

# ANNUAL REPORT

Solomon Islands Water Authority



## 2019

**WE'RE  
WITH  
YOU**

**IMPROVING VALUE  
IMPROVING SERVICES  
IMPROVING OUR FUTURE**



# Our Vision

*Safe water for a healthy nation*

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# 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.”*

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# 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 exceed 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>

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## Chairman's Foreword

It gives me great pleasure to present the 2019 Annual report for the Solomon Islands Water Authority, trading as Solomon Water.

Solomon Water should be deservedly proud of its achievements in 2019. It has been a difficult and challenging, yet highly productive year.

Illegal and unmanaged logging operations in the Kongulai and Kohove water catchment area have resulted in many shutdowns following rain of up to half of Honiara's water supply due to sediment caused by inadequate environmental management by the loggers. This has had a very significant impact on our revenues as well as considerable extra operational costs to manage the shutdowns, resulting in a lower than budgeted financial outturn. Reactivation of the old borefield at White River to supplement production is well under way, and a new treatment plant has been designed and tenders for construction will be called in March 2020.

The USD 90 million funding package with our donor partners including the Solomon Islands Government was approved and effectiveness of this funding is expected in March 2020. This package will facilitate notable benefits to the community through expanded networks, improved water quality and reliable supply. A sanitation and hygiene awareness program will complement these engineering initiatives. Better sewage management in Honiara will not only bring environmental benefits but will result in better health outcomes for the community.

Construction of a new \$23m pumping station, pipelines and storage reservoir in Auki was commenced and is due for completion in May 2020 – this will make a significant improvement in the supply pressures, areas supplied and duration of supply in Auki. Various major projects in Honiara, Noro, Munda, Gizo and Tulagi are in final design stages and will commence construction in 2020 subject to funding effectiveness.

Solomon Water has again achieved a clear audit report, however has delivered a lower than budgeted profit for 2019 due largely to the Kongulai problems as well as application of higher depreciation rates on certain assets. Likewise, the CSO approved by Government and tariff increase collectively contribute not only to Solomon Water's strategic initiatives but to a more robust organization capable of delivering on these initiatives.

Thanks to strong cooperation from our Accountable ministers we have a full complement of directors, however we need to replace 2 members in mid-2020. I also note the substantial achievements in 2019 by the CEO and his executive team. With the strong partnership in place between the Board and Executive, Solomon Water is well positioned to continue to deliver on its vision of safe water for a healthy nation.

I thank my fellow Board members, Accountable Ministers, Executive Management and staff for their efforts in supporting Solomon Water through 2019, and look forward to ongoing support in the years to come.



Carson Korowa  
Chairman of the Board



## Chief Executive's Overview

2019 has been a challenging yet productive year for Solomon Water.

As part of the USD 90 million funding package from donors, Solomon Water entered into a \$23 million contract for the upgrade of water supply in Auki. As at December 2019 the project is scheduled to be completed on time by June 2020. We completed scoping for various water and sewer sector projects in Honiara as well as substantial watersupply upgrades in Noro and Tulagi, as well as new water supplies for Munda and Gizo, with detailed design expected to be completed by mid-2020. We appointed specialists in Communications, WASH (Water, Sanitation, Hygiene) and Environment to complement the capital works being carried out.

To secure further water sources, Solomon Water initiated upgrade of the White river borehole and resolved various issues associated with securing of land from owner groups. We identified the need to upgrade various borehole pumps to improve energy efficiency. We also acted to secure our own infrastructure through fencing of its Tuvaruhu storage facility and various assets around Honiara.

With the objective of arresting payment arrears and encouraging prudent water use, we continued to roll out our CashWater meter project for domestic customers. Some 6,000 CashWater meters have been installed to date.

Our achievements have been matched by challenges. Illegal and unmanaged logging in the Kohove and Kongulai water catchment areas has significantly disrupted our ability to supply some customers following heavy rain, impacting both our revenue and expenditure negatively.

Despite our revenue enhancement strategies, Solomon Water's growing capital and operating expenses have outpaced revenue, resulting in a small profit of around \$2.2 m. With the ramping up of capital works and the need to fund several projects from Solomon Water's own cash pending effectiveness of the funding package, cash flow is strained. This has necessitated careful planning of capital and operating cash outflows and, where necessary, even cancelling selected items in Solomon Water's procurement plans. In 2020 interest charges payable to Government on the donor funding package will commence, placing further strain on Solomon Water's already tight cash flow position.

Improving non-revenue water rates continues to be a key strategic focus for Solomon Water. However, in meeting this objective we need Government's support by way of a tariff increase in 2020 and future years commensurate with Solomon Water's growth objectives. On the same note, while we are thankful to Government for the CSO payment in 2019, we trust this support will continue.

I thank the Board, my committed Executive team and staff for Solomon Water's successes despite the significant challenges faced in 2019.



Ian Gooden  
Chief Executive Officer

# About Solomon Islands Water Authority

## Who we are

Solomon Islands Water Authority 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

Solomon Islands Water Authority was established under the Solomon Islands Water Authority Act 1993 and is governed under the State Owned Enterprise 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 Solomon Water - 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:



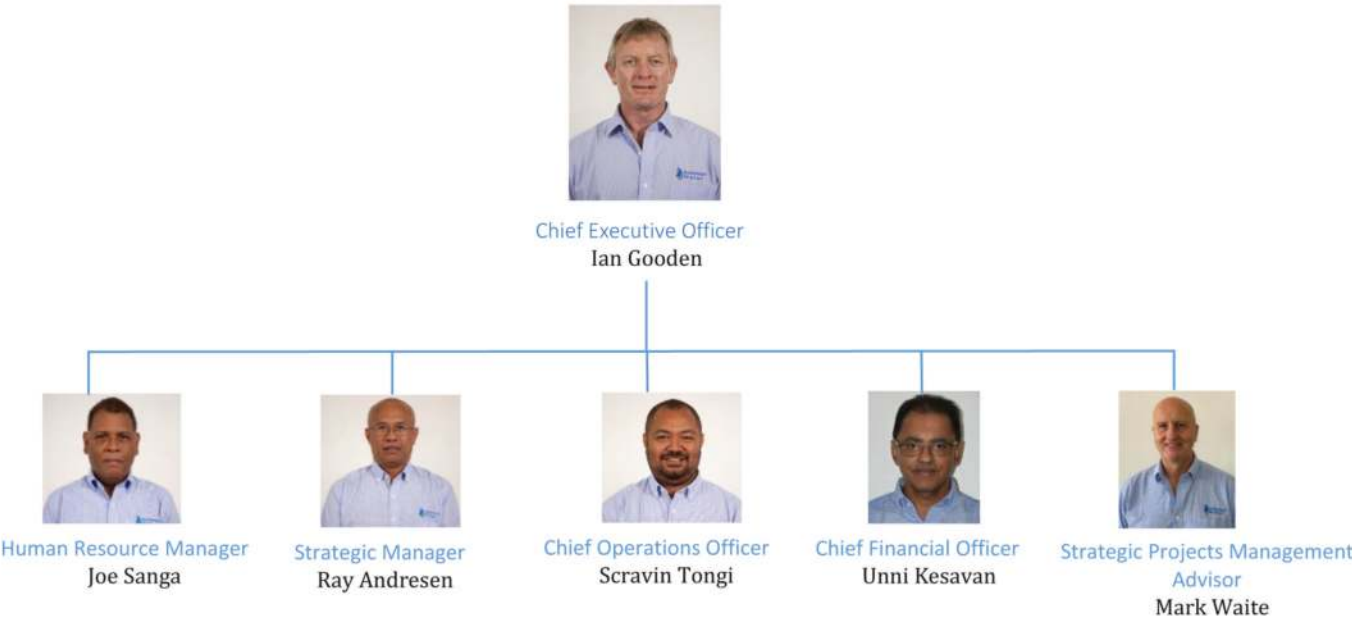
Board members, Carson Korowa and Trevor Palmer, whose terms have expired, should have been replaced during 2019. Mr David Patternot is also now working overseas and intends to resign as soon as a replacement is appointed. Unfortunately no candidates acceptable to the Accountable Ministers were identified, and 2 positions will be recruited for in early 2020.

An audit sub-committee chaired by Gloria Hong supports good governance and reviews reports and audits carried out by our Internal Auditor.



# Organisational Structure

Solomon Water has 150 staff in four departments operating under the direction of the Chief Executive as shown in the diagram below.



