AUDITOR GENERAL'S OFFICE
PAPUA NEW GUINEA

PAPUA NEW GUINEA

Auditor General's Office of Papua New Guinea

Report of the Auditor-General 2014

Part 4

Part 4
Report of the Auditor-General
2014

on the Accounts of Public Authorities and Statutory Bodies established under the Act of Parliament and Government Owned Companies established under the Companies Act

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- Public Bodies and their Subsidiaries
- National Government Owned Companies
- National Government Shareholdings in Other Companies

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Auditor-General's Office of Papua New Guinea

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24 July 2015

The Honourable Theodore Zurenuoc, MP
The Speaker of National Parliament
Parliament House
WAIGANI
National Capital District

Dear Sir,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, I forward herewith a copy of my report signed on 24th July 2015 upon the inspection and audit of the financial statements of the Public Bodies and their subsidiaries and National Government owned companies for tabling in the National Parliament. This Report (Part IV) also contains information on companies in which the Government does not hold majority interest. Section D of this Part of the Report contains information on the status of certain entities which have ceased operations and those entities audits of which have been in arrears. Further, the status of eleven Project Audits are summarised and the details are covered in my Special Project Audits Report to the Parliament.

Yours sincerely,

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2014 AUDITOR-GENERAL'S REPORT – PART IV

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GENERAL

A. FOREWORD

My Annual Report to the National Parliament for the 2014 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea (PNG). Part II deals with National Government Departments and the Provincial Treasury Offices, whilst Part III deals with the audit of the Provincial Governments and Local-level Governments.

Part IV (this Part) of my Report deals with Public Bodies and their Subsidiaries, Government Owned Companies and National Government's shareholdings in Other Companies.

This Report is divided into four sections:

- Section A deals with Public Bodies and their subsidiaries;
- Section B deals with National Government owned companies;
- Section C deals with the Companies in which the National Government has shareholdings; and
- Section D is an additional section which provides details of entities that have ceased operating and those other entities the audits of which have been in arrears due to non-submission of financial statements.

The audit findings contained in Sections A and B of this Report have been reported to Management of the respective entities and to the responsible Ministers.

A.1 Audit and Delivery of Government Program

I have carried out audits of Statutory Bodies and their Subsidiaries, Provincial Government and Local Level Government, Hospital Boards, Business Arms, Provincial Authorities and Other audits as mandated. These government entities are tasked to deliver government services to the people of Papua New Guinea.

Although my report provides opinions on the financial affairs of these entities, other audit procedures performed by my Office give a picture of effectiveness of the delivery, by the public sector, of government policies and programs particularly their contribution to National Building through recovery, development and service delivery objectives of the Medium Term Development Strategies (MTDS) including:

- Welfare
- Health
- Economic Development and Growth
- Contribution to Nation Building
- Good Governance

- Rural Development
- Poverty Reduction
- Employment
- Strengthening Public Expenditure
- Management System including:
  - Fiscal Sustainability
  - Prioritisation of Resources, and
  - Cost effective implementation of programs.

In addition, my audit findings that have been repeatedly highlighted show a slow progress in making improvements to governance structures and public accountability mechanisms in relation to expending public finances. Without strong governance support, service delivery as envisaged by the National Government remains to be frustrated.

Besides the Audit of Financial Statements, I have extended my audit programs into the audit of service delivery, performance audit and major public works projects to enhance my Office's ability to deliver reports to Parliament on how well and effective the government programs are being delivered.

B. AUTHORITY TO AUDIT

B.1 Constitution

Under *Section 214(2)* of the *Constitution of the Independent State of Papua New Guinea*, I am required to inspect and audit all bodies set up by Acts of the Parliament, or by Executive or Administrative Act of the National Executive for governmental or official purposes unless other provisions are made by law in respect of their inspection and audit.

I am also empowered under *Section 214(3)* if I consider it proper to do so, to inspect and audit and report to the Parliament on any accounts, finances or property of a body, in so far as they relate to, or consist of, or are derived from public moneys or property of Papua New Guinea.

B.2 Audit Act

By virtue of *Section 214(4)* of the *Constitution*, the *Audit Act 1989*, which became effective from 1 May 1989, provides more details of my functions under Sub-sections (1), (2) and (3) of the *Constitution*. The *Audit Act* that was derived from the *Constitution* elaborates the functions and the duties of the Auditor-General. This Act was amended in 1995 and the relevant provisions of the amended Act are explained below.

B.3 Auditing and Reporting Requirements

In *Section 8, Sub-sections 2 and 4* of the *Audit Act* were amended to include provisions governing the auditing and the reporting requirements of public bodies including government owned companies incorporated under the *Companies Act 1997.*

B.4 Matters of Significant Importance

Under *Section 8(2)* of the Act, I am required to inspect and audit the accounts and records of financial transactions and the records relating to the assets and liabilities of these public bodies and their subsidiaries, and to report to the Minister vested with the responsibility for the public body and the Minister in charge of Finance any irregularities found during the inspection and audit.

B.5 Audit Opinion on Financial Statements

Section 8(4) of the *Audit Act* requires me to audit the financial statements of the public bodies and to report an opinion to the aforementioned Ministers on:

- *Whether the financial statements are based on proper accounts and records;*
- *Whether the financial statements are in agreement with those accounts and records; and*
- *Whether they show fairly the financial operations for the period which they cover and the state of affairs at the end of that period.*

B.6 Public Finances (Management) Act (PFMA)

The submission of the financial statements of public bodies for audit is required under *Section 63(4)* of the *PFMA.* The *Section* requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended on 31 December proceeding, together with financial statements in respect of that year duly audited by me.

The Minister is then required to table the report on the operations and the financial statements, together with my report on the financial statements, at the first meeting of the Parliament after receiving them.

B.7 Companies Act

I am required to audit National Government owned companies and subsidiary companies under the provisions of the *Companies Act*.

Though these companies are registered under the *Companies Act*, my responsibility to audit them is by virtue of *Sections 48 and 63* of the *PFMA* and *Section 3* of the *Audit Act.*

C. AUDIT OF PUBLIC BODIES

C.1 Scope of Audit

Presently, the limited resources available to my Office are directed primarily towards financial attestation and compliance or regularity audit of Public Bodies. Due to resource constraints, I have not been able to venture into the audits of information systems.

The full scope of my audit responsibility in respect of Public Bodies covers the Statutory Bodies and their subsidiaries, National Government owned companies and their subsidiaries, and the companies in which the government has minority interest.

C.2 Audit Objectives

Under the *Companies Act* I am required to ascertain whether proper accounting records have been kept; whether the financial statements comply with generally accepted accounting practice; and whether those financial statements give a true and fair view of the matters to which they relate. The Act also requires the auditor to report the instances of non-compliance with these requirements. More details on the audit responsibilities under the *Companies Act* are provided in **Section B** of this Report which covers the National Government owned companies.

C.3 Reporting Framework

My audits are conducted in accordance with the International Standards on Auditing to provide reasonable assurance that the financial statements are free of material misstatements. The audit procedures include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, evaluation of accounting policies and significant accounting estimates, and ensuring that the financial statements are presented fairly and in accordance with the International Accounting Standards (IAS) and statutory requirements.

D. APPOINTMENT AND USE OF AUTHORISED AUDITORS

Section 8(5) of the *Audit Act* empowers me to employ registered company auditors to assist me in undertaking my Constitutional Duties, where such assistance is required.

During the period covered in the Report, I engaged a number of registered company auditors to perform audits of numerous Statutory Bodies and National Government owned companies.

E. EXECUTIVE SUMMARY

E.1 Report Coverage

This Report covers the audit reports issued by my Office on the audits of Public Bodies and their Subsidiaries, Government Owned Companies, and National Government's shareholdings in Other Companies during the period July 2014 to June 2015 (2014/2015 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, not just 2014.

In **2014** there were **100 public entities** subject to audit by my Office, consisting of **81 Public Bodies and their Subsidiaries** and **19 National Government Owned Companies**. In addition, the Statutory Bodies Audit Division also carried out audits on **11 Projects** managed by Public entities as implementing agencies which are depicted in the **Schedule 'D'** of this report.

The results of these audits are presented in a separate Special Projects Audit report presented to the National Parliament.

I am also responsible for reporting on the audits of **4 Companies**, in which the National Government has a minority shareholding, that are audited by the private sector. These are reported under **Section C** of this Report.

The audit portfolio has increased from 89 entities in 2013 to 100 entities in 2014.

E.2 Consistency in audit findings over a number of years

The Report's findings are consistent with those in my previous years' reports that have highlighted my concerns over the number of entities that do not submit current year financial statements for audit, and the overall poor state of the financial management structure in most public entities whose statements are subject to my audit and inspection.

The overall purpose of financial statements is to provide information about the financial position and performance of an organisation. The information is useful to a wide range of stakeholders and the statements constitute a formal record of the financial and business activities of an organisation. As such, the statements are core component of an organisation's governance and accountability. Non-submission of the financial statements for audits in a timely manner greatly limits the ability of stakeholders to monitor performance and make informed decisions regarding the organisation.

Financial management in the public sector is the establishment and maintenance of polices, processes and procedures to achieve effective and efficient management of public funds in such a manner as to achieve the objectives of the organisation. It consists of planning, directing, monitoring, organising and controlling the monetary resources of an organisation. Unfortunately many organisations continue to indicate they are incapable of managing their financial affairs.

Weaknesses with financial management are contributing to significant wastage of financial resources and indicate a serious lack of transparency and accountability. Ultimately these weaknesses adversely impact upon the delivery of services to the citisens of PNG.

E.3 Submission of current year Financial Statements

Section 63 (4) of the *PFMA* requires a *'... public body to prepare and furnish to its Minister before 30 June each year, a performance and management report of its operations for the year ended 31 December preceding, together with financial statements to enable the Minister to present such report and statements to the Parliament ...'*

Before submitting the financial statements to the Minister, *Section 63(4)* requires a public body to submit the financial statements to the Auditor-General and for the Auditor-General to report to the Minister in accordance with Part II of the *Audit Act.*

Despite these legislative requirements, **66 entities** had not submitted their **2014 financial statements** to be audited and overall some **41 financial statements for 2013** and prior years had not been submitted for audit (**Refer Table A)**. However, I noted some improvements during the cycle due to strategies implemented by my Office by compelling entities to submit their financial statements.

The details of the audits in arrears and those entities whose financial statements have been outstanding for a number of years are shown in **Attachment 'B'.**

Table A

STATUS OF AUDITS DURING THE YEAR 2014 (END OF 2014/2015 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2014/2015	Total 2013/2014
2014	18	2	8	5	66	**99**	-
2013	24	11	17	7	27	**86**	**96**
2012	25	12	10	3	10	**60**	**86**
2011	27	7	5	1	2	**42**	**54**
2010	9	3	-	1	2	**15**	**32**
2009	4	1	-	1	-	**6**	**14**

2008	3	-	-	1	-	**4**	**8**
2007	2	2	-	1	-	**5**	**8**
2006	1	2	-	1	-	**4**	**5**
2005	1	2	-	1	-	**4**	**4**
2004	-	2	-	-	-	**2**	**4**
2003	-	2	-	-	-	**2**	**4**
Total	**114**	**46**	**40**	**22**	**107**	**329**	**315**

Table A also shows that **200 audits** were either completed, substantially completed or still in progress as at 30 June 2014. The details are graphically depicted in **Attachment 'C'**, which also included the arrears of prior years. **Table A** also shows that of the **114 audits completed**, only **18 were for the current year (2014)**, with **10 current year audits** substantially completed or were in progress. A further **5 audits** were to commence shortly. Graphical description of the status of current year 2014 audits (excluding arrears) is given in **Attachment 'A'**. The list of entities is at **Schedule 'A' (i), (ii), (iii) & (iv)**.

E.4 Type of Audit Opinions Issued[1]

In the period covered by the audit, **114 audit reports were issued**. Of the **114 audit reports issued, 37 were unqualified, 37 were qualified, 39 were Disclaimer Opinions and one report related to Internal Control Review.**

Of the **37 unqualified opinions issued**, **24** related to prior years and only **13** were for 2014 as follows:

1. *Bank of PNG;*
2. *Independent Fellowship Trust*
3. *Investment Promotion Authority*
4. *Kokonas Indastri Koporesen;*
5. *PNG Extension Fund;*
6. *PNG Coconut Research Fund;*
7. *National Agricultural Research Institute;*
8. *Post (PNG) Limited;*
9. *National Research Institute*
10. *NPCP Holdings Limited*
11. *NPCP Investment Limited*
12. *NPCP Pipeline and Gas Supply Limited*
13. *National Petroleum Company of PNG (Kroton) Limited*

[1] The types of audit opinions are: **Unqualified Opinion –** A Company's financial statements are presented fairly, in all material respects in conformity with generally accepted accounting principles. **Qualified Opinion –** The financial statements *"except for"* certain issues fairly present the financial position and operating results of the firm. The except for opinion relates to inability of the auditor to obtain sufficient objective and verifiable evidence in support of business transactions of the Company being audited. **Disclaimer Opinion –** When insufficient competent evidential matter exists to form an audit opinion due to scope limitation or uncertainties. **Adverse Opinion –** The Company's financial statements do not present fairly the financial position, results of operations, or changes in financial position or are not in conformity with generally accepted accounting principles.

Six of the qualified opinions related to 2014 and others were for prior years. The high numbers of Disclaimer Audit Opinions issued are a reflection of the poor state of accounting, record-keeping and financial management practices in a number of public bodies.

The list of entities and the type of audit opinions issued during the period July 2014 to June 2015 are provided in **Attachment 'D'**.

Types of Audit Opinions issued for each entity over the period of four years from 2010 – 2014 are detailed on **Attachment 'E'**.

E.5 Key Findings

The key findings from the audits centered primarily on the non-submission of the financial statements, non-compliance with the Salaries and Conditions Monitoring Committee (SCMC) regulatory mechanisms for salaries and wages, lack of basic accounting records and ineffective internal control systems. These issues are highlighted in the paragraphs below.

E.6 Non-Submission of Financial Statements

As stated earlier, *Section 63(4)* of the *PFMA* requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended 31 December preceding together with financial statements in respect of that year duly audited by me for tabling in Parliament.

This legislative requirement has not been strictly adhered to by all respective public entities' management. To comply with this requirement, the financial statements are required to be submitted to my Office well before 30 June each year for my audit and inspection. Consequently, out of **100 public entities** and **11 Projects** only **33** entities have submitted their financial statements for 2014 **(Refer Schedule A (i), (ii), (iii) & (iv)** for my audit and inspection up to the time of preparing this Report. A total of **66** entities have failed to comply with these provisions **(Refer Schedule A (v))**. The public entities and project audits referred to above does not include **4 Companies** with minority Government shareholdings.

The Status of Audits in **Table A** also includes the **Project Audits**. Refer to **Schedule D (iii)** for status of Project Audits.

The non-compliance of the public entities mentioned above has resulted in:

- *My Office not being able to report adequately on the accountability of the use of public resources in a timely manner;*
- *A build-up of audits in arrears; and*

- *The non-tabling of Annual Reports on performance and management by public entities in the Parliament.*

Responsibility for Submission of Financial Statements

An entity's management is responsible for preparing and presenting financial statements for my audit and inspection. It is also the responsibility of management to ensure that an adequate and effective internal control system is maintained to ensure that complete and accurate financial statements are produced on a timely basis.

My Office Recommendation

There is vigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement is established to make the renewal of contracts of Chief Executive Officers subject to submission of financial statements and implementation and maintenance of prudent financial management.

These recommendations are to help achieve financial management accountability and good governance in the public sector.

Details of audits that have gone into arrears due to non-submission of financial statements from 2013 or earlier are given below in **Table B** and **Schedule 'C'**.

Table B

Financial Statements not Submitted

No.	Section	Para No.	Entity	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	1
2	A	5B	Cocoa Pod Borer Project Fund	1
3	A	8	Government Printing Office	1
4	A	17	Mineral Resources Authority	1
5	A	23	National Capital District Commission	1
6	A	23A	National Capital District Botanical Enterprises Limited	1
7	A	23B	Port Moresby City Development Enterprises Limited	1
8	A	28	National Housing Corporation	1
9	A	29	National Information and Communication Technology Authority	1
10	A	31	National Museum and Art Gallery	1
11	A	32	National Narcotics Bureau	1
12	A	43	Papua New Guinea Accident Investigation Commission	1
13	A	45	Papua New Guinea Forest Authority	1
14	A	51	Papua New Guinea University of Technology	1
15	A	53	Public Curator of PNG	1
16	A	55	Small Business Development Corporation	1
17	A	64	Mineral Resources Development Corporation	1
18	A	39	Office of Climate Change and Development	2
19	A	40	Oil Palm Industry Corporation	2

No.	Section	Para No.	Entity	No. of Audits
20	A	47	Papua New Guinea Institute of Public Administration	2
21	A	54	Security Industries Authority	2
22	A	59A	Unisave Limited	2
23	A	59B	Univenture Limited	2
24	B	66	National Airport Corporation Limited	2
25	B	66A	Airport City Development Limited	2
26	B	28A	National Housing Estate Limited	4
27	B	63	Livestock Development Corporation	4
			Total	**41**

Arrears Reduction Strategies

During the last Audit Cycle, I took steps as in the past to remind various entities of their responsibilities to submit the financial statements on a timely basis. These steps include but are not limited to the following:

- Forwarding reminder letters to entities on a regular basis until the submission of the financial statements;
- Copies of these reminder letters were forwarded to the Public Accounts Committee and to the Secretary for Finance for their necessary action;
- My officers have visited various entities and had meeting with the Chief Executive Officers regarding non-submission of the financial statements and drew their attention to their responsibilities under the *PFMA* and the resultant breach of the that Act; and
- Senior officers of the Division attended various audit committee meetings during the cycle and emphasised the importance of brining the audits up to date. My officers attended the following audit committee meetings during the cycle:
  - *National Capital District Commission;*
  - *Civil Aviation Safety Authority of PNG;*
  - *University of PNG;*
  - *National Housing Corporation; and*
  - *University of Goroka.*

I have set a goal to significantly reduce the arrears situation and the entities listed under **Attachment 'F'** indicate the arrears cleared during the audit cycle. This reduction largely reflects the collective efforts of all my staff members to better manage the audits in arrears.

E.7 Non-Compliance of the Salaries and Conditions Monitoring Committee Act

The SCMC was established as the regulatory mechanism for salaries and wages in the public sector. Sadly, some public bodies do not comply with the provisions of this Act because of legislative changes in their constituent Acts. As a result, these bodies pay salaries and allowances without any monitoring from this Committee. Consequently, they have contravened Section (3) of the *SCMC Act* which stipulates:

> *"(a) The provisions of this Act apply notwithstanding anything in any other law relating to the determination of salaries and conditions or employment of employees of a public authority; and*
>
> *(b) Whereby or under any law, power is given to a public authority, to determine or vary the salaries and conditions of employment of employees of the public authority, that power shall be exercised subject to this Act."*

E.8 Non-Compliance with the Audit Act 1989

Some entities owned by the State have amended their enabling Acts to exclude my Office from performing the audit of those entities and appointed their own auditors contrary to the *Audit Act*. The following state owned entities have appointed their own Auditors:

- *Petromin Limited; and*
- *National Development Bank Limited.*

E.9 Lack of Basic Accounting Records and Inadequate Control Systems

As reported in previous years, during the course of audits I noted serious deficiencies in accounting and record keeping practices and the maintenance of internal controls. These deficiencies, which contributed to the limitation on the scope of my audit procedures, included:

- Bank reconciliation statements not being prepared in a timely way or not being prepared at all;
- Transactions not having supporting documentation;
- Fixed asset registers not being properly kept or maintained;
- No consistent and proper valuation of assets;
- Physical asset stock-takes not being carried out;
- Property being acquired or disposed of without proper procedures being followed;
- Failure to comply with International Financial Reporting Standards in the preparation of the financial statements;
- Travel and other allowances not being fully acquitted;

- Internal Revenue Commission (IRC) regulations on payment of taxes not being followed;
- Entities paying housing allowances and Boards members allowances without tax but allowing officers to pay the tax;
- Accounting, administrative and procedural manuals not being available;
- Public servants serving on Statutory Boards receiving Board allowances contrary to regulations;
- Ineffective internal audit functions; and
- Ineffective budget controls.

