		<u>142,169,998</u>	<u>142,169,998</u>
Retained earnings			
Balance at the beginning of the year		6,491,688	18,779,827)
Net comprehensive income for the year		<u>7,336,197</u>	<u>25,271,515</u>
Balance at the end of the year		<u>13,827,885</u>	<u>6,491,688</u>
Total Equity		<u><u>215,623,757</u></u>	<u><u>208,287,560</u></u>

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made as detailed in notes 1.2(s) and 17

The accompanying notes form an integral part of the statement of changes in equity

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2017**

		2017	2016
		SBD	SBD
Assets	Notes		Restated *
Current assets			
Cash and cash equivalents	3	63,816,465	70,961,828
Trade and other receivables	4	16,013,022	17,004,490
Inventories	5	8,392,851	10,533,597
Prepayments and other assets	6	1,889,708	3,088,000
Receivable from related parties	14 (f)	2,794,598	
		<u>92,906,644</u>	<u>101,587,915</u>
Non-current assets			
Property plant and equipment	9	291,197,262	271,744,705
Intangibles	10	207,307	19,208
		<u>291,404,569</u>	<u>271,763,913</u>
Total assets		<u>384,311,213</u>	<u>373,351,828</u>
Liabilities			
Current liabilities			
Trade and other payables	7	15,427,198	12,268,192
Employee benefits liability	8	1,887,723	2,299,081
Deferred revenue	11	18,297,041	32,057,220
Payable to related parties	14 e	2,974,651	2,831,147
		<u>38,586,613</u>	<u>49,455,640</u>
Non-current liabilities			
Payable to related parties	14 e	1,145,765	2,022,478
Deferred revenue	11	128,955,078	113,586,150
		<u>130,100,843</u>	<u>115,608,628</u>
Total liabilities		<u>168,687,456</u>	<u>165,064,268</u>
Total net assets		<u>215,623,757</u>	<u>208,287,560</u>
Equity			
Capital contribution	12	59,625,874	59,625,874
Asset revaluation reserve		142,169,998	142,169,998
Retained earnings		13,827,885	6,491,688
Total equity		<u>215,623,757</u>	<u>208,287,560</u>
Total equity and liabilities		<u>384,311,213</u>	<u>373,351,828</u>

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made as detailed in notes 1.2(s) and 17

The accompanying notes form an integral part of the statement of financial position.


Director


Director

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 SBD	2016 SBD Restated *
Operating activities			
Net profit		7,336,197	25,271,515
Adjustment to reconcile profit to net cash flows			
Non-cash:			
Depreciation and amortisation of assets		10,987,832	10,996,517
Amortisation of deferred revenue		(8,102,873)	(8,940,510)
Gain on disposal of property plant and equipment		(21,321)	
Amortisation of discount on interest free loan		217,037	217,037
Interest income		14,826)	10,835)
Movements in employee benefit liabilities		411,358)	(683,035)
Working capital adjustments:			
Non-cash:			
Decrease/(increase) in trade receivables		1 788,304	(612,560)
Decrease/(increase) in other receivables		1 198,292	(2,474,964)
Decrease/(increase) in inventory		2,140,746	1,973,698)
Increase in trade and other creditors		3,159,006	2,108,341
Net cash flows from Operating Activities		<u>14,700,428</u>	<u>23,897,807</u>
Investing activities			
Proceeds from sale of plant and equipment		125,000	
Acquisition of plant and equipment		(20,755,317)	(5,821,670)
Purchase of intangible assets		(265,228)	
Interest received			10,835
Net cash flows (used in) Investing Activities		<u>(20,895,545)</u>	<u>(5,810,835)</u>
Financing activities			
Repayment of related party borrowings		(950,246)	(1,009,870)
Net cash flows (used in) Financing Activities		<u>(950,246)</u>	<u>(1,009,870)</u>
Net (decrease)/increase in cash held		(7 145,363)	17,077 102
Cash at the beginning of the year		70,961,828	53,884,726
Cash at end of year	3	<u><u>63,816,465</u></u>	<u><u>70,961,828</u></u>

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made as detailed in notes 1.2(s) and 17

The accompanying notes form an integral part of the statement of cash flows.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1 Corporate Information

The financial statements of Solomon Islands Water Authority ("the Authority") for the year ended 31 December 2017 were authorised for issue with a resolution of the Directors on the 21 day of March, 2018. Solomon Islands Water Authority is a state owned enterprise established under the Solomon Islands Water Authority Act 1992. The registered office and principal place of business is Mendana Avenue, Honiara, Solomon Islands. The principal activities of the Authority are described in Note 19. Information on other related party relationships of the Authority is provided in Note 14.