## Report on the Operations of Solomon Islands Water Authority

The Statement of Corporate Objectives (SCO) 2019 – 2021 identified 15 key strategic issues and challenges for Solomon Water through to 2020 and beyond, and these are listed below with comments on progress to date:

Strategic Issue identified	Annual Report Comments
<b>Governance</b>	
<p><b>Board member vacancies:</b> Recently Solomon Water advertised, evaluated and submitted the assessment of candidates to the Accountable Ministers (AM's). Once the AM's have considered this assessment, we will submit a shortlist of candidates for the ministers to appoint up to 3 new Board members. Hopefully the 2 Accountable Ministers will make the appointments before the end of 2018. During 2019 the Board will re-advertise for a final seventh position to replace our current Chairman Carson Korowa.</p>	<p>There is a full complement of Directors at present, although 2 have served their term of 6 years and remain until new members are appointed. One other member is now working overseas and will resign once a new member is appointed.</p> <p>A shortlist of potential candidates was submitted to the AM's in September 2019, however the ministers did not make any appointment by 31 December 2019.</p> <p>We will continue to work with the AM's in 2020 to have new members appointed.</p> <p>With the remaining 2 board members with expired terms to be replaced in 2020, there is risk that much knowledge and governance continuity will be lost.</p>
<b>External funding</b>	
<p>Securing donor funds to support the Strategic Plan projects remains a high priority. ADB, World Bank and EU have committed funding totalling around USD 55m which is significantly less than the required amount of around USD 188 m. As the feasibility studies and costs for various projects are being prepared, the costs are constantly changing. We continue to seek other funding sources and an application to the Green Climate Fund is also being prepared.</p>	<p>Negotiations with ADB / EU and World Bank continued through 2019, with approval of USD 72 m in September. "Effectiveness" of the funding was not achieved by the required date of 25 December, and the period for effectiveness has been extended into 2020.</p> <p>SW has signed a Subsidiary Loan agreement with Government in October but remains concerned at the high interest rate being charged. This will have a significant impact on the tariff to be charged in order to fund these borrowings.</p> <p>A significant funding gap remains and Government is requested to assist Solomon Water identify and secure further funding, particularly grant funds.</p>

Strategic Issue identified	Annual Report Comments
<p>The urgent need for a major new water source for Honiara to accommodate the growing population has been identified as the Lungga River. Detail design on this project should commence early 2019, however further funding is required before this project can proceed to detailed design and construction. It needs to be operational in time to provide water for the 2023 Pacific games.</p>	<p>Implementation of the 30 Year Strategic Plan 5 year Action Plan projects has commenced, with the first major construction project under construction.</p> <p>Ongoing socialisation of the Plan and associated projects with ministries, donors and key stakeholders has continued throughout 2019.</p> <p>A feasibility study on the Lungga plant was completed by the PPA consultants, and landowner discussions commenced. There remains insufficient funding for this vital project at this stage although discussions with several potential development partners are ongoing.</p>
<p>The Board has agreed in principle to taking over responsibility for provision of water supply to Gizo and Munda, subject to CSO from Government and donor assistance for major upgrading works. It is anticipated that take over of operations of the Gizo and Munda water supply could take place in 2019 assuming these requirements are met. Construction works for both towns could begin in 2020 subject to funding.</p>	<p>Feasibility study work on Gizo was completed. Western province Government has also requested SW to consider providing water supply to Munda and this has been agreed subject to funding and CSO support from Government (which has not as yet been forthcoming).</p> <p>Detailed design for Gizo and Munda is underway with construction due to start early 2020.</p>
Operational and Technical	
<p><b>Non-Revenue Water (NRW)</b> – NRW water is estimated at about 60% of the volume of water produced. The main losses are the result of physical leakage, direct unmetered connections and illegal connections. Considerable work identified in the Strategic Plan is required to arrest water loss and improve our revenue collection is underway, including the use of the pre-paid CashWater system.</p>	<p>Considerable effort has seen an improvement in NRW with the 2019 figure reducing from 61% down to 59% through 2019. It is expected that progress on NRW improvement will accelerate now new systems and processes have been established.</p> <p>Until many water pipelines have been replaced (currently planned for commencement in 2022), losses on much of the reticulation and trunk mains will remain high.</p>
<p><b>Asset Management</b> – there is a need for SW to develop its Asset Management Policy, Strategy and Plan. This should focus on Asset life cycle planning and especially targeting areas such as planned replacement of aging assets and preventative maintenance.</p>	<p>Difficulties in securing adequate Advisor resource for this task has resulted in little progress to date.</p> <p>This remains a priority for 2020.</p>



Strategic Issue identified	Annual Report Comments
<p><b>Municipal wastewater collection and disposal</b> – The standard and extent of Honiara’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 solutions are being conducted under the Project Preparation Assistance Consultancy phase funded by ADB. This study should lead to phased detail design and implementation from 2019 -2023. Urgent temporary upgrades to 3 ocean outfalls will commence in early 2019.</p> <p>The urgency of this issue cannot be underestimated as it 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>Major sewer pump stations and outfall construction projects to remove raw sewage from the Mataniko River and parts of Honiara foreshore are in the final design stages, and will be tendered for construction in early 2020.</p> <p>Replacement of the outfall at Rove has been delayed and will commence Q2 2020.</p>
<b>Financial</b>	
<p><b>Financial status</b> – previous year’s SCO and Annual reports have stated that SW would require a few more years of sustained performance before it could be considered financially self-sufficient. We are in the process of implementing an essential capital works program in line with the Strategic Plan to upgrade and expand the water and sewerage network, and significantly improve its reliability and efficiency. Current levels of revenue supplemented by partial donor funding are insufficient to cover these costs.</p>	<p>Cash flow has been strained due to the delay in effectiveness date of the UWSSSP. Effectiveness is now expected in March or April, with cash from Retroactive Funding expected a month later. SW has had to defer or delay capital spending where appropriate so as to preserve cash.</p> <p>Net profit was lower than 2018 due to the net effect of audit adjustments, particularly impairment of the value of the proposed Mataniko depot redevelopment (project since deferred) and amendments to the value of inventory.</p>
<p><b>Water and Waste Tariff</b> – To meet the costs of essential capital works cited above, SW has applied to Government for a 7.8% (inclusive of CPI and CSO) increase in water and wastewater tariffs per year for five years from 2019 to 2023. The proposed tariff increase assumes that government will not continue to provide CSO payments after 2018 except for possible special cases such as Gizo and Munda.</p>	<p>Tariff increases of 5 % have been approved by Government for the 2019 and 2020 years. The increases are lower than hoped for, but do not include CSO, and we are hopeful that Government will continue to provide this much needed support.</p> <p>A request for Tariff increases for 2021 and beyond will be lodged in mid 2020. Due to the high percentage margin charged by Government on the donor provided concessional loans, the tariff increase will need to be at least 5 % every year for at least 5 years just to cover this interest payment.</p>

Strategic Issue identified	Annual Report Comments
<p><b>Collection of Debt</b> – Outstanding customer bill payments continues to affect Solomon Water's revenue. A pre-paid "CashWater" water meter system is currently being rolled out following a successful trial. It is envisioned that eventually all domestic connections will be on this system.</p>	<p>Review by Government of the legislation surrounding debt collection would be appreciated.</p> <p>Ongoing improvement in debt collection and reduction in days receivable.</p> <p>CashWater has been approved by the Board for full roll out to all domestic customers, and about 6000 units have been installed, with full implementation by end 2021.</p> <p>CashWater has improved cash collection and is also resulting in people better managing their water use, representing cost savings to our customers.</p>
<p><b>Government debt</b> – Debt owed by SIG for water services provided remains unacceptable and disconnections are the only reliable way of securing payment. In addition, despite many requests and significant breach of contract by MID and Government, we are still owed in excess of \$2.5 m for works carried out on stage 1 and 2 of the Kukum highway project.</p>	<p>Despite concerted staff collection efforts, \$1 million remains outstanding in non-current debt of total debt owed of \$1.9 million as at year-end. While this is an improvement over historical payment patterns, Government is urged to pay its accounts on time.</p> <p>The MID debt was written off by the Board after it became clear that MID was not going to honour the contract agreement.</p>
<p><b>Tax exemption</b> – the government has recently granted SW duty and goods tax exemption (Order No.0085/18) to the value of \$7,871,647. Exemption period starts 8 November 2018 and expires 30 April 2019 (6 months). Exemptions for other goods, which relate to a number of projects running from 1 October 2018 to 30 September 2019 is still pending decision from the government. Any tax savings should allow SW to invest in projects that would generate greater impact to service delivery.</p>	<p>Solomon Water has received just over \$2 million of exemptions in taxes and duties.</p> <p>We look forward to the continuing support from the Government although note that Government has reduced the percentage exemption from 100 to 50% on cash water meters, pipes, fittings and chlorine which is of concern to SW and our development partners.</p>
<p><b>Community Service Obligation</b> - We are grateful to government for providing a CSO of \$3 million in 2018 following non-provision in 2015 and 2017. The CSO funding is specific to supporting unsustainable provincial operations. It should be noted that SW supplies water to areas of Guadalcanal province surrounding Honiara as well as informal settlements within Honiara for which CSO is not provided.</p>	<p>Solomon Water is appreciative of the \$4m CSO received in 2019, and encourages Government to increase this, and continue to support unsustainable provincial activities.</p> <p>Increased CSO will be necessary in future years as Gizo and Munda are managed by SW, as well as larger areas of Guadalcanal province.</p>
<p><b>Water supply to disadvantaged communities</b> – The burgeoning increase in the population residing in informal settlements and the continued and uncontrolled</p>	<p>No progress to date regarding any agreement with Government on lifeline water supply.</p>