The above factors contributed to the limitations on the scope of my audits which resulted in the issuance of Disclaimer Audit Opinions in respect of many of the Reports issued during the year, as shown in **Attachment 'D'**.

E.10 Poor Financial Management

Over a number of years, I have expressed my concern about public bodies' poor accounting records, weaknesses in internal controls and management information systems, and non-compliance with legislative requirements and the International Financial Reporting Standards. I also consider that a large number of Chief Executive Officers do not pay sufficient attention to financial management in their entities. In my view, the concept of effective, prudent and efficient financial management is yet to be understood and practiced by many Chief Executive Officers.

E.11 Recommendations for Improvement

Consistent with comments in previous years' Reports, I will report to the Parliament in future that proper accounting records and adequate internal control systems must exist in all public entities subject to my audit.

For that to be achieved, I believe that Chief Executive Officers are required to exercise proper leadership that provides an environment where there is:

- *Timely submission of financial statements;*
- *Improved record keeping and documentation;*
- *Maintenance and provision of quality information;*
- *Effective implementation of internal control systems;*
- *Sound financial management implemented and adopted by qualified and experienced accountants; and*
- *Implementation of all my audit recommendations.*

E.12 Improvement Strategies

In my view, for improvement to occur:

- Chief Executive Officers must employ well trained and professionally qualified accounting staff to manage the financial affairs of the organisation;
- Chief Executive Officers must understand the value of and how to implement a strong governance framework and their performance should be regularly assessed against implementation of the framework; and
- Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with incentives to improve their management structures; and the Department of Finance must exercise its discretion to invoke Section 63(8) of the *PFMA* by withholding funds for those entities that have not submitted their financial statements until the financial statements are submitted and/or completion of the audit.

E.13 Structure of the Report

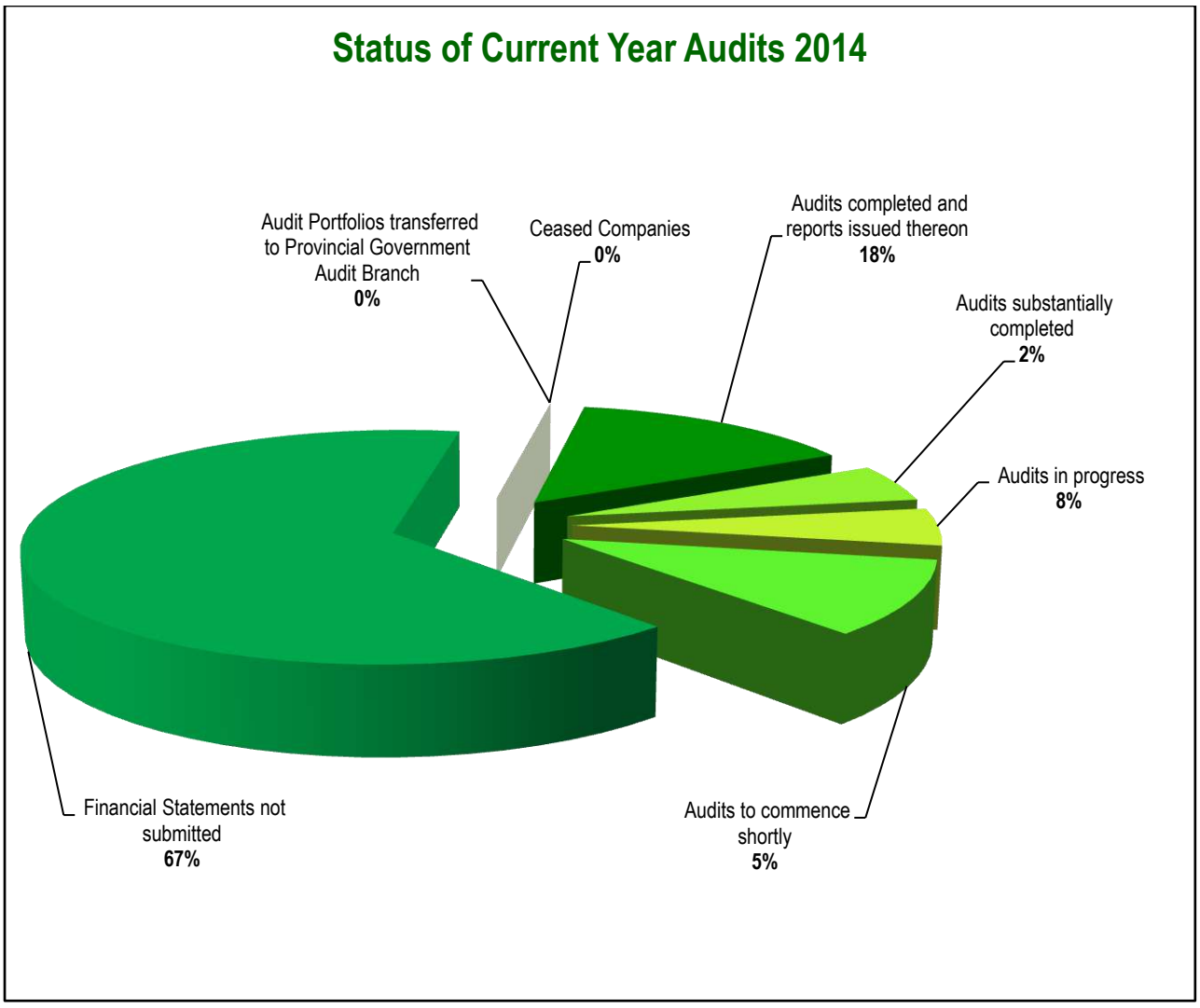
This Report is structured as follows:

Section A – Public Bodies and Their Subsidiaries;
Section B – National Government Owned Companies;
Section C – National Government Shareholdings in Other Companies; and
Section D – Problem Audits.

ATTACHMENT 'A'

STATUS OF CURRENT YEAR AUDITS 2014

No.	Status of Current Year Audits	Number of Entities	
		2014/2015	2013/2014
1	Audits completed and reports issued thereon	18	14
2	Audits substantially completed	2	5
3	Audits in progress	8	5
4	Audits to commence shortly	5	10
5	Financial Statements not submitted	66	62
6	Audit Portfolios transferred to Provincial Government Audit Division	0	0
7	Ceased Companies	0	0
	Total	**99**	**96**



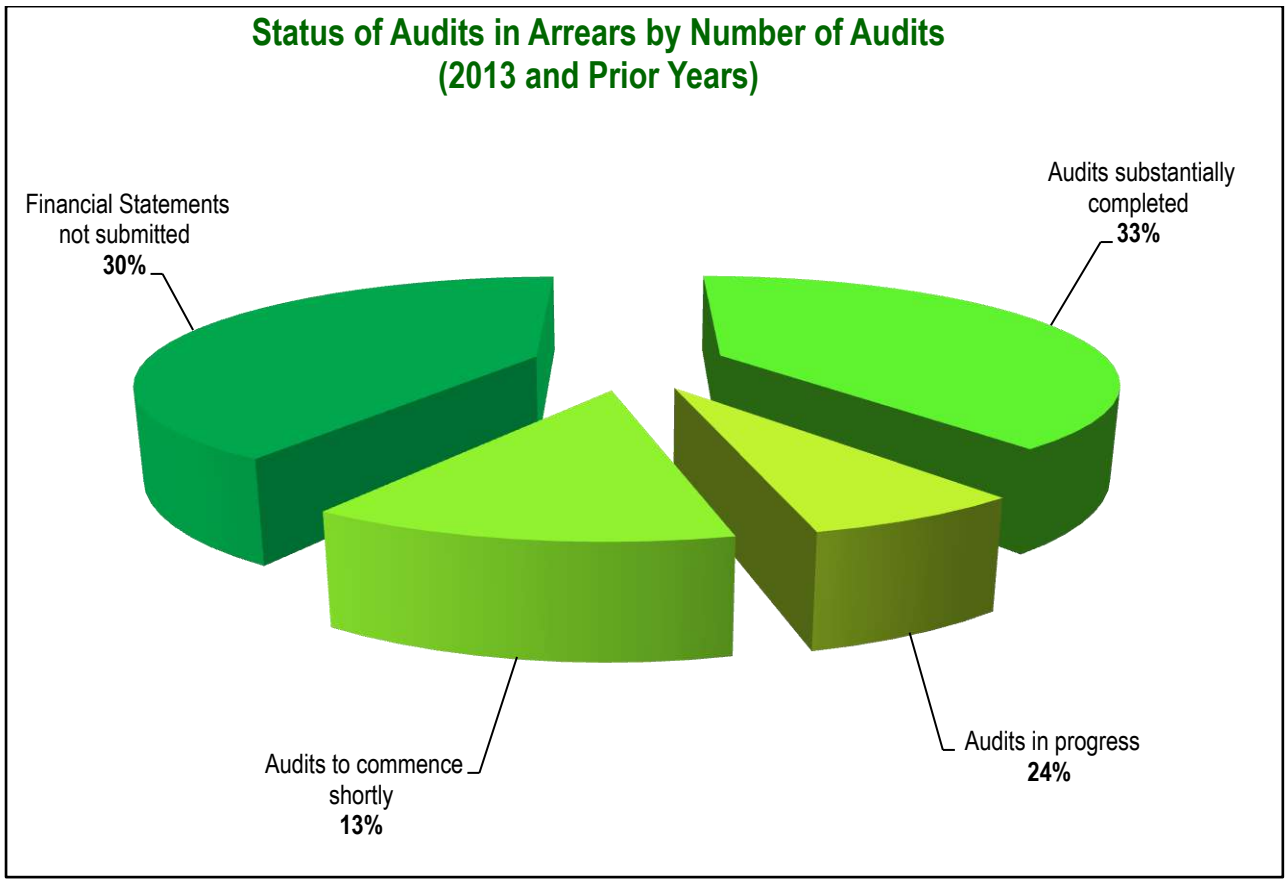
Please refer to details in Schedule 'A' on Pages 344 to 347.

ATTACHMENT 'B'

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS

(2013 AND PRIOR YEARS)

No.	Status of Audits in Arrears by Number of Audits (2013 and Prior Years)	Number of Audits	
		2014/2015	2013/2014
1	Audits substantially completed	44	52
2	Audits in progress	32	9
3	Audits to commence shortly	17	17
4	Financial Statements not submitted	41	54
	Total	**134**	**132**

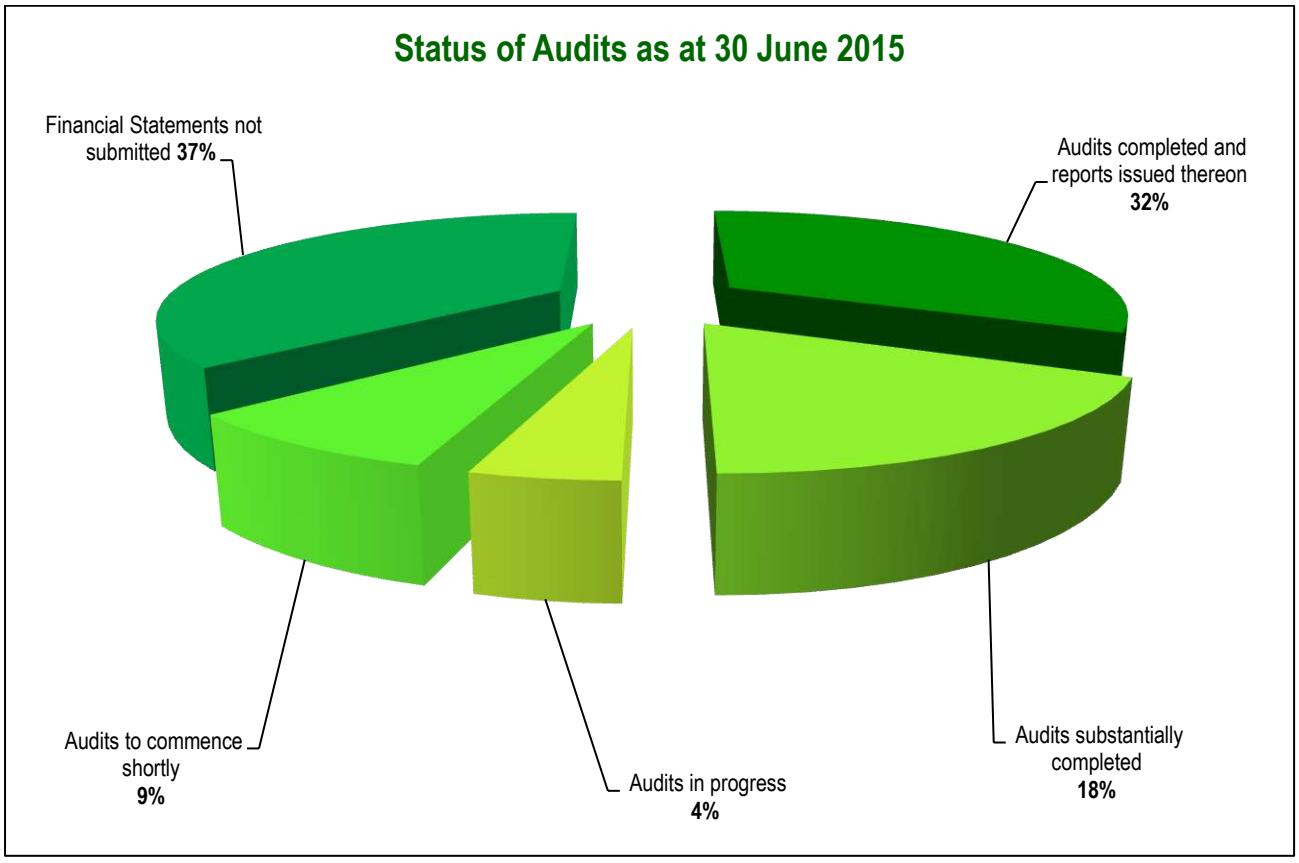


Please refer to details in Schedules 'B' on Pages 348 to 350.

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2015

No.	Status of Audits	Number of Audits	
		2014/2015	2013/2014
1	Audits completed and reports issued thereon	114	101
2	Audits substantially completed	46	57
3	Audits in progress	40	14
4	Audits to commence shortly	22	27
5	Financial Statements not submitted	107	116
		329	**315**



Please refer to details Schedules 'A' and 'B' on Pages 344 to 350.

ATTACHMENT 'D'

TYPES OF AUDIT OPINIONS ISSUED

(i) UNQUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	2	Bank of Papua New Guinea	2014	1
2	A	5B	Cocoa Pod Borer Project Fund	2010-2012	3
3	A	9	Independent Fellowship Trust	2012 & 2013	2
4	A	14	Investment Promotion Authority	2013 & 2014	2
5	A	15	Kokonas Indastri Koporesen	2014	1
6	A	15A	Papua New Guinea Coconut Extension Fund	2014	1
7	A	15B	Papua New Guinea Coconut Research Fund	2014	1
8	A	20	National Agricultural Research Institute	2014	1
9	A	33	National Research Institute	2013 & 2014	2
10	A	34	National Roads Safety Council	2013	1
11	A	41	Ombudsman Commission of Papua New Guinea	2013	1
12	A	52	Parliamentary Members' Retirement Benefits Fund	2013	1
13	A	68	NPCP Holdings Limited	2014	1
14	B	68A	NPCP Investments Limited	2014	1
15	B	68B	National Petroleum Company PNG (Kroton) Limited	2011-2014	4
16	B	68C	NPCP Pipeline and Gas Supply Limited	2014	1
17	B	73	Post (PNG) Limited	2014	1
18	N/A	N/A	Japanese Fund for Poverty Reduction Project	2013	1
19	N/A	N/A	Lae Port Development Project	2008-2009 & 2012	3
20	N/A	N/A	Port Moresby Sewerage System Upgrading Project	2010-2012	3
21	N/A	N/A	Town Electrification Investment Program	2011 & 2012	2
22	N/A	N/A	Wutung Pilot Border Trade and Investment Project	2011-2013	3
					37

(ii) QUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2011	1
2	A	4	Civil Aviation Safety Authority of Papua New Guinea	2012	1
3	A	9	Independent Fellowship Trust	2014	1
4	A	10	Independent Consumer and Competition Commission	2014	1
5	A	11	Independent Public Business Corporation	2012	1
6	A	11D	Port Moresby Private Hospital Limited	2011 & 2012	2
7	A	12	Industrial Centres Development Corporation	2011	1
8	A	19	National Agriculture Quarantine and Inspection Authority	2013	1
9	A	25	National Economic and Fiscal Commission	2014	1

No.	Section	Para. No.	Entity	Year	No. of Audits
9	A	27	National Gaming Control Board	2013	1
10	A	27A	National Gaming Control Board Community Benefit Fund Trust	2013	1
11	A	30	National Maritime Safety Authority	2013 & 2014	2
12	A	35	National Roads Authority	2013	1
13	A	36	National Training Council	2010-2014	5
14	A	37	National Volunteer Service	2011-2013	3
15	A	47	Papua New Guinea Institute of Public Administration	2011	1
16	A	48	Papua New Guinea Maritime College	2011 & 2012	2
17	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2010	1
18	A	54	Security Industries Authority	2011	1
19	A	58	University of Natural Resources and Environment	2013	1
20	A	62	Air Niugini Limited	2013	1
21	B	65	Motor Vehicles Insurance Limited	2011	1
22	B	67	NCD Water and Sewerage Limited (Eda Ranu)	2013	1
23	B	69	Papua New Guinea Ports Corporation Limited	2012 & 2013	2
24	B	70	PNG Air Services Limited	2013 & 2014	2
25	N/A	N/A	Civil Aviation Development Investment Program	2013	1
					37

(iii) DISCLAIMED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	11A	Aquarius No. 21 Limited	2011 & 2012	2
2	A	11C	PNG Dams Limited	2012	1
3	A	17	Mineral Resources Authority	2011	1
4	A	21	National AIDS Council Secretariat	2011 & 2012	2
5	A	23	National Capital District Commission	2010-2012	3
6	A	23A	National Capital District Botanical Enterprises Limited	2007-2012	6
7	A	23B	Port Moresby City Development Enterprises Limited	2006-2012	7
8	A	31	National Museum and Art Gallery	2011 & 2012	2
9	A	32	National Narcotics Bureau	2010-2012	3
10	A	45	Papua New Guinea Forest Authority	2009	1
11	A	46	Papua New Guinea Institute of Medical Research	2012 & 2013	3
12	A	51	Papua New Guinea University of Technology	2010	1
13	A	53	Public Curator of Papua New Guinea	2011	1
14	A	57	University of Goroka	2011 & 2012	2
15	A	59A	Unisave Limited	2011	1
16	A	60	Water PNG	2011 & 2012	2
17	A	64	Mineral Resources Development Company Limited	2011	1
18	N/A	N/A	Town Electrification Investment Program	2013	1
					39

(iv) INTERNAL CONTROL REVIERW

No.	Section	Para. No.	Entity	Years	No. of Audit
1	A	50	Papua New Guinea Sports Foundation	2005-2013	1
					1
GRAND TOTAL					**114**

ATTACHMENT 'E'

COMPARATIVE AUDIT OPINIONS ISSUED (2010–2014)