1.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings classified as property plant and equipment, contingent consideration and non-cash distribution liability that have been measured at fair value. The financial statements are presented in Solomon Island Dollars and all values are rounded to the nearest dollar.

The financial statements provide comparative information in respect of the previous period.

Statement of compliance

The financial statements of Solomon Islands Water Authority have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

1.2 Summary of significant accounting policies

a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Authority has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

Revenue earned from the provision of water services is measured at fair value of the consideration received or receivable. Revenue is recognised when the service has been provided to the customer and consideration is probable.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income on the statement of profit or loss.

b) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Authority received grants of non-monetary assets, the asset and the grant are recorded as nominal amounts and released to profit and loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset.

1.2 Summary of significant accounting policies (continued)

c) Taxes

The Income and Revenue of the Authority is not subject to taxation under the Solomon Islands Water Authority Act 1992.

d) Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Authority depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

The impairment accounting policy for goodwill and intangible assets with indefinite lives similarly applies to other non-financial assets, including property plant and equipment. Property plant and equipment transferred from customers are initially measured at fair value at the date on which control is obtained.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated using the diminishing balance method using rates as follows:

Land and buildings	5%
Water systems	3% 15%
Plant and equipment	3% 15%
Furniture & fittings	25%
Motor vehicles	40%

An item of property plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property plant and equipment are reviewed at each financial year end and adjusted prospectively if appropriate.

1.2 Summary of significant accounting policies (continued)

d) Property, plant and equipment

Water systems and plant and equipment were revalued by Deloitte (Australia) in 2015. Due to the specialised nature of the assets, the depreciated replacement cost approach was used to assess the fair value of the majority of the water infrastructure assets and the market approach was used to value a small number of mobile plant assets.

e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets), even if that asset or those assets is not explicitly specified in an arrangement.

Authority as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Authority is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or if lower at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

1.2 Summary of significant accounting policies (continued)

f) Leases (continued)

A leased asset is depreciated over the useful life of the asset. However if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Authority as a lessor

Leases in which the Authority does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

h) Financial instruments - initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Authority commits to purchase or sell the asset.

The Authority's financial assets include cash and trade and other receivables.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale (AFS) financial assets

1.2 Summary of significant accounting policies (continued)

h) Financial instruments - initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Authority has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

This category is the most relevant to the Authority. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 4.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs. The Authority did not have any held-to-maturity investments during the years ended 31 December 2017 and 2016.

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

1.2 Summary of significant accounting policies (continued)

h) Financial instruments - initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Available-for-sale financial assets

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Authority evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Authority is unable to trade these financial assets due to inactive markets, the Authority may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

Derecognition

A financial asset or where applicable, a part of a financial asset or part of a group of similar financial assets is primarily derecognised (i.e. removed from the Authority's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Authority has transferred substantially all the risks and rewards of the asset, or (b) the Authority has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Authority has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Authority continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Authority also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Authority has retained.

(ii) Impairment of financial assets

The Authority assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1.2 Summary of significant accounting policies (continued)

h) Financial instruments - initial recognition and subsequent measurement (continued)

(ii) Impairment of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Authority could be required to repay

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Authority first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Authority determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Authority. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Authority's financial liabilities include trade and other payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

1.2 Summary of significant accounting policies (continued)

(iii) Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Authority that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Authority has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 16.

1.2 Summary of significant accounting policies (continued)

i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first-in/first-out basis;
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j) Impairment of non financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- | | |
|---|----------|
| • Disclosures for significant assumptions | Note 1.4 |
| • Property plant and equipment | Note 9 |

The Authority assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Authority estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Authority's of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Authority bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Authority's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

1.2 Summary of significant accounting policies (continued)

j) Impairment of non financial assets

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Authority estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

k) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

l) Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

m) Employee entitlements

Provisions are made for wages and salaries, incentive payments and annual leave estimated to be payable to employees at balance date on the basis of statutory and contractual requirements.

i) Defined contribution plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Authority deducts and pays 5 per cent of the employees gross salaries and contributes 7.5 per cent of employees gross salaries to the Solomon Islands National Provident Fund. Obligations for contributions are recognised as employee benefit expense in profit or loss in the period during which services are rendered by employees.

ii) Short term benefits

Short-term employee benefit are measured on an undiscounted basis and are expensed in the profit or loss as the related services are provided.