Strategic Issue identified	Annual Report Comments
<p>development of these settlements imposes an increasing burden on the water supply system, often through water theft. We foresee a demand for provision of water services to these communities despite the fact that we 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>CSO from Government remains inadequate to properly support provincial or settler communities.</p> <p>CashWater is assisting low income families to better manage water use.</p> <p>An Urban WASH programme is anticipated in 2020 utilising EU funds which may assist with education and provision of some facilities.</p>
<b>Land access</b>	
<p><b>Land disputes and resource utilisation on Customary Land</b> – 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. Government support in this area has been appreciated, and we request further attention to the Kongulai lease as well as titles issued over the foreshore and seabed surrounding Honiara which will impact upgrades to the sewer outfalls.</p>	<p>Ongoing problems with little progress by Government to assist. To our knowledge Kongulai issues remain unresolved.</p> <p>Significant problems occur with settlers inside water catchment areas and we are taking steps to manage this.</p> <p>Significant problems have occurred due to the illegal and unmanaged logging in the Kongulai and Kohove water catchment areas and Government support is required to resolve these matters.</p> <p>Stronger Government support is essential to manage this issue, and it is proposed that compulsory acquisition of lands be undertaken where appropriate.</p>
<b>Organisational Effectiveness</b>	
<p><b>Organisational capacity</b> - Weaknesses in the capacity of the organisation to manage efficiently and effectively have been reduced but some remain. The executive leadership 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 remain a concern.</p>	<p>Several donor and Solomon Water funded advisors assist to increase staff capacity.</p> <p>Ongoing difficulty in securing experienced and capable local professional staff, especially in engineering and finance.</p>



## Objectives, Proposed Actions and Performance Targets

The tables on the following pages outline the objectives, proposed actions and Levels of Service targets that were established as part of the Strategic Plan development in 2017. It should be noted however that actual implementation of the Strategic Plan did not properly commence until 2018, and the targets have been included in the Urban Water Supply and Sanitation Services Plan (UWSSSP) which has a forecast period of 2018 to 2025. Funding for the plan has been delayed through factors outside of Solomon Water's control and consequently real progress against the objectives will also be delayed.

The most right hand column of the tables reports on progress through 2019.

**Table 1: Solomon Water Corporate Objectives**

Service Area	Current Objectives (2012-2015)	Proposed 5 Year Objectives (2017-2022)	2019 Progress
Coverage of Water Supply Systems	80% urban population connected to the SW network by 2015	70% of properties within all service areas have access to network	55% of customers within the service areas have access to network. An estimated 15% are accessing service illegally and will be targeted for registration in 2020.  A total of 1884 new customer connections were made during 2019.
Drinking Water Quality	Meet WHO microbiological standards for Drinking Water Quality	Implement risk-based drinking water management framework with appropriate health based targets and water safety plans in accordance with current WHO Guidelines for Drinking Water Quality	Chlorine disinfection in Honiara and Noro only. Partial disinfection was added in Tulagi and Auki during 2019, with full disinfection in Auki planned for mid 2020.
Water Supply to informal settlements	Ensure clean water and proper sanitation is available in all communities	Seek SIG direction on appropriate supply options for informal settlements / peri-urban areas  Contribute to UN Sustainable Development Goals improved water supply targets	79% of population have access to improved water supply.  Some of the CashWater installations noted above have been in informal areas, and an Urban WASH programme is under design for 2020 implementation.
Coverage of wastewater systems	20% increase in coverage of sanitation by 2020	Approximately 20% of residential and majority of non-residential customers within Honiara service area have access to wastewater network	9% of population within service area connected to wastewater system in Honiara, 0% for other provincial centres. Once significant upgrades to the Honiara Wastewater system are carried out during 2020 and 2021, further properties can be connected.
Sewerage treatment standard	Investigate municipal sewerage and treatment/disposal	Screening and effective dilution of all sewerage pumped from wastewater network to waterways	No treatment of sewerage. Once new sewer outfalls are constructed during 2020 and 2021, basic screening will be provided.
Energy Consumption	Not currently assessed	All capital decisions with electrical energy requirements above 20kW will be assessed on a net present value assessment taking into account capital and operating	A donor funded energy assessment of selected electrical installations was conducted during 2019, with several recommendations for improved efficiency and

			costs	electricity cost savings to be implemented in 2020.
Emergency Management	Enterprise Risk Management plan prepared and reviewed 6 monthly		Risk assessments carried out and emergency response plans prepared for all risks identified that cannot be addressed by remedial action.	Significant progress has been made on preparation of Business continuity plans and other risk mitigation initiatives.
Financial Sustainability	Annual statutory and management reporting to ensure legislative compliance		SW meets full financial requirements of SOE Act, with contribution from donors and CSOs.	Ongoing compliance with reporting requirements. Medium term financial sustainability is absolutely dependent on Tariff reviews to cover costs and Government loan repayments.
Lifecycle management	Not currently assessed		Develop Lifecycle management targets as part of an asset management plan. Adopt and implement a maintenance management system to manage all routine and breakdown maintenance.	Due to difficulties securing appropriate specialist advisors, little progress has been made on this task during 2019.
Climate Change/Resilience	Not currently assessed		Identify and assess extreme climate and climate change risks and commence development of mitigation and adaptation strategies	
Strategic Planning	Board adopted 30 year Strategic Plan and 5 year Action Plan		Implement 5 Year Action Plan and review 30 year Strategic Plan in 2021	Implementation of plans ongoing with significant progress made and over USD 60 m of work ready to be tendered for construction in 2020. A significant funding opportunity of around USD 90 m remains for the initial 7 years of the plan to be implemented.



## Levels of Service

The levels of service are the standard of performance established as the benchmark for SW to achieve. These relate to the broader corporate objectives and regional benchmarks.

Table 2: Solomon Water Level of Service

Service Area	Indicator	2017 Performance	5 Year Target (2017 - 2022)	2019 Outcome
Drinking Water Quality	Compliance with drinking water guidelines (% of samples complying)	48%	95%	E. Coli compliance 98.4 % Total coliform compliance 96%
Water Supply Service Continuity	Continuity of service (Hrs./day) at minimum pressure	22	24	22. Some issues associated with supply to certain customers following shutdown of Kongulai supply following heavy rain.
	Customers with continuous supply (%)	93%	95%	Some issues associated with supply to certain customers following shutdown of Kongulai supply following heavy rain.
	Frequency of Water main breaks (breaks/km/yr)	2.6	2.2	Not measured as yet
Water Loss Management	Non-Revenue Water –NRW (%)	62%	45%	59 %
	Extent of water metering (%)	88%	95%	95.6% of connected customers have water meters.
Water Supply Systems Pressures	Minimum pressure at water meter (m)	Unknown	10	Average around 6 m but can drop to zero during times of shutdown or high demand.
	Maximum pressure at water meter (m)	Unknown	70	100 m in some areas
Demand Management	Residential water consumption (L/person/d)	177	170	Not able to calculate due to unavailability of census figures.

					Average domestic consumption about 1052 L/ connection / d
Water Security	Frequency of water restrictions and/or rationing due to raw water capacity limitations	Unknown	1 month per year		78 days of restricted supply to parts of Honiara due to Kongulai supply shutdowns following heavy rain.
Wastewater Service Continuity	Frequency of sewer main blockages (blockages/km/yr.)	6.7	5.0		4.9
Wastewater Effluent Quality	Compliance with required effluent quality targets (% of samples complying)	Unknown	Develop targets		To be developed as sewer upgrades progress in coming years
Financial	Collection period (average days for collection)	146	90		114
	Collection ratio (income as % of billed revenue)	84%	90%		98 %
	Staff per 1,000 water & wastewater connections	18	12		11.9
Customer Complaints	Customer complaints /1,000 connections	Unknown	200		83.2

# Solomon Islands Water Authority

## Financial Statements

For the year ended

31 December 2019



## **SOLOMON ISLANDS WATER AUTHORITY**

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## **SOLOMON ISLANDS WATER AUTHORITY**

### **DIRECTORS' REPORT**

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Water Authority (the "Authority") as at 31 December 2019 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

#### **Directors**

The names of the Directors in office at the date of this report and any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Mr Carson Korowa (Chairman)  
Mr Trevor Palmer  
Ms Cynthia Wickham  
Mr Donald Marahare  
Mr John Belande  
Mr David Patternot  
Ms Gloria Hong

#### **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 the Authority consisting of the statement of financial position as at 31 December 2019, statement of profit or loss and other 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 total comprehensive income for the year was SBD 2,343,181 (2018: SBD 5,403,263).

#### **Dividends**

The Directors recommend that no dividends be declared and proposed for the year (2018: SBD Nil)

#### **Reserves**

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

#### **Receivables**

The directors took reasonable steps before the Authority's financial statements were made out to ascertain that action had been taken in relation to writing off of all known bad debts and allowance made for impairment losses.

At the date of this report, the Directors are not aware of any circumstances which would render the above assessment inadequate to any substantial extent.

#### **Non-Current Assets**

The Directors took reasonable steps before the Authority's financial statements were made out 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. The Directors also took reasonable steps to assess useful life of items of property, plant and equipment to reflect the current use of assets as shown in the accounting records of the Authority.

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)

#### Going concern

In the opinion of the Directors, the Authority is a going concern.

#### Unusual circumstances

The results of the operations of the Authority during the financial year have not, in the opinion of the Directors, been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

#### 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 not otherwise dealt with in this report or the Authority's financial statements, which would render any amounts stated in the financial statements to be misleading.