No.	Section	Para. No.	Entity	2014	2013	2012	2011	2010
1	A	2	Bank of Papua New Guinea	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
2	A	3	Border Development Authority	N/A	N/A	N/A	Qualified	Qualified
4	A	4	Civil Aviation Safety Authority of Papua New Guinea	N/A	N/A	Qualified	Unqualified	Unqualified
5	A	5	Cocoa Board of Papua New Guinea	N/A	Qualified	Qualified	Qualified	Qualified
6	A	5A	Cocoa Stabilisation Fund	N/A	Unqualified	Qualified	Qualified	Qualified
7	A	5B	Cocoa Pod Borer Project Fund	N/A	N/A	Unqualified	Unqualified	Unqualified
8	A	6	Cocoa Coconut Institute Limited of Papua New Guinea	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
9	A	7	Coffee Industry Corporation Limited	N/A	N/A	Qualified	Qualified	Qualified
10	A	7A	Coffee Industry Fund	N/A	N/A	Qualified	Qualified	Qualified
11	A	7B	Patana No. 61 Limited	N/A	N/A	Qualified	Qualified	Qualified
12	A	8	Government Printing Office	N/A	N/A	N/A	Disclaimer	Disclaimer
13	A	9	Independence Fellowship Trust	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
14	A	10	Independent Consumer and Competition Commission	Qualified	Unqualified	Qualified	Unqualified	Unqualified
15	A	11	Independent Public Business Corporation	N/A	N/A	Qualified	Disclaimer	Qualified
16	A	11A	Aquarius No.61 Limited	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
17	A	11B	General Business Trust	N/A	N/A	Qualified	Qualified	Unqualified
18	A	11C	PNG Dams Limited	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
19	A	11D	Port Moresby Private Hospital Limited	N/A	N/A	Qualified	Qualified	Qualified
20	A	12	Industrial Centres Development Corporation	N/A	N/A	N/A	Qualified	Qualified
22	A	14	Investment Promotion Authority	Unqualified	Unqualified	Unqualified	Qualified	Qualified
23	A	15	Kokonas Indastri Koporesen	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
24	A	15A	Papua New Guinea Coconut Extension Fund	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
25	A	15B	Papua New Guinea Coconut Research Fund	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

No.	Section	Para. No.	Entity	2014	2013	2012	2011	2010
26	A	16	Legal Training Institute	N/A	N/A	Qualified	Unqualified	Unqualified
27	A	17	Mineral Resources Authority	N/A	N/A	N/A	Disclaimer	Disclaimer
30	A	19	National Agriculture Quarantine and Inspection Authority	N/A	Qualified	Qualified	Qualified	Qualified
31	A	20	National Agricultural Research Institute	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
32	A	21	National AIDS Council Secretariat	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
33	A	22	National Broadcasting Corporation	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
34	A	23	National Capital District Commission and its Subsidiaries	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
35	A	23A	National Capital District Botanical Enterprises Limited	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
36	A	23B	Port Moresby City Development Enterprises Limited	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
38	A	24	National Cultural Commission	N/A	N/A	N/A	Qualified	Qualified
39	A	25	National Economic and Fiscal Commission	Qualified	Qualified	Qualified	Qualified	Qualified
40	A	26	National Fisheries Authority	N/A	N/A	N/A	Qualified	Qualified
41	A	27	National Gaming Control Board	N/A	Qualified	Qualified	Qualified	Qualified
	A	27A	National Gaming Control Board Community Benefit Fund Trust	N/A	Qualified	N/A	N/A	N/A
42	A	28	National Housing Corporation	N/A	N/A	N/A	N/A	Disclaimer
43	A	29	National Information and Communication Technology Authority	N/A	N/A	N/A	Disclaimer	Disclaimer
44	A	30	National Maritime Safety Authority	Qualified	Qualified	Qualified	Qualified	Qualified
45	A	31	National Museum and Art Gallery	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
46		32	National Narcotics Bureau	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
47	A	33	National Research Institute	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
48	A	34	National Road Safety Council	N/A	Unqualified	Qualified	Qualified	Qualified
49	A	35	National Roads Authority	N/A	Qualified	Qualified	Qualified	Qualified
50	A	36	National Training Council	Qualified	Qualified	Qualified	Qualified	Qualified

No.	Section	Para. No.	Entity	2014	2013	2012	2011	2010
51	A	37	National Volunteer Service	N/A	Qualified	Qualified	Qualified	Disclaimer
52	A	38	National Youth Commission	N/A	N/A	N/A	Qualified	Qualified
54	A	40	Oil Palm Industry Corporation	N/A	N/A	N/A	N/A	Qualified
55	A	41	Ombudsman Commission of Papua New Guinea	N/A	Unqualified	Unqualified	Unqualified	Unqualified
58	A	44	Papua New Guinea Immigration and Citisenship Service Authority	N/A	N/A	N/A	Qualified	Unqualified
60	A	46	Papua New Guinea Institute of Medical Research	N/A	Disclaimer	Disclaimer	Qualified	Qualified
61	A	47	Papua New Guinea Institute of Public Administration	N/A	N/A	N/A	Qualified	Unqualified
62	A	48	Papua New Guinea Maritime College	N/A	N/A	Qualified	Qualified	Qualified
63		49	Papua New Guinea National Institute of Standard and Industrial Technology	N/A	N/A	N/A	N/A	Qualified
65		51	Papua New Guinea University of Technology and its Subsidiaries	N/A	N/A	N/A	N/A	Disclaimer
67		51B	Unitech Development and Consultancy Company Limited	N/A	N/A	Qualified	Qualified	Disclaimer
68		52	Parliamentary Members Retirement Benefits Fund	N/A	Unqualified	Unqualified	Unqualified	Unqualified
69		53	Public Curator of Papua New Guinea	N/A	N/A	N/A	Disclaimer	Disclaimer
70		54	Security Industries Authority	N/A	N/A	N/A	Qualified	Qualified
71	A	55	Small Business Development Corporation	N/A	N/A	N/A	Qualified	Qualified
72	A	56	Tourism Promotion Authority	N/A	Unqualified	Unqualified	Unqualified	Unqualified
73	A	57	University of Goroka	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
75	A	58	University of Natural Resources and Environment	N/A	N/A	Qualified	Qualified	Qualified
77	A	59A	Unisave Limited	N/A	N/A	N/A	Disclaimer	N/A
78	A	59B	Univentures Limited	N/A	N/A	N/A	Disclaimer	Disclaimer
79	A	60	Water PNG	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
80	B	62	Air Niugini Limited	N/A	Qualified	Qualified	Qualified	Qualified

No.	Section	Para. No.	Entity	2014	2013	2012	2011	2010
82	B	64	Mineral Resources Development Company Limited	N/A	N/A	N/A	Disclaimer	Qualified
83	B	65	Motor Vehicles Insurance Limited	N/A	N/A	N/A	Qualified	Qualified
84	B	66	National Airports Corporation Limited	N/A	N/A	N/A	N/A	Qualified
86	B	67	NCD Water and Sewerage Limited *(Eda Ranu)*	N/A	Qualified	Qualified	Qualified	Qualified
87	B	68	NPCP Holdings Limited	N/A	N/A	Qualified	Qualified	Qualified
88	B	68A	NPCP Investments Limited	Unqualified	N/A	N/A	N/A	N/A
89	B	68B	National Petroleum Company of PNG *(Kroton)* Limited	Unqualified	Unqualified	Unqualified	Unqualified	Qualified
90	B	68C	NPCP Pipeline and Gas Supply Limited	Unqualified	N/A	N/A	N/A	N/A
91	B	69	Papua New Guinea Ports Corporation Limited	N/A	Qualified	Qualified	Qualified	Disclaimer
92	B	70	PNG Air Services Limited	Qualified	Qualified	N/A	N/A	N/A
94	B	72	PNG Power Limited	N/A	N/A	Disclaimer	Disclaimer	Disclaimer
95	B	73	Post PNG Limited	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
96	B	74	Telikom PNG Limited	N/A	N/A	Qualified	Qualified	Unqualified
97	B	74A	Kalang Advertising Limited	N/A	N/A	Qualified	Unqualified	Qualified
98	B	74B	PNG Directories Limited	N/A	N/A	Unqualified	Unqualified	Unqualified

ATTACHMENT 'F'

AUDITS IN ARREARS (2013 AND PRIOR YEARS) COMPLETED DURING 2014/2015 AUDIT CYCLE

No.	Section	Para No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
1	A	3	Border Development Authority	2011	1	2012	1
2	A	3A	Papua New Guinea Maritime Transport Limited			2011 & 2012	2
3	A	4	Civil Aviation Safety Authority of Papua New Guinea	2012	1		
4	A	5B	Cocoa Pod Borer Project Fund	2010-2012	3		
5	A	8	Government Printing Office			2012	1
6	A	9	Independence Fellowship Trust	2012 & 2013	2		
7	A	11	Independent Public Business Corporation	2012	1		
8	A	11A	Aquarius No. 21 Limited	2011 & 2012	2		
9	A	11B	PNG Dams Limited	2012	1		
10	A	11C	Port Moresby Private Hospital Limited	2011 & 2012	2		
11	A	12	Industrial Centers Development Corporation	2011	1	2012 & 2013	2
12	A	14	Investment Promotion Authority	2013	1		
13	A	16	Legal Training Institute			2013	1
14	A	17	Mineral Resources Authority	2011	1		
15	A	18	Motu Koitabu Council			2003 - 2007	5
16	A	18A	Tabudubu Limited			2003 - 2007	5
17	A	19	National Agriculture Quarantine and Inspection Authority	2013	1		
18	A	21	National AIDS Council Secretariat	2011 & 2012	2		
19	A	23	National Capital District Commission and its Subsidiaries	2010-2012	3		
20	A	23A	National Capital District Botanical Enterprises Limited	2007-2012	6		
21	A	23B	Port Moresby City Development Enterprises Limited	2006-2012	7		
22	A	26	National Fisheries Authority			2012	1
23	A	27	National Gaming Control Board	2013	1		
24	A	27A	National Gaming Control Board Community Benefit Fund Trust	2013	1		
25	A	30	National Maritime Safety Authority	2013	1		
26	A	31	National Museum and Art Gallery	2011 & 2012	2		
27	A	32	National Narcotics Bureau	2010-2012	3		

No.	Section	Para No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
28	A	33	National Research Institute	2013	1		
29	A	34	National Road Safety Council	2013	1		
30	A	35	National Roads Authority	2013	1		
31	A	36	National Training Council	2010-2013	4		
32	A	37	National Volunteer Service	2011-2013	3		
33	A	40	Oil Palm Industry Corporation			2011	1
34	A	41	Ombudsman Commission of Papua New Guinea	2013	1		
35	A	42	Pacific Games (2015) Authority			2012 & 2013	2
36	A	44	Papua New Guinea Immigration and Citisenship Service Authority			2012 & 2013	2
37	A	45	Papua New Guinea Forest Authority	2009	1	2010	1
38	A	46	Papua New Guinea Institute of Medical Research	2012 & 2013	2		
39	A	47	Papua New Guinea Institute of Public Administration	2011	1		
40	A	48	Papua New Guinea Maritime College	2011 & 2012	2	2013	1
41	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2010	1	2011-2013	3
42	A	50	Papua New Guinea Sports Foundation	2005-2013	1		
43	A	51	Papua New Guinea University of Technology and its Subsidiaries	2010	1	2011	1
44	A	51A	National Analytical & Testing Services Limited.			2011	1
45	A	51B	Unitech Development and Consultancy Company Limited			2013	1
46	A	52	Parliamentary Members' Retirement Benefits Fund	2013	1		
47	A	53	Public Curator of Papua New Guinea	2011	1	2012	1
48	A	54	Security Industries Authority	2011	1		
49	A	55	Small Business Development Corporation			2012	1
50	A	57	University of Goroka and its Subsidiary	2011 & 2012	2		
51	A	57A	Unigor Consultancy Limited			2010-2013	4
52	A	58	University of Natural Resources and Environment	2013	1		
53	A	59	University of Papua New Guinea			2009-2012	4
54	A	59A	Unisave Limited	2011	1		
55	A	60	Water PNG	2011 & 2012	2		
56	B	62	Air Niugini Limited	2013	1		

No.	Section	Para No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
57	B	64	Mineral Resources Development Company Limited	2011	1		
58	B	65	Motor Vehicles Insurance Limited	2011	1		
59	B	67	NCD Water and Sewerage Limited (Eda Ranu)	2013	1		
60	B	68B	National Petroleum Company of PNG (Kroton) Limited	2011-2013	3		
61	B	69	Papua New Guinea Ports Corporation Limited	2012 & 2013	2		
62	B	70	PNG Air Services Limited	2013	1		
63	B	72	PNG Power Limited			2013	1
64	B	74	Telikom PNG Limited and its Subsidiaries			2013	1
65	B	74B	PNG Directories Limited			2013	1
66	N/A	N/A	Civil Aviation Development Investment Program	2013	1		
67	N/A	N/A	Japanese Fund for Poverty Reduction Project	2013	1		
68	N/A	N/A	Lae Port Development Project	2008-2009 & 2012	3		
69	N/A	N/A	Port Moresby Sewerage System Upgrading Project	2010-2012	3		
70	N/A	N/A	Town Electrification Investment Program	2010-2012	3		
71	N/A	N/A	Wutung Pilot Border Trade and Investment Project	2011-2013	3		
					96		**44**

SECTION A

PUBLIC BODIES AND THEIR SUBSIDIARIES

1. FOREWORD

This Section of my Report deals with the audit of public bodies and their subsidiaries.

The auditing and reporting requirements of the public bodies and their subsidiaries are stipulated in *Section 8* of the *Audit Act*. My findings in that regard are detailed in paragraphs 2 to 60 of this part of my Report.

2. BANK OF PAPUA NEW GUINEA

2.1 INTRODUCTION

2.1.1 Legislation

The Bank of Papua New Guinea (BPNG) was established under the *Central Banking Act (Chapter 138)*. This Act was in operation until 16 June 2000 when it was repealed and replaced by the *Central Banking Act 2000.*

2.1.2 Objectives of the Bank

The main objectives of the Bank of PNG as stipulated in the new Act are:

- To formulate and implement the monetary policy with a view to achieving and maintaining price stability;
- To formulate financial regulation and prudential standards to ensure stability of the financial system in PNG;
- To promote an efficient national and international payments system; and
- Subject to the above, to promote macro-economic stability and economic growth in PNG.

2.1.3 Functions of the Bank

The primary functions of the Bank are to:

- Issue currency;
- Act as banker and agent of the Government;
- Regulate banking, credit and other financial services as empowered by the Act or by any other law of the Independent State of PNG;
- Manage the gold, foreign exchange and other international reserves of PNG;
- Perform any function conferred on it by or under international agreement to which PNG is a party;
- Perform any other functions conferred on it by or under any other law of PNG; and
- Advise the Minister as soon as practicable where the Bank considers that a body regulated by the Central Bank is in financial difficulty.

2.1.4 Structural Reforms at the Bank

In addition to the *Central Banking Act* three (3) other Acts were legislated in 2000 which gave enormous responsibilities to the Bank. These other Acts are:

1. *Banks and Financial Institutions Act 2000;*
2. *Superannuation Act 2000;* and
3. *Life Insurance Act 2000*.

Each of these Acts provides additional responsibilities to the Bank.

2.2 AUDIT OBSERVATIONS

2.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Bank for the year ended 31 December 2014 was issued on 16 June 2015. The report did not contain any qualification.

2.2.2 Audit Observation Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Bank for the year ended 31 December 2014 was issued on 16 June 2015. The report contained the following matter:

Compliance with the Central Banking Act 2000

During the year, the Bank made a PGK102 million dividend payment to the Independent State of Papua New Guinea. This payment was in contravention of *Section 49(3)* of the *Papua New Guinea Central Banking Act 2000* which states that no amount shall be paid into the *Consolidated Revenue Fund* where in the opinion of the Bank, the assets of the Bank are, or after payment would be, less than the sum of its liabilities and paid-up capital.

3. BORDER DEVELOPMENT AUTHORITY

3.1 INTRODUCTION

3.1.1 Legislation

The Border Development Authority was established under the *Border Development Authority Act 2008*. This Act came into operation on 7 October 2008.

3.1.2 Objectives of the Authority

The objectives of the Authority are to manage and fund development activities in the Border Provinces of PNG and to make provision for the functions and powers of the Authority and for related purposes.

3.1.3 Functions of the Authority

The functions of the Authority generally are to consult with relevant agencies and to supervise and co-ordinate all development activities in each of the border provinces and, without prejudice to the generality of the foregoing, are:

- The co-ordination of the planning and implementation of capital works, infrastructure and socio-economic programs in respect to:
  - Education, health care, road networks, communications, transport system, electricity, water, sewerage and all activities relevant to the improvement of basic living standards in the border provinces;
  - Liaison with public bodies, non-government organisations and private enterprise in identifying and negotiating sources of funding for short to medium-term activities;
  - The co-ordination of the development of specifications for contracts for all capital and infrastructure works and the advertising, evaluation and awarding of such contracts;
  - The supervision and monitoring of the implementation of all contracts relating to such capital and infrastructure works;
  - The transformation of border provinces into agro-financial sectors by developing their respective natural resources; and
  - The promotion of investors, both foreign and local, into the border provinces and to encourage and facilitate international cross-border and inter-border trade.
- The establishment of programs and regulatory framework for immigration including the monitoring of immigrants and immigrant activity along the border with respect to:

- Establishment of proper state of the art offices and facilities for relevant government agencies, including customs, immigration, quarantine, police, defence force, such as security monitoring systems, communications, transport, electricity, water, sewerage, staff accommodation, computers and all other facilities that would be relevant to the administration of border activities;
- Establishment of dialogue and co-operation with the respective cross-border authority or government for the prevention of diseases, drug trafficking, human smuggling, money laundering and other illicit activities; and
- The development of long-term activities for the establishment of infrastructure and other facilities.

- Such other functions as are likely to assist in the border administration activities.

3.1.4 Subsidiary of the Authority

The Subsidiary of the Authority is Papua New Guinea Maritime Transport Limited. Comments in relation to the Company are contained in paragraph 3A of this Report.

3.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

3.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2011 was issued on 27 October 2014. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Interest Bearing Deposits (IBD) – K7,488,161

My review of the Interest Bearing Deposits for the year ended revealed that the Authority did not properly maintain source documents relating to its investments. I was not provided with investment certificates to satisfy myself on the accuracy and existence of the investments disclosed in the financial statements totalling K7,488,161. Consequently, I was unable to verify the IBD interest income of K506,223 as stated in the financial statements.

Fixed Assets – K27,340,525

The Authority disclosed K27,340,525 as its year-end balance for Fixed Assets. My examination of the Fixed Assets Register revealed that it was not properly maintained and timely updated. I noted that some expenses incurred to maintain the ships were not assessed and capitalised.

Further, I noted with concern that the ships were not valued by an independent marine valuer to determine their fair values against their written down values. As such, I was unable to determine the completeness, accuracy and valuation of the fixed assets balance disclosed at year end.

Project Expenses – K19,036,521

In my previous reports, I have stated that the Minister for Finance and Treasury in 2008 had delegated to Border Development Authority's Board the financial approval powers for transactions for acquisition of property and services over K500,000 to an upper limit of K10,000,000 superseding normal procurement procedures under the *PFMA*.

I emphasised in those reports that these higher approval limits up to K10 million was not consistent with the approval limits set by the *PFMA*. In relation to this, I noted that still the excessive delegated financial powers had not been revoked to date. Consequently, I noted that a total of K19,036,521 was paid out as project expenses for preparation of various project documentation and designs which represent more than sixty percent of the Authority's total expenses for the year. As such, I was unable to determine as to whether proper procedures have been followed in awarding contracts to suppliers.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs:

(a) the financial statements are based on proper accounts and records; and
(b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Authority as at 31 December 2011 and the results of its financial operations for the year then ended."

3.2.2 Audit Observations Reported to the Minister

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2011 was issued on 27 October 2014. The report contained the following comments:

1. *Bank Reconciliation*

My review of the Authority's bank reconciliations revealed that reconciliations were not prepared on a timely basis and independently reviewed by a responsible officer of the Authority. This issue was highlighted in my previous audits and yet to be addressed by the management.

I recommended Management to install proper control measures by reviewing the bank reconciliation by a senior officer and to securely file all documentation for future reference.

2. *Approval Limits and Procurement Procedures*

2.1 *Granting of Approval Limits*

As reported in my previous report, I stated that the Minister for Finance and Treasury in 2008 had delegated to Border Development Authority Board the financial approval powers for transactions for acquisition of property and service over K500,000 to an upper limit of K10,000,000 superseding normal procurement procedures under the *PFMA.* I emphasised that these higher approval limits up to K10 million was not consistent with the approval limits set by the *PFMA.*

Further, I noted that still the excessive delegated financial powers had not been revoked to date. In my view this excessive approval limit will prevent the Authority to follow the established procedures set out in the *PFMA* and may open avenues for malpractices.