1.2 Summary of significant accounting policies (continued)

n) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost (inclusive of Consumption Tax where applicable) which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Authority. Amounts payable that have been denominated in foreign currencies have been translated to local currency using the rates of exchange ruling at the end of the financial period.

o) Comparative figures

Comparative figures have been amended where necessary for changes in presentation in the current period.

p) Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

(a) Industry segment

The Authority operates in the water services industry.

(b) Geographical segment

The Authority operates only in the Solomon Islands and is therefore one geographical area for reporting purposes.

q) Foreign currencies

The Authority's financial statements are presented in Solomon dollars, which is also the Authority's functional currency. The Authority determines the functional currency and items included in the financial statements are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Authority at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

r) Grants

An unconditional grant related to an asset is recognised in profit or loss as other income when the grant becomes receivable.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

1.2 Summary of significant accounting policies (continued)

r) Grants (continued)

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Authority for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

s) Changes in accounting policy and disclosures

IAS 8 Accounting Policies, Estimates and Errors

The general principle in IAS 8 Accounting Policies, Estimates and Errors is that an entity shall correct a material prior period error retrospectively in the first financial statements for issue after its discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

1.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

The Authority applied for the first time certain standards and amendments, which are effective for annual period beginning on or after 1 January 2017. The Authority has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Authority. The nature and the impact of each new standard or amendment is described below:

• **Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative**

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

• **Annual Improvements Cycle - 2014-2016**

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified (or included in a disposal group that is classified) as held for sale.

As at 31 December 2017, the Authority did not classify any of its interest in Other entities and these amendments did not affect the Authority's financial statements.

1.4 Significant accounting judgments, estimates and assumptions

The preparation of the Authority's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Authority's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

1.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are also described in the individual notes of the related financial statement line items below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

1.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Authority's financial statements are disclosed below. The Authority intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively with some limited exceptions. The Authority plans to adopt the new standard on the required effective date and will not restate comparative information.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Authority plans to adopt the new standard on the required effective date using the full retrospective method.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

1.5 Standards issued but not yet effective

IFRS 16 Leases (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

	2017	2016
	SBD	SBD
2. Operating revenue and expenses		
Included in revenue are:		
2.1 Operating income		
Water fees and charges	81,931,909	85,322,142
Standing charges	5,595,179	5,004,864
Disconnections/reconnection charges	1,288,381	1,547,644
	<u>88,815,469</u>	<u>91,874,650</u>
2.2 Other income		
Gain on sale of property plant and equipment	21,321	25,705
Miscellaneous income	3,028,541	3,961,289
Bad debts recovered	586,876	672,165
Solomon Islands Government CSO grant		4,636,000
Amortisation of deferred revenue	8,102,873	8,940,517
Grants received from Government of Australia		2,284,652
	<u>11,739,611</u>	<u>20,520,328</u>

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

2. Operating revenue and expenses	2017	2016
Included in expenses are:		
2.3 Corporate expenses	SBD	SBD
Advertising	187,971	252,113
Auditors' remuneration	420,224	247,075
Board allowances	42,400	41 160
Travel and transport	748,496	415,142
Printing, freight and stationery	1,221 190	1 173,517
Insurance	711,250	429,024
Lease rentals	1 179,402	1 149,337
Software training and computer consumables	2,027,351	1,274,439
Telephone	1,093,011	917 742
Other expenses	8,555,863	3,116,630
	<u>16,187,158</u>	<u>9,016,179</u>
2.4 Salaries and employee benefits	SBD	SBD
Wages and salaries	11,331,425	8,740,847
Key management personnel	2,240,713	1,431,325
Superannuation	1,353,474	1,290,708
House rentals and allowances	8,120,721	8,615,848
	<u>23,046,333</u>	<u>20,078,728</u>
2.5 Other expenses	SBD	SBD
Other expenses	522,620	321 189
Australian Government Department of Foreign Affairs and Trade	409,430	1,292,357
	<u>932,050</u>	<u>1,613,546</u>
2.6 Finance (costs)/income	SBD	SBD
Amortisation of discount SIEA	(217,037)	(217,037)
Interest received	14,826	10,835
	<u>(202,211)</u>	<u>(206,202)</u>
3. Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand, cash at bank and short term deposits. Cash and cash equivalents included in the statements of cash flows comprise the following balance sheet amounts:		
	SBD	SBD
Cash at bank	57,248,750	64,401 103
Cash in hand	11,487	17,300
Term deposits	6,556,228	6,543,425
Cash at bank and on hand	<u>63,816,465</u>	<u>70,961,828</u>
4. Trade and other receivables	SBD	SBD
Trade receivables	34,914,532	38,795,885
Provision for impairment of receivables	(18,901,510)	(21 791,395)
	<u>16,013,022</u>	<u>17,004,490</u>