#### Directors' benefits

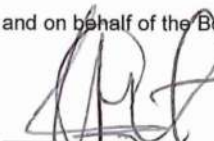
Since the beginning of this financial year, no Director has received or become entitled to receive a benefit (other than those included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements or received as the fixed salary of a full-time employee 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 company in which he has a substantial financial interest.


#### 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 subsequent financial years.

Dated at HONIARA this 25<sup>th</sup> day of March 2020.

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

  
Director

  
Director



## SOLOMON ISLANDS WATER AUTHORITY

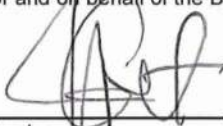
### STATEMENT BY DIRECTORS


In the opinion of the Directors:

- (a) the accompanying statement of profit or loss and other comprehensive income 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 2019;
- (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 2019;
- (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 2019;
- (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 2019;
- (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.

Dated at HONIARA this 25<sup>th</sup> day of March 2020.

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

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON ISLANDS WATER AUTHORITY TRADING AS SOLOMON WATER

### Report on the Audit of the Financial Statements

#### *Opinion*

I have in joint consultation with the Board of the Authority pursuant to Solomon Islands Water Authority Act 1992 contracted KPMG (Fiji) which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Solomon Islands Water Authority ("the Authority"), which comprise the statement of financial position as at 31<sup>st</sup> December 2019, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 26.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31<sup>st</sup> December 2019, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### *Basis for Opinion*

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code)*, the Solomon Islands Water Authority Act 1992 and the ethical requirements that are relevant to my audit of the financial statements 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 opinion.

#### *Emphasis of Matter – comparative information*

I draw attention to Note 25 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. My opinion is not modified in respect of this matter.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

#### ***Responsibilities of Management and Directors for the Financial Statement***

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

In preparing the financial statements, the 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 the Management and Directors either intend to liquidate the Authority or to cease operations, or has 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 a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism 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 policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditors' report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with 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***

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion:

- i) proper books of account have been kept by the Authority, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and
- ii) to the best of my knowledge and according to the information and explanations given to me the financial statements give the information required by Solomon Islands Water Authority Act (Cap. 130), State Own Enterprises Act 2007 and Public Finance and Audit Act (Cap. 120), in the manner so required



Peter Lokay  
Auditor-General  
15<sup>th</sup> April 2020

Office of the Auditor-General  
Honiara, Solomon Islands

**SOLOMON ISLANDS WATER AUTHORITY**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 SBD	2018 SBD
<b>Continuing operations</b>			
Revenue from contracts with customers	5	95,077,730	93,072,965
Other income	6	13,261,138	21,784,539
		<u>108,338,868</u>	<u>114,857,504</u>
<b>Expenses</b>			
Corporate expenses	7	(21,941,166)	(17,276,959)
Depreciation and amortisation		(9,160,264)	(16,610,996)
Salaries and employee benefits	8	(31,021,973)	(26,389,110)
Impairment of financial assets		1,010,014	(812,038)
Repairs and maintenance		(12,358,347)	(14,438,636)
Tools and uniforms		(389,428)	(1,272,362)
Utilities		(30,395,892)	(31,215,533)
Water treatment		(1,360,855)	(1,414,623)
Other expenses		-	(26,821)
		<u>(105,617,911)</u>	<u>(109,457,078)</u>
Finance income	9 (a)	19,791	294,325
Finance costs	9 (b)	(397,567)	(291,488)
<b>Net profit for the year</b>		<u>2,343,181</u>	<u>5,403,263</u>
Other comprehensive income		-	-
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>2,343,181</u>	<u>5,403,263</u>

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

**SOLOMON ISLANDS WATER AUTHORITY  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	Capital Contribution SBD	Asset Revaluation Reserve SBD * Restated	Retained Earnings SBD * Restated	Total SBD
Balance at 1 January 2018		59,625,874	142,169,998	13,827,885	215,623,757
<i>Total comprehensive income for the year</i>					
Profit for the year		-	-	5,403,263	5,403,263
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	5,403,263	5,403,263
Balance at 31 December 2018		59,625,874	142,169,998	19,231,148	221,027,020
Restatements	25	-	(35,935,656)	23,864,993	(12,070,663)
Restated balance at 1 January 2019		59,625,874	106,234,342	43,096,141	208,956,357
<i>Total comprehensive income for the year</i>					
Profit for the year		-	-	2,343,181	2,343,181
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	2,343,181	2,343,181
Balance at 31 December 2019		59,625,874	106,234,342	45,439,322	211,299,538

\* - Refer Note 25

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

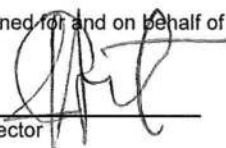


**SOLOMON ISLANDS WATER AUTHORITY  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019**

	Note	2019 SBD	2018 SBD <i>* Restated</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	9,366,569	39,807,562
Trade receivables	11	15,827,135	12,900,313
Contract assets	12	2,783,803	3,594,524
Debt securities	15	10,000,000	6,574,465
Inventories	13	8,460,042	13,551,086
Other receivables and prepayments	14	3,196,280	1,605,058
		<u>49,633,829</u>	<u>78,033,008</u>
<b>Non-current assets</b>			
Property, plant and equipment	16	279,386,783	256,209,853
Intangibles	17	248,888	85,559
Right-of-use assets	18 (i)	2,770,649	-
		<u>282,406,320</u>	<u>256,295,412</u>
<b>Total assets</b>		<u><u>332,040,149</u></u>	<u><u>334,328,420</u></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Contract liabilities	12	908,877	230,004
Lease liabilities	18 (ii)	950,344	-
Trade and other payables	19	15,858,666	20,073,002
Deferred revenue	20	3,028,969	3,028,969
Employee benefits liability	21	1,379,099	1,648,099
Payable to related parties	24 (e)	720,464	720,464
		<u>22,846,419</u>	<u>25,700,538</u>
<b>Non-current liabilities</b>			
Lease liabilities	18	1,893,974	-
Deferred revenue	20	96,000,218	99,029,187
Payable to related parties	24 (e)	-	642,338
		<u>97,894,192</u>	<u>99,671,525</u>
<b>Total liabilities</b>		<u><u>120,740,611</u></u>	<u><u>125,372,063</u></u>
<b>Equity</b>			
Capital contribution	22	59,625,874	59,625,874
Asset revaluation reserve		106,234,342	106,234,342
Retained earnings		45,439,322	43,096,141
<b>Total equity</b>		<u><u>211,299,538</u></u>	<u><u>208,956,357</u></u>
<b>Total equity and liabilities</b>		<u><u>332,040,149</u></u>	<u><u>334,328,420</u></u>

**\* - Refer Note 25**

Signed for and on behalf of the Board of Directors.

  
Director

  
Director

The statement of financial position is to be read in conjunction with the notes to the financial statements.

**SOLOMON ISLANDS WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
AS AT 31 DECEMBER 2019**

	<b>Note</b>	<b>2019 SBD</b>	<b>2018 SBD</b>
<b>Operating activities</b>			
<b>Net profit</b>		<b>2,343,181</b>	<b>5,403,263</b>
<b>Adjustment to reconcile profit to net cash flows</b>			
<b>Non-cash:</b>			
Amortisation of deferred revenue	6	(3,028,969)	(11,589,335)
Amortisation of discount on interest free loan	9 (b)	217,037	217,037
Allowance for doubtful debts	4 (i)	(1,010,014)	812,038
Depreciation and amortisation of assets	16, 17, 18	9,160,264	16,610,996
Interest expense on lease liability	9 (b)	180,530	-
Inventory obsolescence	7	893,783	-
Loss on disposal of property, plant and equipment	7	63,492	-
Movements in employee benefit liabilities		(269,000)	(239,624)
<b>Working capital adjustments:</b>			
<b>Non-cash:</b>			
(Increase) / decrease in trade receivables		(317,302)	771,451
(Increase) / decrease in other receivables		(1,591,222)	715,478
(Increase) / decrease in contract assets		810,721	296,007
Decrease / (increase) in inventory		4,197,261	(4,492,372)
Increase / (decrease) in trade and other creditors		301,396	(1,452,457)
Increase / (decrease) in contract liabilities		678,873	-
<b>Net cash flows from operating activities</b>		<b>12,630,031</b>	<b>7,052,482</b>
<b>Investing activities</b>			
Acquisition of plant and equipment	16	(37,687,681)	(25,624,752)
Proceeds from sale of plant and equipment		193,500	-
Purchase of intangible assets	17	(426,882)	-
Investment in debt securities	15	(3,425,535)	-
<b>Net cash flows used in investing activities</b>		<b>(41,346,598)</b>	<b>(25,624,752)</b>
<b>Financing activities</b>			
(Repayment) / proceeds of related party borrowings	24 (e)	(642,338)	1,119,595
Payment of lease liabilities	18 (a) (ii)	(1,082,088)	-
<b>Net cash flows (used in) / from financing activities</b>		<b>(1,724,426)</b>	<b>1,119,595</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(30,440,993)</b>	<b>(17,452,675)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>39,807,562</b>	<b>57,260,237</b>
<b>Cash and cash equivalents at end of year</b>		<b>9,366,569</b>	<b>39,807,562</b>

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**1. Reporting entity**

Solomon Islands Water Authority (the "Authority") is a state owned enterprise established under the Solomon Islands Water Authority Act 1993. The address of the Authority's registered office is Mendana Avenue, Honiara, Solomon Islands.