2.2 *Condition of Ships*

I noted that at the end of 2010, the Authority had taken delivery of all the seven ships built and brought from a ship builder in Indonesia. However, I noted with concern that the ships on most occasions were not operating as expected due to substandard materials used to build the ships. I also noted that the ships were docked for prolonged periods for repair and maintenance at various ports and as a result, the Authority has incurred huge Port docking charges.

3.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Authority for the year ended 31 December 2012 was completed and the results were being evaluated.

The financial statements for the year ended 31 December 2013 had been submitted for my inspection and audit and arrangements were being made to commence the fieldwork without delay. The financial statements of the Authority for the year ended 31 December 2014 had not been submitted for my inspection and audit.

3A. PAPUA NEW GUINEA MARITIME TRANSPORT LIMITED
(Subsidiary of the Border Development Authority)

3A.1 INTRODUCTION

The Papua New Guinea Maritime Transport Limited was incorporated under the *Companies Act* on 3 September 2009. The Company is wholly owned by the Border Development Authority.

3A.1.1 Functions of the Company

The primary function of the Company is to take charge of the management and operations of seven vessels acquired and maintained by the Border Development Authority. The vessels are to serve the border provinces and other maritime provinces in the Country.

3A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit and inspection of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2011 and 2012 had been completed and results were being evaluated.

The Company had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

4. CIVIL AVIATION SAFETY AUTHORITY OF PNG

4.1 INTRODUCTION

4.1.1 Legislation

The Civil Aviation Safety Authority of PNG was established on 1 January 2010 after the enactment of the *Civil Aviation Act 2000.*

4.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Undertake activities that promote safety in civil aviation at a reasonable cost;
- Ensure the provision of air traffic services, aeronautical communications services and aeronautical navigation services; and
- Ensure the provision of meteorological services and science.

4.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

4.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2012 was issued on 27 February 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Revenue and Receivables from the National Airport Corporation (NAC) and the PNG Air Services Limited (PNGASL)

Section 147E of the *Civil Aviation Act 2000* stipulates that NAC and PNGASL are to remit a percentage of airport facility charges, security levies and upper airspace aeronautical charges to CASA. Given the technical and logistical difficulties in determining the charges, the Authority was unable to accurately record and collect the income owed by NAC and PNGASL. The income and the related receivables from those two entities are material, which can potentially affect the financial statements and disclosures of the Authority at the reporting date. Due to those limitations, I was not able to verify the completeness and accuracy of revenue and receivable balances reported in the financial statements for the year ended 31 December 2012.

Fixed Assets

In 2010, the functions of the Civil Aviation Authority (CAA) were restructured into three separate entities, namely National Airport Corporation (NAC), PNG Air Service Limited (PNGASL) and Civil Aviation Safety Authority (CASA).

There was no proper valuation and transfer of assets at the time of the separation. As a result, all the titles of the property assets continue to be in the name of CAA but used by the respective entities. The three entities including the Authority did not accurately and completely record all fixed assets used. Further, it is not possible for me to confirm whether all the property assets recorded on the current fixed assets register are owned by the Authority. Therefore, I was not able to satisfy myself on the completeness, existence, accuracy and ownership of the fixed assets stated in the financial position of the Authority as at 31 December 2012 and the related depreciation charged to the comprehensive income for the year ended.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of Civil Aviation Safety Authority for the year ended 31 December 2012:

(a) Give a true and fair view of the financial position and the results of its operations for the year then ended; and
(b) The financial statements have been prepared in accordance with the Finance Instructions issued under the *PFMA."*

4.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2012 was issued on 27 February 2015. The report contained the following observations:

Compliance with Public Finances (Management) Act 1995

The audit of the 2012 statutory financial statements commenced in July 2014 which was after the deadline of 30 June 2013. As such, the Directors did not meet the deadline set by *Section 63* of the *PFMA* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

Consultancy Agreements

There was no standard policy in place for the procurement of consultants. I was unable to verify whether proper procurement processes were followed, including compliance with *PFMA* in the engagement of numerous consultants during the year. This engagement of consultants causes significant financial outlay including the risk of litigation, also failure to follow proper processes including approval at the relevant levels compounds these risk including the engagement of consultants. I recommended to the Management that a policy be prepared on procurement of consultants taking into account the requirements of *PFMA* as the base and the Management concurred to my recommendations.

Acquittals of Credit-Card Transactions

The Chief Executive Officer, Chief Operating Officer, Executive Manager Corporate Service and Finance and Administration Manager are issued with credit-cards. The credit-card policy requires that all credit-card users to provide monthly acquittals/reconciliations. The policy further states that the cards used by the executive management team are normally at their discretion. I have not been provided credit-card statements and acquittals for 2012 for certain months of all the credit-cards. Failure to acquit use of funds and reconciliation of the credit-card statements leaves an environment open to misuse.

I recommended to Management that as senior members of the management team, they should set the tone and example of CASA by ensuring that credit card statements are reconciled monthly and transactions acquitted on time. The Management responded that, *"the Director/CEO will issue instructions for credit card holders to provide acquittals at the end of each month temporarily; in the meantime, a policy is developed to cater for Credit Cards."*

Accounting Policies and Procedure

From my review of the accounting process, I noted the absence of a detailed accounting procedures manual which prescribes the accounting procedures, detailing the process involved in the initiation, authorisation, recording, reconciling and reporting of financial decisions and transactions. Without a procedures manual there is no systematic and controlled approach to the accounting function which may result in inaccurate and delayed financial reporting. Duties related to initiating, authorising, recording and reporting of a financial event may not be adequately segregated to different officers.

I recommended to Management that a proper accounting manual be prepared and all staff be adequately trained on their duties and responsibilities in accordance with the policies and procedures. Management responded that *" Management has approved a Finance Policies and Procedures Manual in 2013 and is now used to date."*

Goods and Services Tax Reporting

The statement of account on GST for CASA obtained from the Internal Revenue Commission (IRC) indicates a GST receivable of K292,383 as at 31 December 2012. However, the amount recorded in CASA's accounts was K40,047 leaving a difference of K252,336. The IRC statement was not reconciled to the general ledger balances at any point in time during the year under audit. It is likely that the account of CASA as presented does not reflect the accurate position of GST.

I noted that IRC disallowed some of the inputs claimed as CASA's income which is mainly from government budget. The fact remains that CASA did not maintain reconciliation of the GST account.

I recommend to Management that GST statement should be obtained from IRC and the balance reconciled to ledger at each reporting date. Management accepted my recommendation and will have it implemented accordingly.

Group Tax Payments

In respect of group tax or salaries and wages tax, I noted the following:

- Group tax returns for 2012 were not yet lodged within the time set by IRC. Group tax for the 2012 financial year was paid in 2013.

Failure to lodge group tax returns and the accompanying payment in a timely manner to IRC will result in IRC imposing significant penalties. The penalties include a flat 20% charge on the amounts outstanding and a further 20% per annum on the amount outstanding from the date when it is first due.

I recommend to Management that group tax be paid to IRC within the prescribe time of seven days after month end to avoid penalties. The Management responded as follows; *"Management normally makes provision for GP Tax obligations, but at times due to late release of budget funds it is unable to make monthly payments. Management accepts auditor's recommendation and will make GP Tax payments on time to avoid being penalised."*

Payroll Records

I noted that the leave liability reports as generated from the standalone payroll system did not agree to the corresponding general ledger balances.

I also noted that the records of staff leaves were maintained on excel out of the payroll system. Further, I noted inconsistencies in the records of outstanding leave days, when comparing the reports submitted to me by the Executive Manager Corporate Services, to that submitted by the Payroll Officer. It appears that the leave records in the accounts have not been updated to reflect the liability owed by the Authority.

I recommend the following to be considered:

- A specialised payroll package such as Abel should be installed to maintain a single record of transactions associated with the various leave entitlements;
- The amounts reflected by the subsidiary record must be reconciled to the accounts on a monthly basis to reflect the accurate position of leave liabilities and activities; and
- All leave taken should be evidenced on leave request forms, and data be correctly entered into the specialised payroll system.

Management responded as follows: *"During the year payroll was instructed to automate all staff leave records through the payroll system and no excel or manual register will be maintained. Accordingly, IT personnel are tasked to enhance the payroll system to maintain staffs leave balances."*

Trade Debtors Collection

I noted that of the total Trade debtors of K1,683,000, more than 50% were overdue for more than three months at closing date. I also, noted that an amount of K56,784 has been fully provided. This indicates a weakness in debt management system in collection of the debts and will impact on the cash flow. Failure to actively follow up on outstanding debtors may result in most debtors becoming unrecoverable.

I recommend that the Management should establish an appropriate credit policy and define measures to pursue for debtors remaining outstanding for a certain period. The Management responded as follows: *"Management will take on board auditor's recommendations and will improve on debt collection and debt management. The appropriate clause of CAA Act 2000 will be evoked to assist with debt collections."*

Rental Bonds – K453,879

I noted the following discrepancies in respect of rental bonds:

- Four staff had rental deposits in two separate properties; and
- Some rental bonds paid during the year were expensed instead of recording them as assets.

Furthermore, I was not provided rental agreement for certain staff.

The above issues indicate a number of concerns including the following:

- There appears to be no proper control and monitoring of rental bonds and the subsequent refund of these bonds;
- There appears to be no proper accounting of rental bonds; and
- The Authority risks the loss of these funds.

I recommended that Management should keep a proper record and control over the rental bonds. The rental bonds account should be regularly reviewed by the head of finance. The current rental bonds account should be reviewed and matched to respective staff currently in employment and the relevant rental agreements. Management responded that *"auditor's recommendations are noted. Management will improve on the monthly reviews of GL Accounts reconciliations."*

General Journals

In respect of general journals, I noted the following:

- Journals were not prepared on a journal entry form;
- Journal entries were not numbered in any sequential order;
- The name and signature of the officer preparing the journal, and the officer posting the journal entries, did not appear on any of the journal entries; and
- The journals were not marked as *"posted".*

The lack of control over journal entries leaves room for unauthorised entries and fraudulent financial reporting.

I recommend the following:

- Prepare journals on a journal entry form;
- Journal entries must be numbered in a sequential order;
- The name and signature of the officers preparing the journal, authorising the journal and posting the journals should appear on all of the journal entries, indicating that the authenticity of the journals; and
- The journals should be marked as *"posted"* after processing into the accounts.

The Management responded as follows: *"Audit recommendations noted and management will make improvements where necessary. All GL Journals will be referenced and clear authentication of the officer posting the journals captured. This process will be fully automated."*

4.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2013 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2014 for my inspection and the audit.

5. COCOA BOARD OF PNG

5.1 INTRODUCTION

5.1.1 Legislation

The Cocoa Board of PNG was established under the provisions of the *Cocoa Act 1981*.

5.1.2 Functions of the Board

The principal functions of the Board are:

- To control and regulate the growing, processing, marketing and export of cocoa and cocoa beans and the equalisation and stockholding arrangements within the cocoa industry;
- To promote research and development programmes for the benefit of the cocoa industry; and
- To promote the consumption of PNG cocoa beans and cocoa products.

5.1.3 Subsidiary of the Board

The Cocoa Coconut Institute Limited of PNG (*formerly PNG Cocoa and Coconut Research Institute*) was amalgamated with PNG Cocoa and Coconut Extension Agency Limited in 2003. The Institute is owned equally by the Cocoa Board and the Kokonas Indastri Koporesen (KIK) of PNG. Comments in relation to the Cocoa Coconut Institute Limited of PNG are contained in paragraph 6 of this Report.

5.1.4 Stabilisation Funds and Projects

The Board as a Trustee administers the *Cocoa Stabilisation Fund* as required under Part IV and VI of the *Cocoa Act 1981*. Further, the Board manages the Cocoa Pod Borer Project Fund as well. Comments in relation to the Funds are contained in paragraph 5A and 5B of this Report.

The Board also administers the operations of the *Productive Partnership in Agriculture Project*. Comments in relation to the project are contained in my **Special Project Audits Report to Parliament**.

5.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Board for the year ended 30 September 2014 had not been submitted for my inspection and audit, despite repeated reminders.

5A. COCOA STABILISATION FUND (Subsidiary of Cocoa Board of PNG)

5A.1 INTRODUCTION

5A.1.1 Legislation

The Cocoa Stabilisation Fund was established under *Section 19* of the *Cocoa Act 1981*. The Fund is administered by the Cocoa Board of PNG with the objective of establishing price stabilisation, price equalisation and stockholding arrangements within the cocoa industry.

5A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Fund for the year ended 30 September 2014 had not been submitted for my inspection and audit, despite repeated reminders.

5B. COCOA POD BORER PROJECT FUND

5B.1 INTRODUCTION

5B.1.1 Framework

The National Government has funded the Cocoa Pod Borer Project based on the Project Proposal for Cocoa Pod Borer Management Project submitted by the Cocoa Board of Papua New Guinea. The Project is administered by the Cocoa Board of Papua New Guinea and was implemented in 2010.

5B.1.2 Objectives of the Project Fund

The Principal objectives of the Project Fund are:

- To facilitate the impartation of skills and knowledge on better management practices that will result in the reduction of Cocoa Pod Borer (CPB) infestation to less than 10% of production, and increase cocoa yields;
- To introduce and/or enhance farmers skills and knowledge in the combined use of basic CPB management via the five Golden rules and the Integrated Pest Disease Management technology; and
- To provide farmer support by way of making high yielding cocoa planting materials, tools, equipment and chemicals readily available or accessible to cocoa farmers which would enable effective adaption of good management practices.

5B.2 AUDIT OBSERVATIONS

5B.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the years ended 30 September 2010, 2011 and 2012 were all issued on 22 September 2014. These reports did not contain any qualifications.

5B.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Fund for the years ended 30 September 2010, 2011 and 2012 were all issued on 22 September 2014. For the purpose of this Report, only significant matters arising out of 2012 report are reproduced below:

Non-Compliance with the Public Finances (Management) Act 1995

The *PFMA Section 63(2)* and *63(4)* requires the Fund to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the Fund shall submit them to the Auditor-General who shall report to the Minister.

However, the Project had not prepared and submitted its financial statements for the year ended 30 September 2012 to my Office on a timely basis to enable me to conduct the audit on time. Accordingly, the Project had breached *Sections 63(2)* and *63(4)* of the *PFMA.*

Advance Register

My examination of staff advances revealed that the Project did not maintain an Advance Register. In the absence of proper Advance Register, I was unable to determine whether all the advances were properly accounted for during the year under review.

Management responded to my observation as follows*:*

"A register has now been established to record all advances made to staff."

Segregation of Duties

My review on the bank reconciliation statements revealed that there was no segregation of duties over the functions of bank reconciliations process. Lack of independent review on the bank reconciliations may result in errors and fraud being undetected. Accordingly, I was unable to obtain comfort over the controls surrounding the bank reconciliation process.

Management noted my observation and responded as follows:

"We are now ensuring that bank reconciliations are prepared and reviewed independently by competent personnel."

Fixed Assets

My review of Fixed Assets revealed that the Project motor vehicles were not registered with "Z" number plates to signify the State ownership.

Since, the Project is funded by the Government and it is managed by a Statutory Authority (Cocoa Board of Papua New Guinea), the vehicles should be registered and fitted with "Z" number plates to signify State ownership.

Management responded to the above observation as follows:

"We will be ensuring that all vehicles purchased with Government funding are registered with Government plate numbers."

Procurement Process

Subject to *Financial Management Manual Part 12 Division 3,* three written quotations must be obtained for purchases valued between K5,000 and under K100,000. However, my review of the payment process of the Project revealed that payments totalling K127,471 were paid without obtaining three written quotes from three different suppliers.

As a result, I was unable to satisfy myself and rely on the effectiveness of the controls surrounding the functions of the payment process.

Management responded to my observation as follows:

"We are ensuring that three written quotations from potential suppliers are obtained before purchases are made for amounts valued between K5,000 and K100,000."

5B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Project had not submitted its financial statements for the years ended 30 September 2013 and 2014 for my inspection and audit, despite reminders.

6. COCOA COCONUT INSTITUTE LIMITED OF PNG

6.1 INTRODUCTION

6.1.1 Legislation

The Cocoa Coconut Institute Limited of PNG (*formerly PNG Cocoa and Coconut Research Company Limited*) was amalgamated with PNG Cocoa and Coconut Extension Agency Limited in 2003. The Company is owned equally between the PNG Cocoa Board and the Kokonas Indastri Koporesen (KIK) of PNG.

6.1.2 Functions of the Company

The principal functions of the Company are:

- To conduct research into all aspects of Cocoa and Coconut growing and production and all aspects of the Cocoa and Coconut industries;
- To promote research and beneficial programs for these industries;
- To provide assistance to all persons and bodies engaged in any aspect of the Cocoa and Coconut industries;
- To produce planting materials for the Cocoa and Coconut industries; and
- To provide consultancy services.

6.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had submitted its financial statements for the year ended 31 December 2013 for my inspection and audit and arrangements were being made to commence the fieldwork shortly.

The Institute, despite reminders, had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

7. COFFEE INDUSTRY CORPORATION LIMITED

7.1 INTRODUCTION

7.1.1 Legislation

The Coffee Industry Corporation Limited was incorporated under the *Companies Act* as a company limited by guarantee and was conferred with statutory powers relating to the control and regulation of the production, processing, marketing and export of coffee by the *Coffee Industry Corporation (Statutory Functions and Powers) Act 1991*. Under this Act, the undertakings of the Coffee Industry Board, the Coffee Development Agency and the Coffee Research Institute were, on 1 October 1991, transferred to and vested in the Coffee Industry Corporation Limited.

The members of the Corporation according to the Articles of Association are from the Growers Associations, the Coffee Exporters Association, the Plantation Processors Association, the Block Development Association, the Secretary - Department of Agriculture and Livestock, the Secretary - Department of Finance, and the Secretary - Department of Trade and Industry. The liability of each member is limited to an amount not exceeding one hundred kina.

7.1.2 Functions of the Corporation

The principal functions of the Corporation are:

- To engage in research, extension, promotion, marketing, administration, management and control of the coffee industry in PNG;
- To act in the best interests of coffee producers; and
- To promote development of the coffee industry in PNG.

7.1.3 Subsidiaries of the Corporation

The Corporation has a Fund and a Subsidiary Company, *Coffee Industry Fund* and *Patana No. 61 Limited*. Comments in relation to the Fund and the Subsidiary are contained in paragraphs 7A and 7B respectively of this Report.

7.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Corporation for the year ended 31 December 2013 was in progress.

The financial statements of the Corporation for the year ended 31 December 2014 had not been submitted for my inspection and audit.

7A. COFFEE INDUSTRY FUND

7A.1 INTRODUCTION

The *Coffee Industry Corporation (Statutory Functions and Powers) Act 1991* provided for the establishment of the Coffee Industry Fund (CIF). The main purpose of the Coffee Industry Fund is to stabilise the coffee industry by giving the Coffee Industry Corporation the financial ability to implement schemes relating to stabilisation and equalisation of coffee prices and stock holdings of coffee.

7A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Fund for the year ended 31 December 2013 was in progress.

The financial statements of the Fund for the year ended 31 December 2014 had not been submitted for my inspection and audit.

7B. PATANA NO.61 LIMITED (Subsidiary of Coffee Industry Corporation Limited)

7B.1 INTRODUCTION

Patana No.61 Limited was incorporated under the *Companies Act*. The Company was acquired by the Coffee Industry Corporation Limited on 10 February 1994 and has a total issued capital of two ordinary shares of K1.00 each. The Company is wholly owned by the Coffee Industry Corporation Limited. The principal activity of the Company is to invest in property.

7B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was in progress.

The financial statements of the Company for the year ended 31 December 2014 had not been submitted for my inspection and audit.

8. GOVERNMENT PRINTING OFFICE

8.1 INTRODUCTION

The Government Printing Office was established by the British Colonial Administration in 1888.

The functions of the Printing Office is empowered by *Section 252* of the *Constitution, Interpretation Act (Chapter 2)* and Printing of the Laws.

8.1.1 Objective of the Office

The main objective of the Government Printing Office is to provide efficient and quality printing services to the executive arm of the government, judicial arm of the government, government departments and various statutory bodies at an affordable cost.

8.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Printing Office for the year ended 31 December 2012 had been completed and results were being evaluated.

The Government Printing Office had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit, despite my reminders.