Trade and other receivables are non-interest bearing and are generally on a 30 90 day terms.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

4. Trade and other receivables (continued)

2017

2016

At 31 December the ageing analysis of trade receivables for the Authority is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			30	60 days	60	90 days
	SBD	SBD	SBD	SBD	SBD	SBD
2017	16,013,022	5,839,675	3,826,889	2,227,738	4,118,720	
2016	17,004,490	6,568,805	4,558,625	2,601,268	3,275,792	

Movements in the provision for impairment of receivables were as follows:

	SBD	SBD
Opening balance	(21,791,395)	(25,803,584)
Charge for the year	(2,941,664)	(6,579,663)
Utilised	5,831,549	10,591,852
	<u>(18,901,510)</u>	<u>(21,791,395)</u>

5. Inventories

Stores and consumables
Goods in transit

SBD

SBD

7,043,875	9,228,303
1,348,976	1,305,294
<u>8,392,851</u>	<u>10,533,597</u>

6. Prepayments and other assets

Other debtors
Prepayments

SBD

SBD

697,624	2,304,620
1,192,084	783,380
<u>1,889,708</u>	<u>3,088,000</u>

7 Trade and other payables

Current

Trade payables
Other payables
Water deposits

SBD

SBD

4,205,955	1,055,640
1,802,502	2,737,903
9,418,741	8,474,649
<u>15,427,198</u>	<u>12,268,192</u>

Trade payables are non interest bearing and are normally settled on 30 day terms.

8. Employee benefit liability

Employee entitlements

Balance at the beginning of year
Net movement during the year
Balance at the end of year

SBD

SBD

2,299,081	2,982,116
(411,358)	(683,035)
<u>1,887,723</u>	<u>2,299,081</u>

Represented by:

Annual leave
Long service benefit
Long service leave

915,064
786,357
186,302
1,887,723

915,064
1,197,715
186,302
2,299,081

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. PROPERTY, PLANT AND EQUIPMENT

<u>Cost</u>	<u>Water Systems</u> SBD	<u>Land and</u> <u>Buildings</u> SBD	<u>Machinery,</u> <u>Equipment and</u> <u>Computers</u> SBD	<u>Motor vehicles</u> SBD	<u>Furniture and</u> <u>Fittings</u> SBD	<u>Work in</u> <u>Progress</u> SBD	<u>Total</u> <u>SBD</u>
At 1 January 2016	258,802,105	8,954,500	3,394,521	8,366,451	459,982	3,146,226	283,123,785
Additions	7,580,363		608,604	649,234			8,838,201
At 1 January 2017	266,382,468	8,954,500	4,003,125	9,015,685	459,982	3,146,226	291,961,986
Additions	1,510,257	1,034,666	6,606,046	775,235		35,847,299	45,773,503
Reclassifications	705					(15,307,270)	(15,306,565)
At 31 December 2017	267,893,430	9,989,166	10,609,171	9,790,920	459,983	23,686,255	322,428,924
<u>Depreciation and impairment</u>							
At 1 January 2016	4,391,027	398,397	760,027	3,451,446	258,279		9,259,176
Depreciation charge	8,702,621	90,855	863,810	1,250,392	50,425		10,958,103
At 1 January 2017	13,093,649	489,252	1,623,837	4,701,838	308,704		20,217,281
Depreciation charge	8,691,132	95,093	957,745	1,128,913	37,820		10,910,703
Reclassifications			58,115	45,563			103,678
At 31 December 2017	21,784,781	584,345	2,639,697	5,876,314	346,524		31,231,662
Net book value:							
At 31 December 2017	246,108,649	9,404,821	7,969,474	3,914,606	113,459	23,686,255	291,197,262
At 1 January 2017	253,288,819	8,465,248	2,379,288	4,313,847	151,278	3,146,226	271,744,705
At 1 January 2016	254,411,078	8,556,103	2,634,494	4,915,005	201,703	3,146,226	273,864,609