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

**2. Basis of preparation**

**(a) Statement of compliance**

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

The financial statements were authorised for issue by the Board of Directors on 25 March 2020

**(b) Basis of measurement**

The financial statements have been prepared on a historical cost basis except where stated otherwise.

**(c) Functional and presentation currency**

The financial statements are presented in Solomon Bokolo Dollars, rounded to the nearest dollar, which is the Authority's functional currency.

**(d) Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Depreciation rates                      Note 3(g)

**3. Significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below and have been consistently applied to all years presented, except for the changes discussed below.

**(a) Changes in accounting policies**

The Authority initially applied IFRS 16 *Leases* from 1 January 2019. A number of other interpretations and amendments are also effective 1 January 2019 but they do not have a material effect on the Authority's financial statements.

The Authority applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.



SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

**3. Significant accounting policies (continued)**

**(a) Changes in accounting policies (continued)**

**i) Definition of a lease**

Previously, the Authority determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Authority now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(i).

On transition to IFRS 16, the Authority elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Authority applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

**ii) As a lessee**

As a lessee, the Authority leases assets including property and offices. The Authority previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Authority. Under IFRS 16, the Authority recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Authority allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Authority has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

**Leases classified as operating leases under IAS 17**

Previously, the Authority classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Authority's incremental borrowing rate as at 1 January 2019 (see Note 3(i)). Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Authority's incremental borrowing rate at the date of initial application;
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Authority has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Authority used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Authority:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-asset at the date of initial application; and
- used hindsight when determining the lease term.

**iii) As a lessor**

The Authority is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Authority does not have any leases where it acts as a lessor.

**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(a) Changes in accounting policies (continued)**

**iv) Impact on transition**

On transition to IFRS 16, the Authority recognised right-of-use assets and lease liabilities of SBD 3,745,876.

When measuring lease liabilities, the Authority discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied was 5.5%.

	<b>1 January 2019 SBD</b>
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Authority's financial statements	4,519,471
Discounted using the incremental borrowing rate at 1 January 2019	3,745,876
Recognition exemption for leases with less than 12 months of lease term at transition	-
<b>Lease liabilities recognised at 1 January 2019.</b>	<b><u>3,745,876</u></b>

**(b) Foreign currencies**

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.

**(c) Revenue**

Revenue is measured based on the consideration specified in a contract with a customer. The Authority recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

<b>Products and services</b>	<b>Nature, timing of satisfaction of performance obligations and significant payment terms</b>
Water sales	Customers obtain control of water when the goods are delivered to and have been accepted by using the water at their premises. Invoices are generated on a monthly basis and are usually payable within 30 days. No discounts are provided to the customers.
Installation	<p>The Authority charges for service and waste water installation in order to provide water to customers'. This is an up-front fee that the customer pays in order to receive water at their premises.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>



**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(c) Revenue (continued)**

<b>Products and services</b>	<b>Nature, timing of satisfaction of performance obligations and significant payment terms</b>
Survey	<p>The Authority charges survey fees when a customer applies for a new connection and which relates to the Authority performing a survey to determine whether it will be able to provide water services to the customer based on water pressure and/or land issues in the area where the customer is located. This is charged to customers in order to provide water to their premises. This is an up-front fee.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and is allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Plumbing and investigation	<p>The Authority charges plumbing and investigation fee when a customer requests for plumbing works to be carried out after the water meter to their homes.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and is allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Standing and unmetered	<p>The Authority charges standing fees on a monthly basis which relates to account maintenance and administration. Additionally, the Authority also charges unmetered fees to all domestic and commercial customers on a monthly basis regardless of the usage. The charges are for cases where meters are faulty, connections are connected without a meter due to meter shortages in the stores, meters buried because of landslides or deposits or meters are faulty. These charges continue until the meter is replaced with a functional meter.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and is allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Reconnection, disconnection, meter testing, service amplification and water and sewer main extension	<p>The Authority charges reconnection fees to reconnect a disconnected customer. Disconnection fee is charged to disconnect services on customer request or due to unpaid balances. The Authority charges meter testing fee when customers request for their meters to be tested to determine if it is working properly. Service amplification fees are charged when customers request for the current smaller sized pipes to be replaced with larger sized pipes due to increase demand. The Authority also charges water and sewer main extension fees when customers request to extend the current waste water service line or to divert the line from its current location.</p> <p>The Authority recognises revenue when the related service is provided to the customer i.e. point-in time.</p>

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.



**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(d) Interest income**

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as debt securities, 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 and other comprehensive income.

**(e) Government grants**

When the Authority receives 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.

**(f) Income taxes**

The Income and Revenue of the Authority is not subject to taxation under the Solomon Islands Water Authority Act 1993.

**(g) Property, plant and equipment**

Recognition and measurement

Items of property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and accumulated impairment losses, if any. Costs include expenditure that is directly attributable to the acquisition of the items.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised in profit or loss.

Subsequent measurement

The cost of replacing part of a component of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the Authority and its costs can be measured reliably. The cost of day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

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 and other comprehensive income when the asset is derecognised.

The impairment accounting policy for goodwill and intangible assets with indefinite lives similarly applies to other non-financial assets, including property, plant and equipment.

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 and other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

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.

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.

**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(g) Property, plant and equipment (continued)**

Depreciation

Depreciation is calculated using straight line method subject to the particular asset using rates as follows:

Buildings	2.50% - 5.56%
Water systems	1.27% to 50%
Plant and equipment	5.56% to 50%
Furniture and fittings	16.67% to 20%
Motor vehicles	16.67% to 33.33%

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. Refer to Note 16(a) for the changes in estimates for useful life of assets by the Authority during the year.

**(h) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

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 and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de recognition 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.

**(i) Leases**

The Authority has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

**Policy applicable from 1 January 2019**

At inception of a contract, the Authority assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Authority uses the definition of a lease in IFRS 16.

The policy is applied to contracts entered into, on or after 1 January 2019.

**i. As a lessee**

At commencement or on modification of a contract that contains a lease component, the Authority allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Authority has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.



SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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3. Significant accounting policies (continued)

(i) Leases (continued)

Policy applicable from 1 January 2019 (continued)

i. As a lessee (continued)

The Authority recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Authority by the end of the lease term or the cost of the right-of-use asset reflects that the Authority will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Authority's incremental borrowing rate. Generally, the Authority uses its incremental borrowing rate as the discount rate.

The Authority determines its incremental borrowing rate by obtaining interest rates from its financial institution and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Authority is reasonably certain to exercise, lease payments in an optional renewal period if the Authority is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Authority is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Authority's estimate of the amount expected to be payable under a residual value guarantee, if the Authority changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Authority presents right-of-use assets and lease liabilities in the statement of financial position.

*Short term leases and leases of low-value assets*

The Authority has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Authority recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.



SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

3. Significant accounting policies (continued)

(i) Leases (continued)

**Policy applicable from 1 January 2019 (continued)**

**ii. As a lessor**

The Authority does not have any leases where it acts as a lessor.

**Policy applicable before 1 January 2019**

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 and other comprehensive income.

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 and other comprehensive income 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.

(j) **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.

(k) **Financial instruments**

**i. Recognition and initial measurement**

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(k) Financial instruments (continued)**

**ii. Classification and subsequent measurement**

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Authority makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Authority's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for de recognition are not considered sales for this purpose, consistent with the Authority's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:



SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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3. Significant accounting policies (continued)

(k) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest (continued)

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- Terms that limit the Authority's claim to cash flows from specified assets (e.g. non recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expenses, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

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 pass through 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.



**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(k) Financial instruments (continued)**

**iii. Derecognition (continued)**

Financial liabilities

The Authority derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Authority also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**iv. Modifications of financial assets**

If the terms of a financial asset are modified, the Authority evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de recognition of the financial asset. In this case, the Authority recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

**v. Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Authority currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**vi. Impairment**

The Authority recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Authority measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12 month ECL:

- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience and informed credit assessment and including forward looking information.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Authority considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Authority in full, without recourse by the Authority to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

3. Significant accounting policies (continued)

(k) Financial instruments (continued)

vi. Impairment (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Authority is exposed to credit risk.

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive); and
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the customers or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a receivable by the Authority on terms that the Authority would not consider otherwise;
- it is probable that the customer will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Authority determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Authority's procedures for recovery of amounts due.



**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(l) Inventories**

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

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

A provision for stock obsolescence is established where there is objective evidence that the Authority will not be able to collect the cost of inventory due to obsolescence or damage. Provision is raised on a specific basis based on the condition of the inventory. The carrying amount of inventories is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. When an inventory item is uncollectable, it is written off against the allowance account.

**(m) Impairment of non-financial assets**

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

Property, plant and equipment	Note 3(g)
Intangible assets	Note 3(h)

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 Authorities 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 and other comprehensive income 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.