9. INDEPENDENCE FELLOWSHIP TRUST

9.1 INTRODUCTION

9.1.1 Legislation

The Independence Fellowship Trust was established under the *Independence Fellowship Trust Act (Chapter 1040).*

9.1.2 Objective of the Trust

The object of the Trust is to benefit village development by making annual awards to selected citisens for the purposes of broadening their knowledge and experience, as well as implementing and encouraging that development.

9.1.3 Functions of the Trust

The functions of the Trust are to:

- Make selections of candidates to receive the awards of fellowships;
- Determine the number and value of awards; and
- Invest the funds of the Trust.

9.2 AUDIT OBSERVATIONS

9.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Trust for the years ended 31 December 2012 and 2013 were issued on 28 September 2014 and these reports did not contain any qualifications. My report on the 2014 financial statements was issued on 12 May 2015 and contained the following qualifications.

"Limitation of Scope – Payment Vouchers – K667,950

During my review, the Trust had not provided the source documents for payments amounting to K667,950 selected for my verification. As such, I was unable to substantiate the payments made in respect of the various expenses incurred by the Trust for K667,950 during the year."

9.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Trust for the years ended 31 December 2012 and 2013 were issued on 28 September 2014. My report for the year ended 31 December 2014 revealed generally satisfactory results.

10. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

10.1 INTRODUCTION

10.1.1 Legislation

The Independent Consumer and Competition Commission was established by the *Independent Consumer and Competition Commission Act 2002*. The Act came into operation in January 2003.

10.1.2 Functions of the Commission

The main functions of the Commission are:

- To formulate and submit to the Minister policies in the interest of consumers;
- Consider and examine and where necessary, advise the Minister on the consolidation or updating of legislation providing protection to the consumer;
- Liaise with Departments and other agencies of Government on matters relating to consumer protection legislation;
- Receive and consider complaints from consumers on matters relating to the supply of goods and services;
- Investigate any complaint received;
- Make available to consumers general information affecting the interests of consumers;
- Liaise with business, commercial and professional bodies and associations in order to establish codes of practice to regulate the activities of their members in their dealings with consumers;
- Advise consumers of their rights and responsibilities under laws relating to consumers protection;
- Promote and participate in consumer education activities;
- Establish appropriate systems whereby consumer claims can be considered and redressed;
- Liaise with consumer organisations, consumer affairs authorities and consumer protection groups overseas and to exchange information on consumer issues with those bodies;
- Arrange for the representation of consumers in court proceedings relating to consumer matters; and
- To do all other things relating to consumer affairs.

10.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

10.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2014 was issued on 18 June 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Limitation of Scope – Other Debtors - K38,077

The Commission did not provide me with the necessary supporting schedules and other documentation for me to verify the other debtors stated as K38,077 at the year end. Consequently, I was unable to state whether the other debtors have been fairly stated in the financial statements.

Limitation of Scope - Payment Vouchers - K954,894

During my review of expenses related to Consultancy Services and other payments, I noted that the payment vouchers submitted for my verification were unsigned and generated from the computer system. The Commission was unable to locate and provide the actual certified and approved vouchers amounting to K954,894 for my verification. As a result, I was unable to validate the payments of K954,894 made by the Commission during the year.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraph above:

(a) The financial statements of the Commission are based on proper accounts and records; and

(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission as at 31 December 2014, and the results of its financial operations and cash flows for the year then ended."

10.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2014 was issued on 18 June 2015. The Report contained the following significant matters:

Salary and Wages Tax

During my review of the Salary and Wages Tax account, I noted that the Salaries and Wages Tax returns had not been lodged with the Internal Revenue Commission (IRC) on a timely basis and the liabilities continue to accrue. As a result, the Commission had breached *Division 2B of Income Tax Act 1959* which stipulates that all organisations should lodge Group Tax on or before the 21st day of the following month.

I recommended Management to lodge the Group Tax returns at the end of every month to the IRC so as to comply with *Division 2B of Income Tax Act 1959* and to avoid any tax penalties. The Commission concurred with my observation and agreed to comply with the requirement as recommended.

Travel and Subsistence Payments Lacking Acquittal

My review of the Travel and Subsistence payments revealed that the Commission did not maintain a Travel Advance Register for the travels taken by its officers at a total cost of K251,736 which had not been acquitted at the year end. Furthermore, no travel advance acquittal forms were filled and attached with other relevant supporting documents**.**

I recommended to the Commission that a Travel Advance Register be maintained and updated on a regular basis as required under *PFMA and Finance Management Manual Part 20 (Para 11.2)*. The Commission agreed to take necessary action to rectify the issue.

11. INDEPENDENT PUBLIC BUSINESS CORPORATION

11.1 INTRODUCTION

11.1.1 Legislation

The Independent Public Business Corporation (IPBC) was established under the *Independent Public Business Corporation of Papua New Guinea Act 2002 (as amended)* which came into operation on 27 March 2002.

The above Act was amended through the *Independent Public Business Corporation of PNG (Amendment) Act 2007* at which time the objectives and functions of the Corporation were changed.

A major impact of the amendments made was that the Corporation, the Trusts, the State Owned Enterprises or any other enterprises in which the Corporation, the Trusts or a State Owned Enterprise holds any interest shall not be subject to the *PFMA.* The amended Act also excludes the Corporation from the application of the *Public Services (Management) Act 1995* and the *Salaries and Conditions Monitoring Committee Act 1988.*

These amendments came into operation on 8 June 2007.

11.1.2 Objectives of the Corporation shall be:

- To act as trustee of the Trust and hold assets and liabilities that have been vested in or acquired by it, on behalf of the State;
- To act as a financial institution for the benefit of and the provision of financial resources and services to State Owned Enterprises and the State, where this is approved by the NEC;
- To enhance the financial position of the State or State Owned Enterprises; and
- To enter into and perform financial and other arrangements that in the opinion of the Corporation have as their objective either:
  - The advancement of the financial interests of the State or State Owned Enterprises; or
  - The development of the State or any part thereof.

11.1.3 Functions of the Corporation

- The Corporation shall administer the Trusts and monitor the performance of the assets of the Trusts in such manner as provided under this Act and shall perform such other functions as are required under this Act.
- Without limiting the generality of *Subsection (1)* but subject to the provisions of this Act, the Corporation may:

- Undertake the function of holding and monitoring corporation for State owned assets and Majority State Owned Enterprises;
- Undertake the function of planning, coordinating and managing State assets, infrastructure and projects;
- Determine policies regarding:
  - The conduct of its affairs and the affairs of any of the Trusts; and
  - The administration, management and control of the Corporation and any of the Trusts;
- Borrow, raise or otherwise obtain financial accommodation in PNG;
- Advance money or otherwise make financial accommodation available to the State or State Owned Enterprises;
- Act as a central borrowing and capital raising authority for State Owned Enterprises;
- Act as agent for State Owned Enterprises in negotiating, entering into and performing financial arrangements;
- Provide a medium for the investment of funds of State Owned Enterprises;
- Manage or cause to be managed the Corporation's financial rights and obligations; and
- Such other functions and duties as are prescribed by the Act or any other Act.

11.1.4 Subsidiaries of the Corporation

The subsidiaries of the IPBC are *Aquirus No. 21 Limited, General Business Trust, PNG Dams Limited* and *Port Moresby Private Hospital Limited*. Comments in relation to these subsidiaries are contained in paragraphs 11A, 11B, 11C and 11D of this Report.

11.1.5 Projects of the Corporation

The IPBC manages *Japanese Fund for Poverty Reduction Project* and *Lae Port Project.* It also implements the *Port Moresby Sewerage and Supply Upgrading Project*. Comments in relation to these Projects are contained in the **Special Project Audits Report to Parliament**.

11.2 AUDIT OBSERVATIONS

11.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the year ended 31 December 2012 was issued on 18 November 2014. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Trade and other Receivables - K3,230,379

Included in the trade and other receivable was Lae Port Development Project (LPDP) Recoverable Cost totaled K737,321. This amount was incurred from various expenditures on behalf of LPDP. In the previous year, the expenditures incurred on behalf of LPDP were expensed, however, they have been recorded as a receivable in the current year. Consequently, I was unable to determine whether this receivable account was correctly reported in the financial statements as at 31 December 2012.

Employment Cost - K7,240,829

In 2012, K7,240,829 was expensed as employment cost. However, I was unable to ascertain the appropriateness of this total remuneration provided due to the following reasons:

In 2007 through *Independent Public Business Corporation (amendment) Act 2007,* amendments were made to the *Independent Public Business Corporation Act 2002 (as amended)* which specifically excluded the applicability of the *PFMA, Public Services (Management) Act 1995* and *Salaries and Conditions Monitoring Committee Act 1988.* These amendments affected the Independent Public Business Corporation (IPBC), its Trusts and the State Owned Enterprises (SOEs).

This amendment became applicable to the Corporation and its Trusts and the SOEs in 2007, but at the time of this Report, the policy provided by one of the Consultants was not adequate with the nature and complexity that IPBC presently encountered in its human resources management.

Further, some of the senior management staff remuneration has been determined based on a report provided by a private consultant which was based on private sector marketability of the respective positions, which was then approved by the IPBC Board. Salary of all other officers of the Corporation was determined by the management and not from appropriate authorities.

I did not have a base to determine the appropriateness of the salary paid to the top management as well as other officers based on the private consultant's advice and its applicability to the Corporation owned by the State.

Consequently, I was unable to determine the validity of K7,240,829 paid as remuneration and other benefits to the employees of the Corporation in 2012.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraphs, the financial statements of the Independent Public Business Corporation comply with generally accepted accounting practice, and give a true and fair view of the Corporation's affairs as at 31 December 2012 and of the results and cash flows for the year then ended.

EMPHASIS OF MATTERS

Without further qualifying my opinion, I wish to draw your attention to the following matters which I consider significant:

Non-Applicability of *Public Finances (Management) Act 1995, Public Service (Management) Act 1995 and Salaries and Conditions Monitoring Committee (SCMC) Act 1988*

In 2007, through the *Independent Public Business Corporation (amendment) Act 2007*, amendments were made to the *Independent Public Business Corporation Act 2002 (as amended)* which specifically excluded the applicability of the *PFMA, Public Services (Management) Act 1995 and Salaries and Conditions Monitoring Committee Act 1988* to IPBC, its Trusts and State Owned Enterprises (SOEs). However, these Acts were enacted by the Parliament as standard policies and procedures to be adopted for the public bodies and organisations owned by the State of Papua New Guinea. The Acts are the basis to ensure public funds are managed properly by the organisations and further to ensure that corporate governance is initiated for all the organisations owned by the State. I am concerned that removing the applicability of these Acts may not be in the spirit of the legislative framework.

Further, I have noted that some Board members of the previous board have raised their concerns against the amendments. I have enquired whether appropriate corporate governance policies were in place before this legislation was enacted. Management responded that corporate governance policies and procedures will be developed in due course. At the time of preparing this Report, it has been six years since the enactment of the new legislation and only few policy and procedures have been developed and provided for my review, while others are yet to be developed.

Investment made in Aquarius No 21 Limited by Motor Vehicles Insurance Trust Limited, transferred to IPBC

I draw your attention that the Aquarius No 21 Limited (the Company) which owns this vacant land portion 1570 (now 2500) was acquired by the Motor Vehicles Insurance Trust Limited (MVITL) in 1998 at a cost of K5.0 million, whereas the valuation report subsequent to the purchase indicated that the market value was K2.5 million.

However, since 1999 the value of the land was recorded at K950,000 in the books, by which MVITL (now MVIL) has incurred a loss of K4.0 million through this investment.

This company was transferred to IPBC as per restructured deed of agreement entered into between Motor Vehicles Insurance Limited (MVIL) and Privatisation Commission dated 3 April 2002.

The document made available for review disclosed that an Urban Development Lease (UDL) over Portion 1570 (now 2500) was granted to Glory Estate Limited (then Known as Kembis Holding Limited) in 2009. Further, the advice given by a law firm was evident that IPBC lost all avenues to reclaim this vacant land.

IPBC and MVIL had failed to apply for a new State lease for this vacant land in time, in spite of my advice for this requirement in my management letters and reports since 2002.

Establishment of Internal Audit Division

I draw your attention that the responsibilities of Independent Public Business Corporation (IPBC) had increased significantly in managing more projects, investments, managing its funds and diversified role in managing the SOEs.

Therefore, it is important that the increased investments and operating activities are managed within a framework that ensures transparency and diligence.

Since IPBC's responsibility increased in managing the funds of the State, its exposure to risk is very high. Therefore, the establishment of Internal Audit Division with appropriate staff is an utmost important.

Audit of Investment Corporation of Papua New Guinea Financial Statements

The Corporation has spent K1,134,584 for Investment Corporation of Papua New Guinea (ICPNG) and this amount was disclosed as receivables in the financial statements. However, during the year under audit, IPBC Board resolved to make a provision for bad debts for the said amount. The audit of ICPNG financial statements was one of the requirements in the Gazettal Notice 33 dated 6 April 2004 but until the date of this Report, this requirement has not been met. Therefore, the exact status of ICPNG financial position could not be determined.

Fixed Assets held for Sale

The carrying value of certain fixed assets held for sale (office furniture and fittings) as at 31 December 2011 was K1,209,612. These assets were bought in 2000 for the Deloitte Tower office, but this decision was later abandoned.

The initial cost of these assets was K1,210,612 and provided depreciation from 2003 to 2006. In 2007, the Corporation stopped providing depreciation and began showing the net value of these assets as held for sale.

The depreciation earlier provided which amounts to K501,889 was reversed in 2009 and the assets were taken up at its original value of K1,209,612.

However, in 2010, K907,209 was provided as impairment on these assets. I was not provided with any documentation to substantiate for this impairment provision.

Further, in 2012, the Board resolved these assets be written off from the books either by auction or donation. However, at the time of this Report, I was not provided with necessary documentation to ascertain whether these assets were auctioned or donated and its outcome."

11.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2012 was issued on 18 November 2014. The report contained the following observations:

Visa Debit Card

Internal control over use and acquittal of visa debit cards was inadequate. Issues mentioned in earlier report were still prevailing in 2012. The visa cards in 2012 were used mostly in Port Moresby restaurants and supermarkets for meetings with Consultants. I brought this to the attention of management and I was informed that, "*some restaurants used for the official lunches and dinners do not accept purchase orders, as such visa debit/credit cards were used. Moving forward, timely acquittals are demanded from the card holders."*

Business Travel Advance

Internal controls over business travel advances were not adequate as required by the Corporation's Policy as noted below:

The Corporation's Policy requiring acquittal of travel advances within seven days on completion of the travel was not fully complied with as advances totalling K248,025 related to 2006 to 2010 remained unacquitted as at 31 December 2012. Outstanding travel advances of the officers who left the Corporation without acquitting were also included in the above travel advances. The present board in its meeting No.1 Dated 14 March 2014 resolved that this advances be written-off.

I brought this to the attention of management and they responded that "*the advances written off were for the period 2006 to 2010. The previous management had failed to follow up on proper acquittal of these. Current management's attempt to rectify this issue was futile, thus the request for write-off."*

Former Managing Director's Contract and Remuneration

The former Managing Director's position was confirmed by National Executive Council (NEC) on 7 July 2008 for a period of four years. The Board on 13 March 2009 had approved the Contract of Employment of the Managing Director and recommended to the Salaries and Conditions Monitoring Committee (SCMC) for its final approval of the remuneration package. However, I was not provided with the final signed contract copy of the former Managing Director to determine the remuneration package at the time of this Report.

I brought this to the attention of management and they responded that *"we have exhausted all avenues to locate a contract copy. However, should one be located the documents we will make them available."*

Exemption of Allowances from Income Tax without Internal Revenue Commission (IRC) Approval

The former Managing Director (MD) claimed various allowances as non-taxable under *Section 29(1)* of *Income Tax Act 1959* amounting to K34,150 per annum for the period 1 July 2005 to 7 July 2008 and AUD$ 50,000 per annum from 8 July 2008 till the date of his termination. However, these allowances were excluded from tax without seeking prior approval from the Internal Revenue Commission (IRC) by the Corporation which was not appropriate.

I requested the Corporation since it was established in July 2002 to seek the approval from IRC in respect of non-taxability of these allowances of its Managing Director. However, no response was received from the management. Eventually, IRC in its letter dated 18 February 2011 advised that, "*MD's allowances are not exempted from income tax under Section 29(1) of Income Tax Act 1959 and fully taxable."* Therefore, the allowances which were not taxed earlier should be taxed and deducted from the former MD's final entitlement.

I brought this to the attention of management and they responded that *"we advise that the former Managing Director's final entitlement on unexpired contract is not yet paid, and also management will confirm status of the tax exemption notice from Internal Revenue Commission for prior payments. If the final contract entitlement is to be paid, then relevant taxes on allowances will be deducted from gross amount and submitted to IRC."*

11.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2013 was in progress.

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

11A. AQUARIUS NO.21 LIMITED (Subsidiary of IPBC)

11A.1 INTRODUCTION

11A.1.2 Legislation

Aquarius No. 21 Limited was incorporated under the *Companies Act.* It was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited in 1998.

The objective of Aquarius No. 21 Limited is to purchase property to improve, develop, sell and let any part thereof where necessary.

The Company was transferred to the General Business Trust on 2 August 2002 as per the Settlement Deed between the Independent Public Business Corporation (IPBC) and the Motor Vehicles Insurance Limited (MVIL) dated 3 April 2002.

11A.2 AUDIT OBSERVATIONS

11A.2.1 Comments on the Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2011 and 2012 were both issued on 15 August 2014. The reports contained Disclaimer of Opinions, hence only the 2012 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Opening Balance

My report on the financial statements of Aquarius No. 21 Limited for the year ended 31 December 2011 was disclaimed on the basis of limitation of scope with regard to the carrying value of land, status of ownership of land and uncertainty of going concern. I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances. Any adjustments that might have been found to be necessary on such opening balances would have had a consequential effect on the financial statements for the year ended 31 December 2012. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have a bearing on the balances reported in the financial statements for the year ended 31 December 2012.

Carrying value of Land

The value of land has been carried in the books of Aquarius No. 21 Limited at K950,000 based on the agreement between Bank of South Pacific Limited (formerly, PNGBC Limited), Independent Public Business Corporation (formerly, Privatisation Commission) and the Liquidator of Motor Vehicles Insurance Limited dated 9 April 2001. I was not able to place any reliance on the valuation. Further, the land lease of *"TSL Volume 14 Folio 250"* had expired in 2000, however, I was not provided with any new state lease. Therefore, I was unable to conclude whether the Company's claim of ownership was accurate and whether the carrying value of land of K950,000 at 31 December 2012, was appropriate.

Status of Ownership of the Land

The documents made available for review disclosed that a UDL over Portion 1570 (now 2500) was granted to Glory Estate Limited (then known as Kembis Holding Limited) in 2009. The asset was claimed to be owned by the Company.

As per the advice given by a law firm it was evident that IPBC lost all avenues to reclaim this vacant land. Further, as per the recommendation of the Audit & Risk Committee, the IPBC Board endorsed the provision of the loss.

Therefore, it was not appropriate to claim this vacant land as an asset of the Company.

Uncertainty of Going Concern

The financial statements were prepared on a going concern basis, the validity of which was dependent upon the shareholder, IPBC, not calling in the amount due by Aquarius No. 21 Limited and providing continued and additional financial support. I have not obtained sufficient and appropriate evidence that IPBC would provide the financial support required.

Also, it was now evident that the company had no assets to generate income and pay its liabilities.

Therefore, the going concern basis was not appropriate, adjustments would need to be made relating to the recoverability and classification of recorded amounts or the amounts and classification of liabilities to reflect the fact that the entity may be required to realise its assets and extinguish its liabilities other than in the normal course of business, and the resulting amounts may differ from those stated in the financial statements. It was not possible for me to quantify the extent of the adjustments required.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of Aquarius No. 21 Limited as at 31 December 2012, and of its financial performance and its cash flows for the year then ended.