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 SBD	2016 SBD
10. Intangible assets		
Software costs:		
At 1 January	187,580	187,580
Additions	265,228	
At 31 December	452,808	187,580
Amortisation and impairment:		
At 1 January	168,372	129,959
Amortisation for the period	77,129	38,413
At 31 December	245,501	168,372
Net book value:	207,307	19,208
11 Deferred revenue	SBD	SBD
Donor Funds Received for Capital Projects and Unspent		
Australian Government Department of Foreign Affairs and Trade	10,194,168	23,116,711
	10,194,168	23,116,711
Donor Funds Received for Capital Projects and Spent		
Australian Government Department of Foreign Affairs and Trade	32,459,652	12,267,544
Japan International Cooperation Agency	101,524,729	107,008,921
Solomon Islands Government	3,073,570	3,250,194
	137,057,951	122,526,659
The deferred income is shown on the statement of financial position as follows:		
Current	18,297,041	32,057,220
Non-current	128,955,078	113,586,150
	147,252,119	145,643,370
12. Contributed capital	SBD	SBD
Contributed capital at the beginning of the year	59,625,874	59,625,874
Additional capital contribution during the year		
Contributed capital at the end of the year	59,625,874	59,625,874
Capital represents Government's contribution on the establishment of Solomon Islands Water Authority		
13. Commitments and contingent liabilities	SBD	SBD
(a) Contingent liabilities		
(i) In March 2011 14 former employees filed complaints before the Trade Disputes Panel ("Panel"). They alleged they were unfairly dismissed from employment. The last hearing of this case was on 2nd September 2016. The matter was adjourned after a brief hearing to allow for final submission to be made.		
(ii) The Authority is a plaintiff in several litigations brought by creditors and employees. The Directors believe these litigations will not have a material effect on the financial statements.		
b Capital commitments		

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	SBD	SBD
13. Commitments and contingent liabilities (continued)		
c) Operating leases commitments contracted for building rentals		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	970,161	830,500
Later than one year but not later than five years		166,100
	<u>970,161</u>	<u>996,600</u>

14. Related party transactions

(a) Directors

The names of persons who were directors of Solomon Islands Water Authority at any time during the financial year are as follows:

- Mr Phil Bradford
- Mr David Laurie
- Mr Carson Korowa
- Mr Trevor Palmer
- Ms. Ethel Frances

(b) Controlling Entities

The ultimate parent of the Authority is the Solomon Islands Government.

(c) Compensation of key management personnel

Short term employee benefits

SBD	SBD
<u>2,240,713</u>	<u>1,431,325</u>

(d) Transactions with related parties

Transactions with related parties during the year ended 31 December 2017 with approximate transaction value are summarised as follows;

Directors

Directors remuneration and expenses

SBD	SBD
<u>42,400</u>	<u>41,160</u>

e Amount owed to related parties

Non-current

Solomon Islands Electricity Authority

SBD	SBD
<u>1,145,765</u>	<u>2,022,478</u>

Current

Solomon Islands Electricity Authority

SBD	SBD
<u>2,974,651</u>	<u>2,831,147</u>

The Debt Agreement with Solomon Islands Electricity Authority is an interest free loan over 8 years, repayable in equal monthly instalments which commenced 1st January 2013. If default of payment occurs at any time a default interest rate of interest, being the daily Business Index Rate published by the three main banks in Honiara, will be applied to the period of default.

(f) Amount receivable from related parties

Current

SIG Ministry of Infrastructure Development

SIG Ministry of Mines, Energy and Rural Electrification

SBD	SBD
2,359,598	
435,000	
<u>2,794,598</u>	

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

15. Financial risk management objectives and policies

The principal financial liabilities comprise interest bearing borrowings and trade payables. The main purpose of these financial liabilities is to raise finance for the Authority's operations. The Authority has various financial assets such as trade receivables and cash, which arise directly from its operations.

The main risk arising from the Authority's financial statements are liquidity and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below

Liquidity risk

The Authority monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets e.g. accounts receivables, other financial assets and projected cash flows from operations.