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 and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.



**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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**3. Significant accounting policies (continued)**

**(n) 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.

**(o) 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 and other comprehensive income 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.

**(p) 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 employee's 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 is provided.

**(q) Trade and other payables**

Liabilities for trade creditors and other amounts are 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.

**(r) Grants**

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

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.

**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Significant accounting policies (continued)**

**(s) Comparative figures**

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

**(t) New standards, amendments and interpretations issued but not yet effective**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Authority has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Authority's financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of a Material (Amendments to IAS 1 and IAS 8).

**4. Financial risk management**

**Overview**

The Authority has exposure to the following financial risks:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

This note presents information about the Authority's exposure to each of the above risks and the Authority's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management policies are established to identify and analyse the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Authority's Board oversees how management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Solomon Water. The Board is assisted in their oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and processes, the result of which is reported to the Board.

The above risks are limited by the Authority's financial management policies and procedures as described below:

**SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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**4. Financial risk management (continued)**

**(i) Credit risk**

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Authority's receivables from customers, cash at bank and debt securities.

The carrying amount of financial assets and contract assets represents the maximum credit exposure.

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows:

	<b>2019</b>	<b>2018</b>
	<b>SBD</b>	<b>SBD</b>
Impairment (reversal) / loss on trade receivables and contract assets arising from contracts with customers	<u>(1,010,014)</u>	<u>812,038</u>

Trade receivables and contract assets

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 domestic and commercial 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 evaluates the concentration of risk with respect to trade receivables as high.

*Expected credit loss assessment for trade receivables and contract assets*

The Authority uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December.

	<b>Weighted- average loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Credit impaired</b>
	<b>SBD</b>	<b>SBD</b>	<b>SBD</b>	<b>SBD</b>
<b>31 December 2019</b>				
Current (not past due)	23.37%	6,543,865	1,529,310	5,014,555
31 - 60 days past due	38.40%	2,668,425	1,024,639	1,643,786
61 - 90 days past due	57.49%	1,956,916	1,124,936	831,980
More than 90 days past due	56.71%	19,258,493	10,921,679	8,336,814
		<u>30,427,699</u>	<u>14,600,564</u>	<u>15,827,135</u>
<b>31 December 2018</b>				
Current (not past due)	25.65%	5,049,793	1,295,272	3,754,521
31 - 60 days past due	42.14%	7,459,959	3,143,627	4,316,332
61 - 90 days past due	63.08%	3,757,487	2,370,223	1,387,264
More than 90 days past due	75.13%	13,843,158	10,400,962	3,442,196
		<u>30,110,397</u>	<u>17,210,084</u>	<u>12,900,313</u>



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**4. Financial risk management (continued)**

**(i) Credit risk (continued)**

Trade receivables and contract assets (continued)

*Expected credit loss assessment for trade receivables and contract assets (continued)*

Loss rates are based on actual credit loss experience over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Authority's view of economic conditions over the expected lives of trade receivables. Scalar factors are based on actual and forecast GDP growth rates.

*Movements in the allowance for impairment in respect of trade receivables and contract assets*

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows.

	2019 SBD	2018 SBD
Balance at 1 January	17,210,084	16,961,844
Amounts written off	(1,599,506)	(563,798)
Net remeasurement of loss allowance	(1,010,014)	812,038
Balance at 31 December	<u>14,600,564</u>	<u>17,210,084</u>

Cash and cash equivalents

The Authority held cash and cash equivalents of SBD 9,342,069 (2018: SBD 39,783,062). Cash and cash equivalents are held with banks which are rated AA- and B+, based on Standards & Poor's ratings.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects short term maturities of the exposures. The Authority considers that its cash have low credit ratings of the counterparties.

The amount of impairment allowance at 31 December 2019 is \$Nil (2018: SBD 151,871).

Debt securities

The Authority held debt investment securities of SBD 10,000,000 at 31 December 2019 (2018: SBD 6,574,465). The debt investment securities are held with institutions which are rated B+ based on Standards & Poor's credit ratings. In relation to debt investment securities held with these institutions, the Authority monitors changes in credit risk by tracking published external credit ratings but when external credit ratings are not available or published, the Authority monitors changes in credit risk by reviewing available press and regulatory information.

Impairment on debt investment securities held with banks has been measured on the 12 month expected loss basis. The Authority considers that its cash have low credit ratings of the counterparties.

The Authority did not recognise an impairment allowance against debt securities as at 31 December 2019 (2018: SBD Nil)

**(ii) Liquidity risk**

Liquidity risk is the risk that the Authority will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

The Authority ensures that it has sufficient cash on hand to meet operational expenses including the servicing of financial obligations but this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date, based on contractual undiscounted payments.

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4. Financial risk management (continued)

(ii) Liquidity risk (continued)

	Carrying amount	Contractual cash flows		
		Less than 1 year	1 - 2 years	More than 2 years
<b>31 December 2019</b>				
Trade and other payables	15,858,666	15,858,666	-	-
Payable to related parties	720,464	937,500	-	-
Lease liabilities	2,844,318	1,082,088	1,643,497	711,798
	<u>19,423,448</u>	<u>17,878,254</u>	<u>1,643,497</u>	<u>711,798</u>
<b>31 December 2018</b>				
Trade and other payables	20,073,002	20,073,002	-	-
Payable to related parties	1,362,802	937,500	937,500	-
	<u>21,435,804</u>	<u>21,010,502</u>	<u>937,500</u>	<u>-</u>

(iii) Market risk

Currency risk

The Authority is exposed to currency risk to the extent that there is a mismatch between the currencies in which purchases, and borrowings are denominated and the respective functional currencies. The Authority does not have significant exposure to currency risk.

Interest rate risk

Interest rate risk is the risk that a change in interest rates will impact net interest costs and borrowings.

The Authority has invested in debt securities with Bred Bank. These are at a fixed interest rate during the term of the instruments.

Given the fixed nature of interest rates described above, the Authority has a high level of certainty over the impact on cash flows arising from interest income. Accordingly, the Authority does not require simulations to be performed over impact on net profits arising from changes in interest rates.

Furthermore, for those financial assets and financial liabilities which are not carried at fair value, their carrying amount is considered a reasonable approximation of fair value.

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	<b>2019 SBD</b>	<b>2018 SBD</b>
<b>5. Revenue from contracts with customers</b>		
Water sales	89,438,819	86,739,828
Standing and unmetered	4,889,841	5,158,712
Reconnection, disconnection, meter testing, service amplification, water & sewer main extension	749,070	1,174,425
	<u>95,077,730</u>	<u>93,072,965</u>
<b>6. Other income</b>		
ADB contribution in kind	4,978,404	-
Amortisation of deferred revenue	3,028,969	11,589,335
Bad debts recovered	793,294	101,747
Miscellaneous income	150,471	3,441,825
Solomon Islands Government - CSO grant	4,310,000	3,000,000
Stock write-backs	-	3,651,632
	<u>13,261,138</u>	<u>21,784,539</u>
<b>7. Corporate expenses</b>		
Advertising	294,167	221,602
Asset write-off (Refer Note 16 (b))	2,595,235	-
Accounting fees	67,725	66,777
Auditors' remuneration	461,150	214,600
Bank fees and charges	32,736	60,714
Board allowances	55,600	53,000
Consultant fees	8,565,291	6,452,814
Insurance	845,101	701,547
Inventory obsolescence	893,783	-
Lease rentals	827,553	1,608,272
Legal fees	91,080	20,096
Loss on sale of fixed assets	63,492	-
Other expenses	1,063,726	1,419,822
Printing, freight and stationery	1,568,421	2,085,771
Software training and computer consumables	2,464,495	2,108,721
Telephone	1,339,699	1,244,786
Travel and transport	711,912	1,018,437
	<u>21,941,166</u>	<u>17,276,959</u>
<b>8. Salaries and employee benefits</b>		
Wages and salaries, including leave benefits	12,150,830	11,126,665
Key management personnel - short term benefits	7,382,526	5,152,508
Key management personnel - Superannuation contributions	532,306	386,101
Superannuation contributions	1,849,553	1,214,568
House rentals and allowances	9,106,758	8,509,268
	<u>31,021,973</u>	<u>26,389,110</u>



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9. Finance income and finance costs	2019 SBD	2018 SBD
(a) Finance income		
Interest income	19,791	21,400
Realised foreign exchange gain	-	272,925
	<u>19,791</u>	<u>294,325</u>
(b) Finance cost		
Amortisation of discount - SIEA loan	217,037	217,037
Interest expense - lease liability	180,530	-
Realised foreign exchange loss	-	74,451
	<u>397,567</u>	<u>291,488</u>
10. Cash and cash equivalents		
Cash at bank	9,342,069	39,783,062
Cash on hand	24,500	24,500
Cash and cash equivalents as per statement of cash flows	<u>9,366,569</u>	<u>39,807,562</u>
11. Trade receivables		
Trade receivables	30,427,699	30,110,397
Provision for impairment of receivables	(14,600,564)	(17,210,084)
	<u>15,827,135</u>	<u>12,900,313</u>
Movements in the provision for impairment of receivables were as follows:		
Opening balance	(17,210,084)	(18,901,590)
Charge for the year	(253,813)	(375,963)
Utilised	2,863,333	2,067,469
	<u>(14,600,564)</u>	<u>(17,210,084)</u>
12. Contract balances		
Contract balances have arisen from IFRS 15 <i>Revenue from contracts with Customers</i> .		
Contract assets	2,783,803	3,594,524
Contract liabilities	(908,877)	(230,004)
	<u>1,874,926</u>	<u>3,364,520</u>

The contract assets primarily relate to the Authority's rights to consideration for services provided but not billed at the reporting date on water sales. The contract assets are transferred to receivables when the billing cycle is completed and Authority has issued an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers for water sales and new meter connections for which revenue is recognised at a point in time when the services has been rendered. This will be recognised as revenue when the services are rendered to the customers, which is expected to occur in the subsequent period.