EMPHASIS OF MATTER

Without qualifying my opinion, I wish to draw attention to the following matter which I consider significant:

Investment made in Aquarius No. 21 Limited by Motor Vehicles Insurance Trust Limited

I drew attention of the shareholders that the Aquarius No. 21 Limited (the Company) which owns this vacant land *(Portion 1570 now 2500)* was acquired by the Motor Vehicles Insurance Trust Limited (MVITL) in 1998 at a cost of K5.0 million, whereas the valuation report of the vacant land subsequent to the purchase indicated that the market value was K2.5 million. However, since 1999 the value of the land has been taken up at K950,000 in the books, therefore MVITL (now MVIL) had incurred a loss of K4.0 million through this investment.

This Company was transferred to IPBC as per restructured deed of agreement dated 3 April 2002 entered into between Motor Vehicles Insurance Limited (MVIL) and Privatisation Commission.

IPBC and MVIL had failed to apply for a new State lease for this vacant land, in spite of the issue being highlighted in my Management Letters since 2002.

OTHER MATTER

In accordance with *Section 8(2)* of the *Audit Act 1989 (as amended)*, I have a duty to report on any significant matters out of the financial statements, to which the report relates. I draw attention to the following issue:

Annual Returns Filed with Investment Promotion Authority (IPA)

I was not provided with the copy of the Annual Return filed with IPA by the Company to determine whether it complied with the requirements of the *Companies Act 1997."*

11A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, management advised that the deregistration process of the Company is in progress. That being the case, this will be my last report on the Company to Parliament.

11B. GENERAL BUSINESS TRUST (Trust under IPBC)

11B.1 INTRODUCTION

The General Business Trust was established under *Section 31* of the *Independent Public Business Corporation of PNG Act 2002 (as amended)* which came into operation on 20 June 2002.

11B.1.1 Objectives of the Trust

- The Independent Public Business Corporation of PNG (IPBC) was appointed as Trustee of the Trust and all moneys belonging to the Trust shall be invested or dealt with by IPBC in accordance with the *Act*;
- At any time before or after the commencement date of the *Act*, the Minister responsible for privatisation matters may vest certain assets and liabilities in the IPBC as Trustee of the Trust; and
- All the State Owned Enterprises and other investments owned by the State of PNG are vested in the Trust by the Minister responsible for privatisation as approved by the NEC from time to time.

11B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Trust for the year ended 31 December 2013 was in progress.

The Trust had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

11C. PNG DAMS LIMITED (Subsidiary of IPBC)

11C.1 INTRODUCTION

11C.1.1 Legislation

PNG Dams Limited was incorporated under the *Companies Act* on 5 June 2002. This Company was established under *Section 3(1)* of the *Electricity Commission (Privatisation) Act 2002 (the 'Act')* by transferring to it the Sirinumu Dam and Yonki Dam from PNG Electricity Commission (ELCOM). This was gazetted through *Gazettal Notification No. G114* dated 16 July 2002. The Company was vested with the IPBC through the *Gazettal Notification No. G125* dated 2 August 2002.

11C.1.2 Objective of the Company

The objective of the Company is to store water in the two dams for the controlled release of water from the storage for the generation of electricity.

11C.2 AUDIT OBSERVATIONS

11C.2.1 Comments on the Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2012 was issued on 28 August 2014. This report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report for the year ended 31 December 2011 was a Disclaimer of Opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of share capital, fixed assets written-down value, accumulated depreciation and receivables. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2012, I am unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December 2012.

Valuation of the Dams

The financial statements disclosed that the total value of the two dams, namely; Sirinumu and Yonki were taken up in the financial statements as K97,648,890.

The valuation was based on the book value of the dams as per the 2002 financial statements of PNG Power Limited. However, I was unable to determine the accuracy of the value taken up in the books due to unavailability of valuation reports.

As such, I was unable to verify the accuracy of the net value of the dams taken up as K83,333,706 at 31 December 2012.

Liabilities of the Dams

According to the *National Gazette No.G114* dated 16 July 2002 the then Papua New Guinea Electricity Commission (ELCOM) shall transfer to PNG Dams Limited all the liabilities relating to the two dams at the date of transfer. However, the financial statements did not disclose any liabilities for the year under review or in prior years.

Therefore, I was unable to determine whether any liability was payable but not included in the financial statements as at 31 December 2012.

Receivable

An amount of K80,000 was disclosed as receivable for the year ended 31 December 2012. However, no documentation was provided for my inspection and verification to determine the accuracy of the balance. Consequently, I was unable to ensure the appropriateness of K80,000 taken up as receivable in the financial statements as at 31 December 2012.

DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation on the scope of my work, as described in the preceding paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, I was unable to and do not express an opinion as to whether the accompanying financial statements gives a true and fair view of the financial position of the Company's financial performance and its cash flows for the year ended 31 December 2012:

(i) I was unable to form an opinion as to whether proper accounting records have been kept by the Company, so far as appears from my examination of those records;
(ii) With the exception of the matters described above, I have obtained all the information and explanations I have required."

11C.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2012 was issued on 28 August 2014. The report contained the following observations:

Transfer of Water Permits

As a result of Gazettal notification which vested the dams with IPBC, the permits held by PNG Power Limited (PPL) for use of water from the dams were also transferred to PNG Dams Limited. However, copies of the water permits transferred to the Company by PPL in 2002 were not provided for my review and inspection.

As such, I was unable to verify whether the conditions attached with the water permits are complied with. I brought this to the attention of the Management and they responded that *"we will also rely on PNG Power to provide copies of the water permits transferred from PPL to PNG Dams Limited."*

Provision of Water to Water Authorities

According to *Clause 5* of the *Lease Agreement*, the property (the dams) shall be used as water storage for the controlled use of water from the storage for the generation of electricity and the provision of water to an approved water authority.

I have sought an explanation as to whether the Company had entered into with other water authorities like EDA RANU or Water PNG for the supply of water for any fees other than PPL. At the time of this report, I had not received any response on the matter from the Company. I brought this to the attention of Management and they responded that *"at this stage lack of records in file makes it difficult to responds to Clause 5 of the lease agreement. We will investigate and consult with PPL."*

Board Minutes

I have not been provided with any Board Minutes for the year under review to determine whether the financial statements were approved by the Board for filing with Investment Promotion Authority (IPA) along with the Company's annual returns. I brought this to the attention of Management and they responded that *"this is also due to lack of good records keeping we are unable to provide the Board Minutes but will pursue with the legal services unit and PPL to obtain copies of the Board Minutes."*

Appointment of Director and Company Secretary

The unaudited financial statements were signed by one of the former Chairman and an officer of IPBC who were not formally appointed as Directors of the Company for the year ended 31 December 2004 for filing with IPA along with the Company's annual returns. However, no annual returns were filed with IPA for the financial years ended from 2005 to 2011. A company search report dated 18 February 2010 disclosed that the former Managing Director of IPBC was the Director since 1 June 2003 and not the former Chairman and the officer of IPBC at any time during 2003 to 2010. I brought this to the attention of Management and they responded that *"our legal division is attending to the appointment of Director and Company Secretary. We will provide copies of all relevant forms once they are duly signed and lodged with IPA."*

11C.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was in progress.

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

11D. PORT MORESBY PRIVATE HOSPITAL LIMITED (Subsidiary of IPBC)

11D.1 INTRODUCTION

11D.1.1 Legislation

Port Moresby Private Hospital Limited (formerly Negliw No. 81 Limited) was incorporated under the *Companies Act* and was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited on 30 September 1994 as a subsidiary. Port Moresby Private Hospital Limited changed its name from Negliw No. 81 Limited in 1996.

The Company was later transferred to the General Business Trust on 2 August 2002.

11D.1.2 Objective of the Company

The objective of Port Moresby Private Hospital Limited was to construct, furnish and equip a building to operate as a hospital.

11D.2 AUDIT OBSERVATIONS

11D.2.1 Comments on the Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2011 and 2012 were both issued on 28 August 2014. The reports contained Qualified Opinions, hence only the 2012 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Related Party Balance

The financial statements disclosed that K6,584,989 was payable to related party payables, General Business Trust, under current liabilities. However, the audited financial statements of General Business Trust showing K5,937,416 as receivable from Port Moresby Private Hospital as at 31 December 2012, leaving an unreconciled difference of K647,573.

Therefore, I was unable to ascertain the accuracy of showing K6,584,989 as related party payable in the financial statements for the year end 31 December 2012.

Uncertainty of Going Concern

The financial statements were prepared on a going concern basis, the validity of which I was not able to ensure as the hospital project was still incomplete and I was not provided with any documentary evidence that the parent organisation, the Independent Public Business Corporation, will continue to provide the financial support required by the Company to complete the project and commence the operation of the hospital.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty. If the going concern basis is not appropriate, adjustments would need to be made relating to the recoverability and classification of recorded amounts or the amounts and classification of liabilities to reflect the fact that the entity may be required to realise its assets and extinguish its liabilities other than in the normal course of business, and the resulting amounts may differ from those stated in the financial statements. It is not possible for me to quantify the extent of the adjustments required.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the above qualification paragraph:

(a) The financial statements of Port Moresby Private Hospital Limited for the year ended 31 December 2012;

  (i) Give a true and fair view of the financial position and the results of its operations and cash flows for the year then ended;
  (i) The financial statements have been prepared in accordance with the *Companies Act 1997*, *International Financial Reporting Standards* and other generally accepted accounting practice; and

(b) Except as noted under Other Matters paragraph, proper accounting records have been kept by the Company; and

(c) I have obtained all the information and explanations required.

OTHER MATTER

In accordance with *Section 8(2)* of the *Audit Act 1989 (as amended)*, I have a duty to report on any significant matter out of the financial statements, to which the report relates. I draw attention to the following issue:

- The lease agreement between Independent Public Business Corporation and Pacific International Hospital disclosed that the annual rent for this hospital facility was K267,266 for period of forty (40) years.

The current value of the property was K48 million as per the valuation report. However, the current annual rent was less than 1% of the value of the hospital property. Audit was not provided with adequate explanation for leasing the facility at a very low lease rental."

11D.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was in progress.

The financial statement for the year ended 31 December 2014 had not been submitted for my inspection and audit.

12. INDUSTRIAL CENTRES DEVELOPMENT CORPORATION

12.1 INTRODUCTION

12.1.1 Legislation

The Industrial Centres Development Corporation was established under the *Industrial Centres Development Corporation Act 1990* which came into operation on 23 August 1990. The Corporation commenced trading on 5 January 1994.

12.1.2 Functions of the Corporation

The main functions of the Corporation are:

- Overall planning and implementation of the Government's industrial centre development programme;
- Preparation of feasibility studies in order to identify appropriate forms of industrial development;
- To identify therewith or otherwise, regions and sites in the country for industrial centres; and
- To do such supplementary, incidental or consequential acts, as are necessary for the development and promotion of industrial centres in PNG.

12.2 AUDIT OBSERVATIONS

12.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the year ended 31 December 2011 was issued on 30 March 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Trade Debtors –Malahang Industrial Centre (MIC)

The MIC trade debtors balance was reported as K904,401 at the year end. I noted that K522,339 still remained outstanding for a long period of time, therefore the collectability of this amount is in doubt. As such, I was unable to satisfy myself as to the accuracy and collectability of the trade debtors as reported at the year end.

Sundry Debtors – K2,031,358

Included in the above account were land sales debtors totaled K479,395 of which an amount of K442,623 had been outstanding for over 90 days.

In addition, land sales debtors with credit balances (as a result of customers payments) totaled K63,460 were not allocated with invoices. As a result, the sundry debtors account was understated by the said amount. Consequently, I was unable to ascertain the accuracy, correctness and collectability of the sundry debtors as reported in the financial statements as at 31 December 2011.

Cash at Bank – K10,770,650

The bank confirmation certificates for the Business Growth Centre (BGC), Ulaveo Industrial Centre (UIC) and Lands accounts for the year ended 31 December 2011 were not provided to me at the time of audit for my review. As a result, I was unable to confirm the closing bank balances as reported in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effect of the matters referred to in the Basis for Qualified Opinion paragraphs above:

a) The financial statements are based on proper accounts and records; and
b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Corporation for the year ended 31 December 2011 and the results of its financial operations and cash flows for the year then ended."

12.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2011 was issued on 30 March 2015. The report contained the following significant matters:

Advance/Acquittals Register

The Corporation had not maintained advance/acquittal register for Head Office and Malahang Industrial Centre despite my recommendation in previous Management Letters. Due to non-existence of Advance/Acquittal Register during the year under review, I was unable to trace the authenticity of advances against its acquittals. The Corporation in its response agreed to take necessary remedial action to rectify the issue.

Staff Advance – K310,035

I noted that the Corporation had made progress in recouping outstanding staff advances during 2011. However, staff advances amounting to K81,684 outstanding for considerable period was not recouped during the year. I drew this to the Management's attention and the Management responded as follows;

"All advances have been minimised; those requesting advance assistance from ICDC were given against their entitlements. As for the list of outstanding debtors as per the audit report, action had been taken to recoup these amounts. Effort is being made to enforce full repayment by Management."

Inter-company Accounts

During my examination, I noted that despite my prior year's recommendations, the inter-company/project transactions were not being reconciled to show a nil balance at year end. Inter-company/project transactions supposed to offset each other showing a zero balance, however this had not happened.

There was a total of K166,538 that was still needed to be reconciled and cleared. I drew this to the Management's attention and the Management responded as follows:

"We agree with your comment that the intercompany balances should offset each other. The above difference will be further investigated and rectified in 2012 accounts. The advances in question were given based on directions from the Corporation's Managing Director and Secretary for Commerce and Industry being the parent company of the Ministry; on the understanding that the funds used will be reimbursed as soon as the funds are made available for these particular projects. Unfortunately these have not been honored by the Department of Commerce and Industry to date despite repeated requests for reimbursements of same. A proper reconciliation though would be prepared to ensure any differences are identified and cleared."

Printing of Annual Reports

During my review, I observed that for three consecutive years (2009, 2010 and 2011), the Corporation had made three different down payments amounting to K125,525 to three different companies for the production of its annual reports. To date, there were no reports printed. I noted that the Management had no action plan established to complete the printing of annual reports and the recovery of those monies paid to the entities. I drew this issue to the attention of the Management and they responded as follows:

"The timing of the production of these reports have somewhat been stalled due to the resignation and departure of some key personnel tasked with this job. We have since followed up on some of these companies for recovery of the funds paid but this has been a problem itself mainly because some of these deals were paid as initial down payments for the production of such jobs as per the agreement signed by the Managing Director of ICDC at that time and the supplier."

Non-Compliance with the Public Finances (Management) Act 1995

The Corporation had not prepared and submitted its financial statements to my Office before 31 March 2012 to enable me to conduct the audit and issue the audit report within the time frame stipulated in the Act. Consequently, the Corporation had breached *Section 63(2)* and *63(4)* of the *PFMA.*

Other Internal Control Weaknesses

Other weaknesses noted during my review were:

- Certain cost on preliminary activities were over spent by the Corporation on the projects and they were still incomplete;
- Inadequate control over cash encashment and payment to suppliers;
- Reconciliations of general ledger accounts were not prepared on a periodic basis;
- There was no Internal Audit Unit established as per *Section 9* of the *PFMA ;and*
- Minister's approval of the land sale was not provided for my verification.

I drew Management's attention to these weaknesses and I was advised that steps have been taken to address these issues.

12.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Corporation for the years ended 31 December 2012 and 2013 had been completed and the results were being evaluated.

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

13. INTERNAL REVENUE COMMISSION

13.1 INTRODUCTION

13.1.1 Legislation

The National Executive Council (NEC) in its meeting on 5 December 2013, Decision No: 419/2013 approved that the Internal Revenue Commission be transformed into a Statutory Authority through a separate Act of Parliament.

In accordance with the NEC decision, the *Internal Revenue Commission Act, 2014* was drafted and certified on 5 August 2014. In September 2014, the Internal Revenue Commission started carrying out its operations as a Statutory Authority.

Prior to September 2014, the Internal Revenue Commission was operating as a Department of the National Public Service under the Department of Finance.

13.1.2 The Objective of the Commission

The objective of the Internal Revenue Commission is to raise revenue for the government from taxes imposed on income that is liable to be taxed under the taxation laws it administers. The Commission assesses and collects taxes. It conducts tax education and awareness campaigns, and proposes tax administration reform measures to ensure that a conducive business environment is established for collecting right amount of taxes.

13.1.3 The Powers and Functions of the Commission

The powers and functions of the Internal Revenue Commission are to enable the Commissioner General to:

- administer and enforce the revenue laws;
- promote compliance with the revenue laws;
- take such measures as may be required to improve service provided to taxpayers with a view to improving efficiency and maximising revenue collection;
- take such measures as may be required to counteract tax fraud and other forms of tax evasion;
- advise the State on matters relating to taxation and to liaise with relevant stakeholders on such matters;
- represent the State internationally in respect of matters relating to taxation; and
- carry out such functions as are given to the Internal Revenue Commission under this Act or any other law.

13.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the period 18 September to 31 December 2014 had been completed and the results were being evaluated.

14. INVESTMENT PROMOTION AUTHORITY

14.1 INTRODUCTION

14.1.1 Legislation and Objective of the Authority

The Investment Promotion Authority was established under the *Investment Promotion Act 1992*. The objective of the Act was to provide for the promotion of investment in the interests of national, social and economic development. This Act repealed the *National Investment and Development Act (Chapter 120)* and the *Investment Promotion Act, 1991*.

14.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Provide information to investors in the country and overseas;
- Facilitate the introduction of citisens and foreign investors to each other and to activities and investments of mutual benefits;
- Provide a system of certification of foreign enterprises;
- Advise the Minister on policy issues which relate to the Act; and
- Maintain a register of foreign investment opportunities.

14.2 AUDIT OBSERVATIONS

14.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2013 and 2014 were issued on 18 February and 15 May 2015 respectively. The reports did not contain any qualifications.

15. KOKONAS INDASTRI KOPORESEN (Formerly Copra Marketing Board of PNG)

15.1 INTRODUCTION

15.1.1 Legislation

The (NEC) through its Gazettal Notice No. G19 abolished the *Copra Marketing Board Act, 1992* on 4 June 2002 and replaced it with *Kokonas Indastri Koporesen Act, 2002* which established the Kokonas Indastri Koporesen (*KIK)*. The new Act decentralised copra buying and selling in PNG and required KIK to only regulate the copra price in PNG.

The *Kokonas Indastri Koporesen Act* subsequently established PNG Coconut Extension Fund and PNG Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 15A and 15B respectively, of this Report.

15.1.2 Functions of the Koporesen

The principal functions of the Koporesen are to regulate and assist in the export and marketing of copra in the best interest of the copra producers of PNG and to administer the PNG Coconut Extension Fund and the PNG Coconut Research Fund.

15.2 AUDIT OBSERVATIONS

15.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Koporesen for the year ended 31 December 2014 was issued on 26 May 2015. The report did not contain any qualification.

15.2.2 Audit Observations Reported to the Ministers

My report to Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Koporesen for the year ended 31 December 2014 was issued on 26 May 2015. The report contained the following comment:

Managing Director's Contract of Employment

My examination of the personnel records for the year ended 31 December 2014 revealed that the *National Executive Council (NEC),* in its *Decision No: 14/2013* dated 23 February 2013, confirmed the appointment of the Managing Director of KIK for a period of four years.

The NEC further directed the Secretary for the Department of Personnel Management to prepare a *"Contract of Employment"* for the Managing Director, which was not finalised at the time of audit. I brought this to the attention of Management in my last report as I was unable to determine on what basis the Managing Director's Remuneration was calculated.

The Management took note of my concerns and advised that the Managing Director was on the same scale as the previous Managing Director and adjustments would be effected once the *"Employment Contract"* is signed.

15A. PNG COCONUT EXTENSION FUND

15A.1 INTRODUCTION

The *Copra Marketing Board (Amendment) Act 1997* provides for the establishment of the PNG Coconut Extension Fund for the purpose of receiving levies and engaging in extension services and related programmes in accordance with the terms of the Act.

15A.1.1 Objective of the Fund

The objective of the Fund is to engage in extension services and related programs by itself or in co-operation with other persons or bodies for the benefit of the Copra Industry.

The Fund was administered by the Copra Marketing Board up to 3 June 2002 and has since been administered by KIK.