The table below summarises the maturity profile of the Authority's financial liabilities at 31 December 2017 based on contractual undiscounted payments.

31 December 2017	Trade and other payables SBD	Payable to related parties SBD	Total SBD
3 to 12 months	15,427,198	2,974,651	18,401,849
1 - 2 years		937,500	937,500
> 2 years		208,265	208,265
	<u>15,427,198</u>	<u>4,120,416</u>	<u>19,547,614</u>

31 December 2016	Trade and other payables SBD	Payable to related party SBD	Total SBD
3 to 12 months	12,268,192	2,022,478	14,290,670
1 - 2 years		937,500	937,500
> 2 years		1,893,647	1,893,647
	<u>12,268,192</u>	<u>4,853,625</u>	<u>17,121,817</u>

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Authority is exposed to credit risk from its operating activities (primarily trade receivables) and from financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade Receivables

Customer credit risk is managed subject to the Authority's established policy procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and water services disconnected where accounts are outstanding greater than 30 days.

An impairment analysis is performed at each reporting date collectively for all customer accounts. The calculation is based on actual incurred historic data. The maximum exposure to credit risk at the reporting date is disclosed in Note 4. The Authority holds cash collateral of SBD 9,418,741 against the collective accounts. The Authority evaluates the concentration of risk with respect to trade receivables as high.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

16. Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Authority's financial instrument that are carried on the financial statements.

	Carrying amount		Fair Value	
	2017	2016	2017	2016
	SBD	SBD	SBD	SBD
<i>Financial assets</i>				
Cash	63,816,465	70,961,828	63,816,465	70,961,828
Trade and other receivables	16,013,022	17,004,490	16,013,022	17,004,490
	<u>79,829,487</u>	<u>87,966,318</u>	<u>79,829,487</u>	<u>87,966,318</u>
<i>Financial liabilities</i>				
Trade and other payables	<u>15,427,198</u>	<u>12,268,192</u>	<u>15,427,198</u>	<u>12,268,192</u>

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of financial assets have been calculated using market interest rates.

17 Changes in accounting policies, estimates and errors

The following components have been re-stated in accordance with Note 1.2(s):

	2017	2016	2016	2016
	SBD	SBD	SBD	SBD
	Reported	Reported	Correction	Restated
<u>Statement of financial position</u>				
<u>Current assets</u>				
Cash and cash equivalents	63,816,465	47,845,117	23,116,711	70,961,828
	<u>63,816,465</u>	<u>47,845,117</u>	<u>23,116,711</u>	<u>70,961,828</u>
<u>Current liabilities</u>				
Deferred revenue	18,297,041	8,940,509	23,116,711	32,057,220
	<u>18,297,041</u>	<u>8,940,509</u>	<u>23,116,711</u>	<u>32,057,220</u>
<u>Non-current liabilities</u>				
Deferred revenue	128,955,078	117,909,287	(4,323,137)	113,586,150
<u>Statement of changes in equity</u>				
<u>Retained earnings</u>				
Balance at the beginning of the year	6,491,688	(23,102,964)	4,323,137	(18,779,827)
Balance at the end of the year	<u>13,827,885</u>	<u>2,168,551</u>	<u>4,323,137</u>	<u>6,491,688</u>

Cash at bank as at 31 December 2016 was corrected through an increase of SBD 23,116,711 and simultaneously deferred revenue was corrected through a corresponding increase of SBD 23,116,711. This represents donor grants received, but unspent, as at the balance date which in prior years were not disclosed. Additionally deferred revenue was corrected as at 31 December 2016 through a decrease of SBD 4,323,137 while retained earnings was also corrected through a corresponding increase of SBD 4,323,137. This represents donor funded expenditure spent in prior years but incorrectly classified as either the Authority funded operating expenditure or the Authority funded capital expenditure. Consequently the cash at bank, deferred revenue and equity was restated in accordance with IAS 8 Accounting Policies, Estimates and Errors.

18. Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Authority the results of those operations, or the state of affairs of the Authority in future financial years.

19. Principal business activity

The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands. There was no significant change in the nature of this activity during the financial year

a) Principal place of business

The principal places of business are located at Mendana Ave and Commonwealth Ave, Honiara, Solomon Islands.

b Number of employees at the end of the period

Number of employees the authority employed at the reporting date was 136 (2016:135).

ANNUAL REPORT

Solomon Islands Water Authority

2017