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**13. Inventories**

	<b>2019</b>	<b>2018</b>
	<b>SBD</b>	<b>SBD</b>
Stores and consumables	9,353,825	13,540,451
Provision for inventory obsolescence	(893,783)	-
	<u>8,460,042</u>	<u>13,540,451</u>
Goods in transit	-	10,635
	<u>8,460,042</u>	<u>13,551,086</u>
<u>Provision for inventory obsolescence</u>		
Balance at 1 January	-	-
Provision recognised during the year	(893,783)	-
Balance at 31 December	<u>(893,783)</u>	<u>-</u>

**14. Other receivables and prepayments**

	<b>2019</b>	<b>2018</b>
	<b>SBD</b>	<b>SBD</b>
Other debtors	946,070	515,952
Prepayments	2,250,210	1,089,106
	<u>3,196,280</u>	<u>1,605,058</u>

**15. Debt securities**

	<b>2019</b>	<b>2018</b>
	<b>SBD</b>	<b>SBD</b>
Term deposits	<u>10,000,000</u>	<u>6,574,465</u>

The interest rate on term deposits is 1% (2018: 1%). The deposit has a maturity of 180 days (2017: 180 days). The Authority broke the debt security before the maturity date subsequent to year end.

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16. Property, plant and equipment

	Water Systems SBD	Land and Buildings SBD	Machinery, Equipment and Computers SBD	Motor vehicles SBD	Furniture and Fittings SBD	Work In Progress SBD	Total SBD
<b>Cost</b>							
Balance at 1 January 2018	267,893,430	9,989,166	10,609,171	9,790,920	459,982	23,686,255	322,428,924
Additions	36,585,940	303,990	784,953	673,535	-	37,706,889	76,055,307
Reclassifications	-	-	-	-	-	(47,372,510)	(47,372,510)
<b>Balance at 31 December 2018</b>	<b>304,479,370</b>	<b>10,293,156</b>	<b>11,394,124</b>	<b>10,464,455</b>	<b>459,982</b>	<b>14,020,634</b>	<b>351,111,721</b>
Opening balance adjustment	(3,923,825)	(28,394)	-	-	-	505,840	(3,446,379)
<b>Balance at 1 January 2019</b>	<b>300,555,545</b>	<b>10,264,762</b>	<b>11,394,124</b>	<b>10,464,455</b>	<b>459,982</b>	<b>14,526,474</b>	<b>347,665,342</b>
Additions	-	-	-	1,900,070	-	35,787,611	37,687,681
Disposals	-	-	(605,471)	(504,545)	-	-	(1,110,016)
Reclassifications	(2,804,324)	-	-	-	-	(932,722)	(3,737,046)
Transfers	15,910,755	12,723,417	989,533	-	402,656	(30,026,361)	-
Write-off (Refer Note 16(b))	-	-	-	-	-	(2,595,235)	(2,595,235)
<b>Balance at 31 December 2019</b>	<b>313,661,976</b>	<b>22,988,179</b>	<b>11,778,186</b>	<b>11,859,980</b>	<b>862,638</b>	<b>16,759,767</b>	<b>377,910,726</b>
<b>Depreciation</b>							
Balance at 1 January 2018	21,784,781	584,345	2,639,697	5,876,314	346,524	-	31,231,661
Depreciation	12,167,538	142,564	2,934,427	1,216,356	28,365	-	16,489,250
<b>Balance at 31 December 2018</b>	<b>33,952,319</b>	<b>726,909</b>	<b>5,574,124</b>	<b>7,092,670</b>	<b>374,889</b>	<b>-</b>	<b>47,720,911</b>
Opening balance adjustment	31,877,376	2,935,854	5,693,247	3,143,008	85,093	-	43,734,578
<b>Balance at 1 January 2019</b>	<b>65,829,695</b>	<b>3,662,763</b>	<b>11,267,371</b>	<b>10,235,678</b>	<b>459,982</b>	<b>-</b>	<b>91,455,489</b>
Depreciation	7,072,073	511,102	89,261	245,629	7,459	-	7,925,524
Disposals	3,031	-	(413,569)	(446,532)	-	-	(857,070)
<b>Balance at 31 December 2019</b>	<b>72,904,799</b>	<b>4,173,865</b>	<b>10,943,063</b>	<b>10,034,775</b>	<b>467,441</b>	<b>-</b>	<b>98,523,943</b>
<b>Carrying amounts</b>							
At 31 December 2018	270,527,051	9,566,247	5,820,000	3,371,785	85,093	14,020,634	303,390,810
At 1 January 2019	234,725,850	6,601,999	126,753	228,777	-	14,526,474	256,209,853
At 31 December 2019	240,757,177	18,814,314	835,123	1,825,205	395,197	16,759,767	279,386,783



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**16. Property, plant and equipment (continued)**

**(a) Change in estimate**

In accordance with its policy, the Authority reviews the estimated useful lives of its property, plant and equipment on an ongoing basis. During the year, the Authority conducted a review of the depreciation policy and estimated useful lives of its property, plant and equipment. This review indicated that the actual lives of various categories of property, plant and equipment were either longer or shorter than the estimated useful lives used for depreciation purposes in the Authority's financial statements. It also indicated that the depreciation policy for certain items of property, plant and equipment were under the diminishing-value method while for some were under straight-line method of depreciation. As a result, effective 1 January 2019, the Authority changed its depreciation policy to straight-line method of depreciation for all items of property, plant and equipment and changed its estimates of the useful lives of various categories of property, plant and equipment to better reflect the estimated periods during which these assets will remain in service (refer to Note 3(g)). The effect of this change in estimate reduced the 2019 depreciation expense for the Authority by a net amount of SBD 1,187,668, hence leading to an increase in profit before tax of the same amount for the Authority.

**(b) Asset write-off**

During the year, the Authority reviewed its Capital Work in Progress listing for all on-going projects and noted that the Work in Progress in relation to Mataniko project will not continue and needs to be written-off.

**17. Intangible assets**

	<b>2019</b>	<b>2018</b>
	<b>SBD</b>	<b>SBD</b>
<b>Cost</b>		
Balance at 1 January	452,808	452,808
Additions during the year	426,882	-
Balance at 31 December	<u>879,690</u>	<u>452,808</u>
<b>Accumulated amortisation</b>		
Balance at 1 January	367,249	245,501
Amortisation expense during the year	263,553	121,748
Balance at 31 December	<u>630,802</u>	<u>367,249</u>
Carrying amount as at 31 December	<u>248,888</u>	<u>85,559</u>

**18. Leases**

**As a lessee**

The Authority leases assets including office spaces and land for its depot and water source and storage locations. Information about leases for which the Authority is a lessee is presented below.

**(i) Right-of-use assets**

	<b>2019</b>
	<b>SBD</b>
Balance at 1 January	3,745,876
Additions during the year	-
Depreciation charge during the year	(975,227)
Balance at 31 December	<u>2,770,649</u>

**(ii) Lease liabilities**

**Maturity analysis - contractual undiscounted cash flows**

Less than one year	1,082,088
One to five years	1,768,560
More than five years	586,735
<b>Total undiscounted liabilities at 31 December 2019</b>	<u><b>3,437,383</b></u>

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18. Leases (continued)

As a lessee (continued)	2019
(ii) Lease liabilities (continued)	SBD
<i>Lease liabilities included in the statement of financial position at 31 December</i>	
Current	950,344
Non-current	1,893,974
	<u>2,844,318</u>
<i>Amounts recognised in profit or loss</i>	
Interest on lease liabilities	180,530
Variable lease payments not included in the measurement of lease liabilities	827,553
	<u>1,008,083</u>
<i>Amounts recognised in the statement of cash flows</i>	
Total cash outflow for leases	<u>1,082,088</u>

**Real estate lease**

The Authority leases buildings for its office space, customer service and bill-pay centre while land is leased for depots, warehouses, borehole and reservoir sites.

The lease for office space, customer service and bill-pay centre typically run for a period of two years with an option to renew the lease for an additional period as per the lease agreements after the end of initial lease term. The leases for land typically run for a period of fifteen to seventy-five years with no option to renew lease as per the lease agreements.