15A.2 AUDIT OBSERVATIONS

15A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Extension Fund for the year ended 31 December 2014 was issued on 26 May 2015. The report did not contain any qualification.

15B. PNG COCONUT RESEARCH FUND

15B.1 INTRODUCTION

15B.1.1 Legislation and Objective of the Fund

The PNG Coconut Research Fund was established by the *Kokonas Indastri Koporesen Act* following the repeal of the *Copra Marketing Board (Amendment) Act* and the cessation of the PNG Copra Research Fund. The KIK deducts a copra research fee of K4 per tonne of copra purchased from producers and pays it to the Research Fund. The Research Fund in turn, pays this CESS to the Cocoa Coconut Institute of PNG.

15B.2 AUDIT OBSERVATIONS

15B.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Research Fund for the year ended 31 December 2014 was issued on 26 May 2015. The report did not contain any qualification.

16. LEGAL TRAINING INSTITUTE

16.1 INTRODUCTION

16.1.1 Legislation

The Legal Training Institute was established in 1972 under the *Post Graduate Legal Training Act (Chapter 168).*

16.1.2 Functions of the Institute

The functions of the Institute are to provide practical training in law, the conduct and management of legal offices, trust accounts and related subjects for candidates for admission, to a standard sufficient to qualify them for admission to practice as lawyers under the Admission Rules as contained in the *Lawyers Act of 1986.*

16.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December 2013 had been completed. The Management Letter response together with the signed financial statements were being awaited to issue the audit report.

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

17. MINERAL RESOURCES AUTHORITY

17.1 INTRODUCTION

17.1.1 Legislation

The Mineral Resources Authority was established by the National Parliament under the *Mineral Resources Act 2005* on 9 November 2005. This Act came into force on January 2006 but commenced operations in June 2007.

17.1.2 Objectives of the Authority

The objectives of the Authority are to achieve stability, industry growth and a degree of assurance of future revenues from the mineral industry. More effective management of issues concerning landowners and their participation in the development process and allow for the development of a more settled investment climate and industry development.

17.1.3 Functions of the Authority

The functions of the Authority are described as follows:

- To advise the Minister on matters relating to mining and the management, exploitation and development of Papua New Guinea's mineral resources;
- To promote the orderly exploration for the development of the country's mineral resources;
- To oversee the administration and enforcement of the *Mining Act 1992*, the *Mining (Safety) Act* (Chapter 195A), the *Mining Development Act* (Chapter 197), the *Ok Tedi Acts* and the Ok Tedi Agreement, the *Mining (Bougainville Copper Agreement) Act* (Chapter 196) and the agreements that are scheduled to that Act, and any other legislation relating to mining or to the management, exploitation or development of PNG's mineral resources;
- To negotiate mining development contracts under the *Mining Act* as agent for the State;
- To act as agent for the State, as required, in relation to any international agreement relating to mining or to the management, exploitation or development of PNG's mineral resources;
- To receive and collect, on its own account and on behalf of the State, any fee, levy, rent, security, deposit, compensation, royalty, costs, penalty, or other money, or other account payable under the *Mining Act*, the *Mining (Safety) Act*, the *Mining Development Act*, the *Ok Tedi Acts* and the Ok Tedi Agreement, the *Mining (Bougainville Copper Agreement) Act* and the agreements that are scheduled to that Act, or any other Act the administration of which is the responsibility of the Authority from time to time;

- On behalf of the State, to receive and collect from persons to whom a tenement has been granted under the *Mining Act* the security for compliance with the person's obligations under the Act required to be lodged with the Registrar, and to hold and such security received or collected;
- On behalf of the State, to administer and be responsible for the administration of any public investment program relating to mining;
- To conduct systematic geoscientific investigations into the distribution and characteristics of PNG's mineral and geological resources, located on, within or beneath the country's land mass, soil, subsoil and the sea-bed;
- To provide small scale mining and hydrogeological survey data services, and occupational health and safety community awareness programs;
- To collect, analyse, store, archive, disseminate and publish (in appropriate maps and publications) on behalf of the State geoscientific information about PNG's mineral and geological resources;
- To carry out such other functions as are given to the Authority by this Act or by any other law; and
- Generally to do such supplementary, incidental, or consequential acts and things as are necessary or convenient for the Authority to carry out its functions.

17.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

17.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2011 was issued on 13 April 2015. This report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

I was unable to obtain sufficient appropriate audit evidence regarding the financial statements for the year ended 31 December 2010 and my audit opinion was disclaimed for that year. Accordingly, I am not in a position to and do not express an opinion on the corresponding figures for the year ended 31 December 2010. Any cut off errors at 31 December 2010 would affect the results of operations for the year ended 31 December 2011.

Tenement Rent Income

Reported in the Statement of Comprehensive Income is an amount of K6,024,706 being for tenement rent income. During the audit, completeness of revenue recognition of the tenement income account could not be verified.

I noted that the Authority did not have proper controls over the raising of tenement income invoices and subsequent recognition in the accounting records. No audit evidence could be obtained to satisfy myself that all tenement income was raised and recognised during the financial year ended 31 December 2011.

Production Levies

Reported in the Statement of Comprehensive Income was an amount of K24,805,275 being for production levies income. During the audit, completeness and accuracy of the production levies account could not be verified. It was noted that the Authority did not have proper controls and procedures to capture all the production levies. Production levies were calculated based on 0.25% of assessable income of producing mines. I noted during the audit that not all producing mines remitted their production levies.

Additionally, the Authority did not have a process to verify and ascertain the base and assessable income as described by the producing mines to calculate and remit the production levies.

Non-Compliance with the Mineral Resource Authority Act 2005 and Public Finances (Management) Act 1995

The 2011 Statutory Financial Statements of the Authority was not furnished within five months after the balance date due to weaknesses in the Authority's accounting system and overall internal control environment. The audit only commenced in early March 2014, as such management was unable to meet the deadlines required under *Section 36(1)* of the *Mineral Resource Act* 2005 which requires audited financial statements of the Authority to be furnished to the Minister before 31 May 2012.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Mineral Resource Authority for the year ended 31 December 2011."

17.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2011 was issued on 13 April 2015. The report contained the following observations:

Internal Control Environment

I have identified several weaknesses in Authority's accounting system and overall internal control environment operated during the year ended 31 December 2011.

Management information were insufficient and reconciliations were not performed for items included in the Statement of Financial Position and/or reconciliations between the general ledger and sub ledgers which resulted in significant delays in receipt of information for the audit.

I recommended that Management implements a system whereby reconciliations are prepared for each item stated on the Statement of Financial Position and that reconciling items are followed up promptly and resolved. Management should ensure that reconciliations are performed between the general ledgers and sub-ledger and that reconciling items are followed up promptly in order to ensure completeness of data for reporting purposes.

The Management responded that during the financial year ending 31 December 2014, the management accounting and reporting process including reconciliations will receive focussed attention.

Trade Debtors

The Authority's trade debtor's increased to K723,195 from K225,586 in the prior year and an aging report of customers summarising the balance was not available. These balances could be impaired or unallocated receipts may not have been allocated to this balance. I also noted that the Authority did not have a standard policy regarding the determination and provision for bad and doubtful debts. A proper policy on the determination of bad and doubtful debts is vital in order to ensure there is consistency in the method applied in delivering such accounting estimates.

I recommended that Management should create a module for aging report in the system, if possible. Register all invoices in the system by the date of issue and integrate the tenement rental sub-ledger with the general ledger and prepare monthly reconciliations between the two. In addition, Management should maintain the sub-ledger and reconciling items between the sub-ledger and general ledger should be followed up and rectified promptly. Unallocated receipts should be reconciled on a monthly basis and debtors accounts followed up in order to allocate potential unallocated receipts which may relate to customer accounts on a timely basis.

Management responded as follows:

"MRA has set up an electronic tenement management system and it is expected that an application will be included that will enable inter-phase with the general ledger to capture the financial aspect of the operations. Accordingly, an accounts receivable module enabling aged debtors reporting will be possible for after the financial year ending 31 December 2014."

Board of Directors Meetings Minutes

The Board meeting minutes have not been readily available on request and as required by my audit. In addition, not all Board meeting minutes for the year under review have been presented to me for review. These indicate non-compliance of the *MRA Act Section 18(1),* which states that four Board meetings are to be held in a financial year.

I recommended that the Management should ensure that the organisation has four Board meetings in a year and keeps proper records of all meeting minutes resolutions to support the Authority's decisions made throughout the year. Also, the minutes of the meetings should be taken, signed off by the chairman/secretary and kept.

Management responded as follows:

"Management accepted the recommendation for 2011. In 2011, the Authority did not have a full functional Board. There was no quorum to convene full Board meetings at the time and whatever the composition at the time was, and the limited number was convening as sub-committees and providing guidance to the Authority's management.

MRA has, since year opening 2012 acted on the recommendation of the auditor and appointed a permanent Board Secretary (who is also Principal Council of the Authority) to provide support to the Board since 2012 (to present), proper and sealed Board minutes and resolutions have been kept. The Authority is also implementing "The Directors interest register" and "Resolution/Minutes register", which should be effective and operational by the end of the 2014 financial year."

Internal Audit Function

I have noted non-compliance with the *MRA Act Section 39(5*) which states that MRA is required to appoint an internal auditor who is to provide a written audit report not less than quarterly to the Minister and Treasury. There was an internal auditor for the financial year ending 31 December 2011, however, no internal audit work was carried out for the period.

MRA Operating Bank Account – K14,044,267

The Authority's Operating Bank Account remained unreconciled as at 31 December 2011 by K116, 000. Bank reconciliations are a key control in safeguarding the entity's most valuable asset, cash, from misappropriation.

I also noted that the account had unpresented cheques totalling K1,625,268. Of this balance, K51,303 related to the year ended 31 December 2009, K29,491 related to the year ended 31 December 2010 and the remaining balance of K1,544,474 related to the year ended 31 December 2011.

The existence of unexplained variances in the bank reconciliation could mean that the responsible staff member was not diligently carrying out the reconciliation on a month by month basis. This resulted in the bank account remaining unreconciled and as such misstated in the financial statements of the Authority.

I recommended that Management should investigate and resolve all variances noted in a timely manner on a going forward basis. They should also determine whether the aging of the unreconciled variances would justify journal entries to be posted and recognise unpresented cheques older than three years. The Management concurred with my recommendation.

Accruals and Journal Entry Processing

I have been unable to determine if journals were processed at year end and was not provided with any list of journals processed relating to the year ended 31 December 2011. Thus, I was unable to verify the authorisation, accuracy and validity of any journal entries which may have been processed.

I recommended that the Authority prepares monthly journal listings which should be reviewed and signed off as evidence of review. Journal entries should be supported by sufficient and appropriate supporting documents as described in the MRA's Accounting Policies and Procedures Manual.

Royalty Trust Deeds

Note 20 to the financial statements reported a Royalty held in Trust from Simberi Gold and New Guinea Gold land owners totaled K2,771,390. I noted that there was no formal trust deed in place setting out the rights and obligations of all parties involved. In the absence of a royalty trust deed, any legal issues arising from the use of these funds could have an impact on the Authority in the future. I have recommended that all future trust funds held for on behalf of land owners should be covered by a properly executed trust deed.

Revenue – Tenement Income

I have noted that there was a significant risk around the completeness of tenement income for the year. This is mainly due to the following factors as described below:

Tenement income was not being apportioned according to the tenement period to which it related, thus causing cut off issues within the revenue recognition. This is based on my selected sample amounting to K1,129,220. An amount of K497,467 related to revenue earned during the year ending 31 December 2011. However, this was recognised during the financial year ended 31 December 2010.

I also noted that currently the Authority does not have a proper invoicing system. The Authority issue letters to the tenement holders notifying them of their tenement rental obligations. This letter then serves as the invoice from the Authority. These letters do not have the properties of sufficient invoices in the sense that they have no sequence or numbering which will enable the Authority to have proper control over the completeness of invoices raised for a particular financial year. This also has the potential to lead to further cut off issues around revenue recognition.

I recommended that the Authority should implement proper policies and procedures around revenue recognition. Tenement income should be apportioned correctly with reference to the financial period to which it relates and accounted for accordingly. I also recommended that the Authority implement a tenement revenue management system that where the tenement division is interlinked with the accounts division. The tenement division should enter the details of all the tenement applications approved by the Minister which should automatically prompt or alert the accounts divisions to raise sequence numbered invoices to the relevant tenement holders. Management responded that *"External accounting support and the implementation of an electronic tenement management system will be a focus for 2014 onwards."*

Revenue – Production Levies

I noted that the production levies have been calculated and remitted by producing mines. Production levies income has been calculated based on 0.25% of assessable income of producing mines and accounted for almost 70% of the Authority's income.

The Authority did not test the veracity of the revenue and did not maintain a register of mining companies that were required to pay these production levies. As a result of the lack of control around the raising of production levy income, it was highly likely that not all producing mines were remitting the required production levy to the Authority. For example neither the Tolukuma nor Sinivit Gold Mine remitted any production levies during the financial year ended 31 December 2011.

I recommended that Management implement policies and procedures whereby it is mandatory for all producing mines to declare their assessable income to the Authority regardless of whether they made a profit or a loss for the relevant financial period.

Management responded as follows:

"Management on its own has already implemented this recommendation. A submission is currently pending Board Approval to implement the audit of production levies for the last 3 financial years including the financial year ending 31 December 2014."

17.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2012 was in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

18. MOTU KOITABU COUNCIL

18.1 INTRODUCTION

18.1.1 Legislation

The Motu Koitabu Interim Assembly was established under *Section 12* of the *National Capital District Government (Preparatory Arrangements) Act (Chapter 392).*

This Act was repealed by the *National Capital District Commission Act 1990*, which came into operation on 5 November 1990. The assets and liabilities of the Interim Assembly were transferred to the Commission by virtue of the requirements of the new Act. Subsequent to this, the *National Capital District Commission (Amendment) Act 1992*, came into effect on 30 November 1992 hence, the Motu Koitabu Council was established.

The Act was further amended by the *National Capital District Commission (Amendment) Act 1995*, which became effective on 19 July 1995 and this facilitated the establishment of a system of Local-level Government for the National Capital District (NCD). The government of the National Capital District comprises the NCD Commission, the Motu Koitabu Council and the Local-level Governments in the NCD.

With the introduction of the *Motu Koita Assembly Act 2007*, a system of Local Government was established for the Motu Koita people of the National Capital District.

18.1.2 Functions of the Interim Assembly

The principal functions of the Interim Assembly were:

- To control, manage and administer the Motu Koitabu areas, and to ensure the welfare of the Motu Koitabu areas and of the persons therein;
- To assist in the preparations for the establishment of the proposed Assembly; and
- To make preparations for the establishment of a Motu Koitabu business arm.

18.1.3 Subsidiary of the Council

The Motu Koitabu Interim Assembly had a subsidiary Company, Tabudubu Limited, which operated as the business arm of the Interim Assembly. The shares in the Company were transferred to the Commission as required by the *National Capital District Commission Act 1990*, and are held in trust for the Motu Koitabuan people. Comments in relation to this subsidiary are contained in paragraph 18A of this Report.

18.2 STATUS OF FINANCIAL STATEMENTS

Management in its letter dated 12 August 2009 informed me that the Council was unable to provide any of the financial records and information requested by my Office for the years ended 31 December 2003 to 2007 due to difficulty in locating the documents and records.

In addition, the Council was unable to provide the signed financial statements to enable me to provide an opinion on its accounts and records. Due to the limitation of scope of this audit, I intend to exclude this entity from my future reports to Parliament.

18A. TABUDUBU LIMITED (Subsidiary of Motu Koitabu Council)

18A.1 INTRODUCTION

18A.1.1 Legislation

Tabudubu Limited was incorporated under the *Companies Act 1997*. The Company is a subsidiary of the Motu Koitabu Council.

Motu Koitabu Interim Assembly holds 99 percent of the shares in Tabudubu Limited. The Company was established under the *National Capital District Government (Preparatory Arrangement) Act (Chapter 392)*. This Act was repealed by the *National Capital District Commission Act 1990*.

With the introduction of the *National Capital District Commission Act 1990,* Motu Koitabu Interim Assembly was amalgamated with the Commission and the *"Interim Assembly"* became the Council. The assets, liabilities and the obligations of the Interim Assembly were absorbed by the Commission on the commencement date.

The shares in Tabudubu Limited were transferred to the Commission to be held in Trust for the Motu Koitabu people of the NCD by virtue of *Section 47(2)* of the *National Capital District Commission Act 1990*.

18A.1.2 Functions of the Company

The main functions of the Company as per the Memorandum of Association are to:

(a) Promote the development of the Motu Koitabu people living within the NCD by the promotion of trade, commerce, communication and co-operation; and
(b) Implement the directives of the Motu Koitabu Council and the National Capital District Commission.

18A.2 STATUS OF FINANCIAL STATEMENTS

The Management in its letter dated 12 August 2009 informed me that the Company was unable to provide any of the financial records and information requested by my Office for the years ended 31 December 2003 to 2007 due to difficulty in locating the documents and records.

In addition, the Company was unable to provide the signed financial statements to enable me to provide an opinion on its accounts and records. Due to the limitation of scope of this audit, I intend to exclude this entity from my future reports to Parliament.

19. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY

19.1 INTRODUCTION

19.1.1 Legislation

The National Agriculture Quarantine and Inspection Authority (NAQIA) was established by the *National Agriculture Quarantine and Inspection Authority Act 1997*. This Act came into operation on 29 May 1997.

Under this Act, all assets used for Quarantine and Inspection Services (other than land held by the State) and previously held by the Department of Agriculture and Livestock which were necessary to be transferred to the Authority for the purposes of the Authority, were transferred to and became the assets of the Authority at commencement.

19.1.2 Objectives of the Authority

The main objectives of the Authority as mentioned in the Act are the conduct of quarantine and inspection of: any animal and species; any fish species; any plant species; any products derived from animals, fish and plants; and to prevent pests or diseases from entering in or going out of PNG.

19.1.3 Functions of the Authority

The functions of the Authority, as mentioned in the Act are to:

- Advise the Ministry and the National Government on policy formulations and legislative changes pertaining to agriculture quarantine and inspection matters;
- Monitor and inspect all imports of animals, fish and plants and their parts and products, including fresh, frozen and processed food to ensure that the imports are free from pests, diseases, weeds and any other symptoms;
- Regulate and control all imports of animals, fish and plants and their parts and products, including fresh, frozen and processed food to ensure the imports are free from pests, diseases, weeds and any other symptoms;
- Undertake all necessary actions to prevent arrival and spread of pests, diseases, contamination, weeds, and any undesirable changes pertaining to animals, fish and plants and their parts and products, including fresh, frozen and processed foods;
- Monitor, inspect and control the export of animals, fish and plants and their parts and products to ensure that they are free from pests, diseases, weeds and any other symptoms;

- Undertake all necessary actions to ensure that the export of animals, plants, fish and their parts and products are free from pests, diseases, weeds and any other symptoms so as to provide quality assurance to meet the import requirements of importing countries;
  Issue permits, certificates and endorsements pertaining to imports and exports of animals, fish and plants and their parts and products to provide quality assurance and to ensure that they are free from pests, diseases, weeds and any other symptoms;
- Inspect and treat vessels, aircraft, vehicles, equipment and machinery that are used in importing and exporting animals, fish and plants to ensure that they are free from pests, diseases, weeds and any other symptoms;
- Regulate the movement of animals and plants from one part of the country to another to control and prevent the spread of pests, diseases, weeds and any other symptoms;
- Undertake and maintain inspection and quarantine surveillance pertaining to pests, diseases, weeds and any other symptoms on animals, fish and plants within and on the borders of the country;
- Monitor, assess and carry out tests on animals, fish and plants and their parts and products that are introduced into the country, to ensure that they are free of pests, diseases, weeds and any other symptoms;
- Liaise with other countries, international agencies and other organisations in developing policies, strategies and agreements relating to quarantine, quality and inspection matters in respect of animals and plants;
- Provide quarantine and inspection information and services to individuals, agencies and other organisations within the country and overseas in respect of animals and plants;
- Levy fees and charges for any of the purposes of this Act and any regulations made there under;
- Exercise all functions and powers and perform all duties which, under any other written law, are or may be or become vested in the Authority or are delegated to the Authority; and
- Do such matters and things as may be incidental to or consequential upon the exercise of its power or the discharge of its functions under this Act.