	2019	2018
	SBD	SBD
<b>19. Trade and other payables</b>		
Trade payables	-	1,670,118
Other payables	10,366,210	9,565,231
Water deposits	5,492,456	8,837,653
	<u>15,858,666</u>	<u>20,073,002</u>
<b>20. Deferred Revenue</b>		
<b>Donor Funds Received for Capital Projects and Unspent</b>		
Australian Government Department of Foreign Affairs and Trade	-	1,257,542
<b>Donor Funds Received for Capital Projects and Spent</b>		
Australian Government Department of Foreign Affairs and Trade	12,511,770	11,494,598
Japan International Cooperation Agency	81,917,549	84,472,324
Solomon Islands Government	4,599,868	4,833,692
	<u>99,029,187</u>	<u>100,800,614</u>
<i>As disclosed in the statement of financial position:</i>		
Current	3,028,969	3,028,969
Non-current	96,000,218	99,029,187
	<u>99,029,187</u>	<u>102,058,156</u>

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	<b>2019 SBD</b>	<b>2018 SBD</b>
<b>21. Employee benefit liability</b>		
Annual leave	486,099	727,066
Long service benefit	560,257	629,442
Long service leave	332,743	291,591
	<u>1,379,099</u>	<u>1,648,099</u>
Balance at the beginning of year	1,648,099	1,887,723
Net movement during the year	<u>(269,000)</u>	<u>(239,624)</u>
Balance at the end of year	<u>1,379,099</u>	<u>1,648,099</u>
<b>22. Contributed capital</b>		
Contributed capital	<u>59,625,874</u>	<u>59,625,874</u>

Capital represents Government's contribution on the establishment of Solomon Islands Water Authority.

**23. Commitments and contingent liabilities**

**Contingent liabilities**

Three former employees of the Authority have filed complaints in the Trade Disputes Panel claiming compensation for unfair dismissal. The Authority is defending the claims which are still pending. The Directors are defending this case and are confident that they will successfully defend this case and accordingly, no liability have been recorded.

**24. 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 Carson Korowa (Chairman)  
Mr Trevor Palmer  
Ms Cynthia Wickham  
Mr Donald Marahare  
Mr John Belande  
Mr David Patternot  
Ms Gloria Hong

**(b) Controlling entities**

The ultimate parent of the Authority is the Solomon Islands Government. The Government has control over the Authority.

	<b>2019 SBD</b>	<b>2018 SBD</b>
<b>(c) Compensation of key management personnel</b>		
Short term employee benefits	7,382,526	5,152,508
Superannuation contributions	532,306	386,101
	<u>7,914,832</u>	<u>5,538,609</u>



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24. Related party transactions (continued)

(d) Transactions with related parties

Transactions with related parties during the year ended 31 December 2019 with approximate transaction value are summarised as follows:

	2019 SBD	2018 SBD
<u>Controlling entity</u>		
Solomon Islands Government - CSO grant	4,310,000	3,000,000
<u>Directors</u>		
Directors remuneration and expenses	55,600	53,000

(e) Amount owed to related parties

<b>Current</b>		
Solomon Islands Electricity Authority	720,464	720,464
<b>Non-current</b>		
Solomon Islands Electricity Authority	-	642,338
	720,464	1,362,802

The Debt Agreement with Solomon Islands Electricity Authority is an interest free loan over 8 years, repayable in equal monthly instalments which commenced on 1 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.

25. Restatement

During the year, the Authority discovered that items of statement of changes in equity and balance sheet as outlined below have been erroneously reported in the financial statements for the year ended 31 December 2018 as a result of numerous errors as follows. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following table summarizes the impacts on the Authority's financial statements.

- The method of calculation for depreciation under diminishing-value method was incorrect, which resulted in incorrect depreciation expenses in prior years and as a result, the carrying amount of fixed assets was overstated by SBD 42,820,100 and retained earnings understated by SBD 29,778,230. As a consequence, the assets under the revaluation model for which asset revaluation reserve was recognised have been overstated by SBD 35,935,656, while the donor-funded assets recognised as deferred income has been overstated by SBD 36,662,674.
- The Authority had disposed off assets in prior years however this was not reflected in the financial statements and general ledger, and as a result, property, plant and equipment was overstated SBD 2,426,835 while retained earnings have been overstated by the same amount.
- In prior years, the Authority acquired leasehold land and had not been depreciating the land over the lease term. As a consequence, the depreciation expenses for the related leasehold lands have not been recognised in the retained earnings over the years and retained earnings was overstated by SBD 2,574,317 while fixed assets was overstated by the same amount.
- In prior years, inventory recorded in the financial statements was understated by SBD 665,863 due to the costing method of the Authority being not in accordance with IAS 2, *Inventories*, which required all costs incurred to bring the inventory to its present location to be allocated to inventory. The costs of freight and duty was not included in the costs of inventory and was recognised as expense. As a consequence, retained earnings have been understated by the same amount.

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**25. Restatement (continued)**

- v. The Authority has been using a land at White River and has not been paying for the rental over the prior years. During the year, the Authority was entered into an agreement with the landowners for arrangement of formal lease agreements and compensation for land use for prior years. The Authority did not record for liability for the use of land over the prior years. As a consequence, other payables has been understated by SBD 819,778 while retained earnings has been overstated by the same amount.
- vi. There were certain expenses which was under-accrued for in prior years by the Authority by SBD 1,398,464 which resulted in understatement of expenses and trade and other payables by the same amount. As a consequence, retained earnings have been understated by the same amount.
- vii. The Authority discovered that in prior years, depreciation for items recorded in Work in Progress was erroneously calculated by SBD 505,840, and depreciation for an asset recorded in water system class of asset was erroneously calculated by SBD 134,454 and as a result, depreciation expenses was overstated by SBD 640,294 and fixed assets understated by the same amount.

**Statement of changes in equity**

	Impact of correction of error			As restated SBD
	As previously reported SBD	Re- classifications SBD	Adjustments SBD	
<b>31 December 2018</b>				
Capital contribution	59,625,874	-	-	59,625,874
Asset revaluation reserve	142,169,998	-	(35,935,656)	106,234,342
Retained earnings	19,231,148	-	23,864,993	43,096,141
<b>Total equity</b>	<b>221,027,020</b>	<b>-</b>	<b>(12,070,663)</b>	<b>208,956,357</b>

**Statement of financial position**

	Impact of correction of error			As restated SBD
	As previously reported SBD	Re- classifications SBD	Adjustments SBD	
<b>31 December 2018</b>				
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	47,705,278	(7,897,716)	-	39,807,562
Trade and other receivables	16,494,837	(3,594,524)	-	12,900,313
Contract assets	-	3,594,524	-	3,594,524
Debt securities	-	6,574,465	-	6,574,465
Inventories	12,885,223	-	665,863	13,551,086
Other receivables and prepayments	1,174,231	430,827	-	1,605,058
Receivable from related parties	433,287	(433,287)	-	-
	<b>78,692,856</b>	<b>(1,325,711)</b>	<b>665,863</b>	<b>78,033,008</b>
<b>Non-current assets</b>				
Property, plant and equipment	303,390,812	-	(47,180,959)	256,209,853
Intangibles	85,559	-	-	85,559
	<b>303,476,371</b>	<b>-</b>	<b>(47,180,959)</b>	<b>256,295,412</b>
<b>Total assets</b>	<b>382,169,227</b>	<b>(1,325,711)</b>	<b>(46,515,096)</b>	<b>334,328,420</b>

SOLOMON ISLANDS WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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25. Restatement (continued)

*Statement of financial position (continued)*

	Impact of correction of error			As restated SBD
	As previously reported SBD	Re- classifications SBD	Adjustments SBD	
<b>31 December 2018</b>				
<b>Liabilities</b>				
<b>Current liabilities</b>				
Contract liabilities	-	230,004	-	230,004
Trade and other payables	15,337,631	2,517,129	2,218,242	20,073,002
Deferred revenue	11,589,335	-	(8,560,366)	3,028,969
Employee benefits liability	1,648,099	-	-	1,648,099
Payable to related parties	5,010,345	(4,289,881)	-	720,464
	<b>33,585,410</b>	<b>(1,542,748)</b>	<b>(6,342,124)</b>	<b>25,700,538</b>
<b>Non-current liabilities</b>				
Deferred revenue	127,131,495	-	(28,102,308)	99,029,187
Payable to related parties	425,302	217,036	-	642,338
	<b>127,556,797</b>	<b>217,036</b>	<b>(28,102,308)</b>	<b>99,671,525</b>
<b>Total liabilities</b>	<b>161,142,207</b>	<b>(1,325,712)</b>	<b>(34,444,432)</b>	<b>125,372,063</b>
<b>Equity</b>				
Capital contribution	59,625,874	-	-	59,625,874
Asset revaluation reserve	142,169,998	-	(35,935,656)	106,234,342
Retained earnings	19,231,148	-	23,864,993	43,096,141
<b>Total equity</b>	<b>221,027,020</b>	<b>-</b>	<b>(12,070,663)</b>	<b>208,956,357</b>
<b>Total equity and liabilities</b>	<b>382,169,227</b>	<b>(1,325,712)</b>	<b>(46,515,095)</b>	<b>334,328,420</b>

There are no adjustments made to the statement of profit or loss and other comprehensive income and statement of cash flows for the year ended 31 December 2018.

26. 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



# ANNUAL REPORT

Solomon Islands Water Authority

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# 2019