19.2 AUDIT OBSERVATIONS

19.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2013 was issued on 22 September 2014. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Payment of Labour and Land Mobilisation Costs to Lands Investment Limited

Note (6) to the financial statements disclosed Land and Building as K31,929,972 at 31 December 2013. The Land and Building included cost associated with construction of the prefabricated houses of K3,523,998. During the year, the Authority made a payment of K1,048,998 to the Lands Investment Limited comprising of K742,500 for labour (30% of K2,475,000 contract) and K342,498, for the Mobilisation of Earth Works in relation to construction of nine prefabricated houses under the Staff Housing Project. The Authority paid K1,048,998 in addition to the contract value of K2,475,000 as approved by the Central Supplies and Tender Committee. Further, there was no specific clause in the contract in respect of the above payments of K1,048,998. As such, I was unable to ascertain the basis on which this payment was made to Lands Investments Limited. I was unable to sight any formal Board Meeting, Tender Committee nor Central Supplies and Tender Board approval in relation to these (K1,048,998) additional payments. As such, I was unable to validate the payments amounting to K1,048,998 made to the contractor.

Other Debtors Balance – K2,549,232

My review on the other debtors balance of K2,549,232 revealed that the balance is related to two additional units of Tropicana Building occupied by the Authority since 2011. The Authority occupied the additional units without obtaining formal approval from the Office Allocation Committee. The Authority since made numerous attempts to obtain approval from the Office Allocation Committee but was not successful. However, NAQIA continues to occupy and make payments for the two additional units at Tropicana Limited from its internally generated revenue. I was unable to comment as to whether the Authority's current rental arrangement was in line with the Guidelines set by the Office Allocation Committee and the recommended practice.

No Audit Trail on Government Special Grant and Donor External Grants

I was not provided with detailed schedules and the supporting documents of the Government Special Grants and the Donor External Grants as disclosed in the financial statements. A total of K2,433,113 of Government Special Grants and Donor External Grants were recognised as revenue and expenses for the year ended 31 December 2013. However, I was not adequately provided with the supporting schedules and the source documentations. There were no reconciliation statements of the grants and the disbursement to indicate when the funds were received and the amount expensed during the year under review and the unused balance at the year end.

Further, the details of expenditures incurred and acquittals made during the year for Bogia Coconut Syndrome and the Newcastle diseases in Vanimo were not provided for my audit verification. In the absence of the proper schedules and supporting documents, I was unable to verify the amounts disclosed in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effects of the matter referred to in the Basis for Qualified Opinion paragraphs above:

(a) the financial statements of the Authority are based on proper accounts and records; and
(b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Authority as at 31 December 2013, and the results of its financial operations and cash flows for the year then ended."

19.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2013 was issued on 22 September 2014. The report contained the following significant matters:

Board Meeting Minutes

The Authority's Board Members term expired in March 2013 and they were not renewed. The National Executive Council (NEC) did not appoint new members to the Board and as such the Authority did not have any Board Meetings until November 2013.

However, I noted that important decisions for the Authority such as Staff Housing project and the rental of additional two units of the Tropicana Building were made without the Authority's Board deliberation. Further, the minutes of the one meeting held on 15 November 2013 was not authenticated by the Chairman.

I brought the matter to the attention of Management and they responded to my concern as follows:

"We confirm that all the other formalities for the full board appointments of the Board's non ex-officio members were completed and names of the applicants submitted to the Minister for Agriculture and Livestock for his recommendations to Public Service Commission for its proper assessment prior to the National Executive Council (NEC) for its endorsement.

Awaiting the outcome, the current National Agriculture Quarantine & Inspection Authority Board Chairman and the ex officio members of the NAQIA Board conducted a Board Meeting on the 15 November 2013. The draft meeting minutes of that meeting was made available to your officers during the field work. Therefore, we confirm that there was no major breakdown in the corporate governance control within the Authority."

Progress Reports

During my examination of the institutional houses I noted that there were no progress reports produced to the Authority by the Contractor (Lands Investments Limited) on a regular basis in relation to the nine Staff Institutional Houses built at Kilakila. Due to lack of Co-ordination, nine prefabricated housing project was delayed by more than six months. The delay in completing these projects has incurred additional costs. I brought the matter to the attention of the Management and was responded as follows:

"Verbal progress report was provided to the Management by the contractor and the Property and Assets section performed inspections and provided Board briefs for their noting in the Board Meeting. The project was delayed due to many reasons as stated below:

- *The full building materials were not supplied at once upon the payment of 70% of the total cost of the building materials or prefabricated steel houses;*
- *There was continuous heavy rainfall in the first quarter of 2013 which affected the foundation works of the constructions site due to high moisture and areas being flooded with water;*
- *Engagement of the semi-skilled labour force for the construction of the houses;*
- *Stop work notice issued by previous Board;*
- *Employees were not paid by the contractor on a regular fortnightly basis which affected the work morale of the employees; and*
- *There were break and enter to the ware houses and more materials were stolen by the semi-skilled employees and the youths from the nearby KilaKila settlement."*

Cash at Bank – K139,749

My review of the Bank Reconciliation Statements revealed that cheques during 2012 amounting to K139,749 were recorded as unpresented cheques. Since these cheques have become stale after twelve months, they had to be written back to the cashbook.

The cheques which added up to cash at bank balance comprised of K12,577 for Westpac Trust Account, K39,330 for Donor Imprest Account and K87,842 from the Operating Account.

I recommended the Authority to make necessary adjustments in the respective accounts.

Property Title Deeds

I noted that the Authority had been occupying more than thirty properties under its custodianship throughout the country as at 31 December 2013. Of the total properties, some properties had title deeds. Most of the properties had *"Certificate Authorising Occupancy"* and for the remainder title deeds were yet to be issued by the Department of Lands. During my examination, I was not able to verify all the properties under the custodianship of the Authority due to lack of supporting documentation.

Management of the Authority responded to my query as follows:

"We take note of the comments. We have submitted that most of our Properties are under Certificate of Occupancy (COA) due to the fact that they were transferred from DAL when NAQIA was incorporated through the NAQIA Act 1997 and we have engaged Conveyance Officers to get proper land titles and due to Lands Office relocations the files were all over the place and the officers are still working on it."

19.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2014 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

20. NATIONAL AGRICULTURAL RESEARCH INSTITUTE

20.1 INTRODUCTION

20.1.1 Legislation

The National Agricultural Research Institute (NARI) was established by the *National Agricultural Research Institute Act 1996*. This Act came into operation on 10 October 1996.

Under this Act, all monies allocated to or standing to the credit of the research division of the Department of Agriculture and Livestock and all assets used for research and research related functions (other than land held by the State) and previously held by the Department of Agriculture and Livestock prior to the operationalisation of the Act were transferred to the Institute to become the assets at commencement.

20.1.2 Objectives of the Institute

The main objectives of the Institute stated in the Act are to conduct and foster research into:

- Any branch of biological, physical and natural sciences related to agriculture;
- Cultural and socioeconomic aspects of the agricultural sector, especially of the smallholder agriculturalists; and
- Matters relating to rural development, relevant to PNG.

20.1.3 Functions of the Institute

The primary functions of the Institute spelt out by the Act are to:

- Generate and adapt agricultural technologies and resource management practices appropriate to the needs, circumstances and goals of smallholder agriculturalists;
- Promote and facilitate applied and adaptive research in food crops, livestock, alternative cash crops, and resource management;
- Promote the use of appropriate agricultural technologies and provide essential technical services to improve the productivity, income, nutritional status and food security, resource base and quality of life of rural households and communities;
- Develop and promote ways of improving the output, quality, harvesting, post-harvesting, handling and processing, and marketing of food crops, livestock produce and alternative crops;

- Maintain and conserve the diversity of genetic resources for food and agriculture, act as custodian for these resources and promote the effective utilisation of these resources in the country;
- Update and maintain the national inventory on soil resources and to develop, promote and maintain sustainable practices in agriculture;
- Provide agricultural information services, extension service support and other such assistance packages to the agricultural sector and to provide liaison and access to international agencies that promote agricultural development;
- Perform such other functions as are given to it under this Act or any other law;
- Formulate national agricultural research policies, define sectoral research priorities and allocate funds and advise the Minister and the NEC on these matters; and
- Generally, do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

20.2 AUDIT OBSERVATIONS

20.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the year ended 31 December 2014 was issued on 26 May 2015. The report did not contain any qualification.

20.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2014 was issued on 26 May 2015. The report contained the following observations:

Accounting System/Software

My review of the accounts and records of the Institute for the year ended 31 December 2014 revealed that the Institute had been using the Quicken Accounting Package for years. I noted that the transactions from the Quicken cash ledgers were transferred manually to spreadsheets for reporting purposes as the Quicken was programmed to adopt cash basis of accounting. I further noted that the Accpac Accounting System acquired was purchased some years back but was not fully utilised. In my view, possibility of errors and mistakes would be minimised, a lot of time saved and a better audit trail would be available when this new Accpac Accounting System is fully utilised.

Management concurred with my comments and responded that the Accpac Accounting System had been implemented progressively and when the internet facilities in all the centres including the Head Office are upgraded, the new system will be fully implemented.

Budget for Public Investment Program (PIP)

I noted with concern that the Institute was not funded under the PIP to carry out and implement high priority research and development projects totalling K12,474,000. These planned projects span over four to five years as part of the Institute's performance in meeting its mandated objective as a research Institute to better contribute to the development of the country in terms of food security and income generation for farmers.

I recommended Management to prepare and submit more realistic, scheduled, achievable and properly constructed PIP budgets in the future. Management responded that budgets prepared and submitted over the years met my recommendation and criteria and were being funded in prior years. However, the continuous funding for PIP stopped since 2013 and as a result, the Institute was unable to implement the high priority research and development projects.

Valuation of Land and Non-Disclosure

My review of the fixed assets of the Institute revealed that the land titles already issued to the Institute for its establishments and research activities by the State were not valued and disclosed in the financial statements as at 31 December 2014. I recommended Management to value its land and make proper disclosure in the Institute's accounting records. The Management concurred with my findings and stated that valuation of land would be an expensive exercise. However, the Management agreed in principle to take appropriate action to value the fourteen Leased Land under its custody.

21. NATIONAL AIDS COUNCIL SECRETARIAT

21.1 INTRODUCTION

21.1.1 Legislation

The National AIDS Council Secretariat was established under the *National AIDS Council Act 1997*. This Act was certified and became operational on 19 January 1998.

21.1.2 Objectives of the Council

The objectives of the Council are to take multi sectoral approaches with a view to:

- Prevent, control and to eliminate HIV/AIDS transmission in PNG;
- Organise measures to minimise the personal, social and economic impact of HIV/AIDS; and
- Safeguard personal privacy, dignity and integrity in the face of the HIV/AIDS epidemic in PNG.

21.1.3 Functions of the Council

The functions of the Council include formulation, implementation, review and revision of national policy in accordance with its objects for the prevention, control and management of HIV/AIDS:

- Make recommendations and provide guidelines on the related issues to the NEC, PGs and LLGs;
- Foster, co-ordinate and monitor HIV/AIDS prevention, control and management strategies and program;
- Accept, administer and account for the funds and other resources allocated to it;
- Consult and co-ordinate with the appropriate state agencies and other persons and organisations on matters related to its activities;
- Initiate, encourage, facilitate and monitor preparation and dissemination of information, counselling, care and legal services, research on or in relation to HIV/AIDS; and
- Perform such other functions given to it under *Section 5* of this Act or any other law.

21.2 AUDIT OBSERVATIONS

21.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Council's financial statements for the years ended 31 December 2011 and 2012 were issued on the 21 and 22 April 2015 respectively.

These reports contained Disclaimer of Opinions, hence only the 2012 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Internal Control Environment

I noted significant weaknesses in the National AIDS Council Secretariat's overall internal control environment operated during the year 2012. The accounting system and internal control environment of the Secretariat continued to be severely deficient. The inefficient management control processes, inadequate financial reporting structure, and inexperienced and un-skilled staff had contributed to the undue delay in the preparation of the financial statements. Further, the Secretariat was unable to provide details for mismatched accounting records and other financial information. As a result, I was unable to place any reliance on the effectiveness of the Secretariat's internal control systems for the year then ended.

Limitation of Scope - General Ledger Control Account Reconciliation

During my review, I noted that payments made on behalf of Development Account were paid from Recurrent Account due to unavailability of funds on the premise that Development Account would reimburse Recurrent Account when funds are available. The expenses were charged to MYOB general ledger account 1350, which correspond to PGAS vote item 135 for Other Operational Expenses. The amounts paid on behalf of Development Account was reimbursed during the year and receipted in the MYOB general ledger account 1350. However, the interbank transfer transactions reconciliation was not performed in a timely manner. General ledger accounts reconciliation is one of the key internal control processes to maintain integrity of the financial data, provided it is performed in an effective manner on a timely basis. The Secretariat has adjusted its Development Expense by K391,337 in order to agree with the cash balance at year-end without any basis. As a result, I was unable to comment on the integrity of the financial records.

Limitation of Scope - Lack of Source Documents

The Secretariat is obliged to keep proper accounts and records of its transaction and affairs as required under *Section 62(1)* of the *PFMA.* However, my examination of the Secretariat's accounts and records revealed that the Secretariat did not properly maintain its accounting and transaction records. As a result, I was not able to verify the payments amounting to K130,000 which relate to Development Account from the cashbook to the supporting documents as payment vouchers were not provided for my verification. The lack of source documents and inappropriate record keeping limits the scope of my audit. Consequently, I was unable to perform the necessary audit procedures to determine the authenticity of the amounts disclosed in the expenditure account.

Staff Advances Account

I noted that a total of eighteen staff were given their motor vehicle and housing allowances in advance totalling K460,908. Of the total advance, three years employment contract advance accounts for K242,414 and the balance of K218,494 relates to twelve months advance. However, the advance amount was not initially recorded in the MYOB Staff Advances Account as receivable to offset against the subsequent fortnightly repayments. Hence, the repayments of K248,167 posted to Staff Advances Account did not offset against the debit balance, resulting in K248,167 being shown as credit balance in the Staff Advances Account at the year end.

Conversely, the payroll records showed that staff owed the Secretariat K200,603 as at 31 December 2012. In such situation, where advance amounts were not initially recorded in the Staff Advances Account it will be difficult for the Secretariat to determine in the general ledger account the outstanding advance balances that were yet to be recouped as at 31 December 2012. It was noted during my review that the Staff Advances Account was not properly maintained and reconciled. As a result, I was unable to determine the accuracy and completeness of the balance disclosed in the MYOB Staff Advances Account at year end.

Payroll Clearing Account – K626,696

Payroll Clearing Account represents the group tax payable to Internal Revenue Commission. There were no proper listings or yearly break-up provided except for the general ledger net credit balance of K626,696. Conversely, the payroll records showed that group taxes for pay periods 14 to 26 of 2012 totalling K750,922 remained outstanding at year end due to cash flow problems faced by the Secretariat. A variance of K124,226 was noted between the general ledger account and payroll records. Apparently, the Payroll Clearing Account was not properly managed and reconciled. As a result, I was unable to conclude on the accuracy and completeness of the balance disclosed in the Payroll Clearing Account at year end.

DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation of scope on my work as described in the Basis for Disclaimer of Opinion paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I was unable to and do not express an opinion on the financial statements of the Secretariat for the year ended 31 December 2012."

21.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Council for the years ended 31 December 2011 and 2012 were issued on 21 and 22 April 2015 respectively.

For the purpose of this Report, only significant matters arising out of the 2012 report is reproduced below.

Development Budget

My review of the 2012 development budget revealed that the Secretariat exceeded its development budget by 76% overspending in certain vote items totalling K458,584. I also noted that a total of twenty six activities were budgeted for and received funding. However, funds were not utilised for the budgeted activities. As a result, the Secretariat had not achieved some of its planned activities. Further, the spending of K250,000 for Condom Procurement and Distribution and K94,369 for Corporate Image Building were unbudgeted expenditures. Accordingly, I was unable to state whether all factors were taken into consideration before formulating the budget.

Council Meeting Minutes

Section 12(1) of the *National AIDS Council Act 1997* stipulates that the Council shall meet as often as the business of the Council requires, and at such times and places as the Chairman directs, but in any event not less frequently than once in every quarter. However, during my audit, I noted that there were no National AIDS Council Secretariat (NACS) Council Meetings held during the year. In the absence of Council Meetings, I was unable to confirm whether the policies and functions of the NACS had been fully implemented and its objectives were achieved.

Secretariat Management responded to the above observation as follows:

"There was no Council in existence in 2012 after the term of the previous Council expired in 2011. Therefore, there was no meeting held during the whole year."

Non-Compliance with the Public Finances (Management) Act 1995

Section 63(2) and *63(4)* of the *PFMA* requires the Secretariat to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the Secretariat shall submit them to the Auditor-General who shall report to the Minister. However, the Secretariat had not prepared and submitted its financial statements for the year ended 31 December 2012 to my Office on a timely basis to complete the audit on time. Accordingly, the Secretariat had breached *Section 63(2)* and *63(4)* of the *PFMA.*

The Management noted my observation and stated that NACS will now ensure to prepare the financial statements on time and submit to audit in compliance to *Section 63(2)* and *63(4)* of the *PFMA.*

Bank Reconciliations

My review of the Secretariat's Recurrent and Development Accounts bank reconciliations revealed the following discrepancies:

- The Secretariat's bank reconciliations were generated from MYOB Accounting System. However, the system generated bank reconciliations were not checked and reviewed by competent personnel on a monthly basis to ensure accuracy of the reconciled bank balances. The lack of regular independent review on the bank reconciliations by competent officers may result in errors, variances, misstatements and fraudulent application of public monies not being detected in a timely manner;
- Un-presented cheques totalling K621,205 (Recurrent - K227,246 and Development K393,959) were disclosed in the reconciliations as at 31 December 2012. Of the total unpresented cheques, K58,258 (Recurrent – K50,179 and Development K8,079) were for 2008 to September 2011 and had become stale. However, they were not cleared in a timely manner; and
- December bank reconciliation for Recurrent Account showed outstanding deposit of K5,465. However, this was a direct deposit, which was already cleared in the bank statement on 1 December 2012 and subsequently taken up in operating bank general ledger account (Recurrent Account). As a result, there was a variance of K5,465 between the general ledger account and the bank reconciliation. This error was never detected and corrected due to lack of independent review being performed on the reconciliations.

Management agreed with my findings and responded as follows:

- *"There was no independent review performed on bank reconciliations. However, the Accountant who is the senior officer in the Finance Team will now review the bank reconciliations. The stale cheques have been written back to cash account in 2013; and*
- *The error presentation of K5,464.50 as outstanding deposit will be corrected in the 2014 financial year."*

Monthly Bank Reconciliations for Provincial AIDS Committees

The Secretariat in collaboration with Volunteer Servicers Overseas rolled out Financial Management System (FMS) Toolkit in 2011 as part of Provincial AIDS Committees' (PACs) Capacity Building. This will enable the PACs to prepare their own monthly bank reconciliations based on the funds received and expenses incurred for the purpose of submitting a quarterly acquittal reports. Despite the introduction and roll out of FMS Toolkit, the PACs still did not prepare their own monthly bank reconciliations due to lack of competent officers with the capacity and knowledge to use the FMS Toolkit.

The Management responded to my observation as follows:

"Despite the roll out of the FMS Toolkit followed with the refresher workshop for the PACs' Capacity Building to enhance officers' skills and knowledge in order to utilise the Toolkit to prepare bank reconciliations and acquittal reports to be submitted to NACS. None of the PACs are using the FMS Toolkit in reporting due to their incompetence and lack of supervision."

Activity Plan and Activity Report from Provincial AIDS Committees

My inspection of the acquittals for the grants allocated to the PACs revealed that the PACs did not attach their activity plan and activity report together with the acquittals and submit to Finance Division. The progress/activity reports were sent to the Care & Support Division for data keeping purpose. Without the activity report attached to the acquittals, I was unable to substantiate that the funds used were for the intended purposes.

The Management noted my observation and responded that PACs will be advised to attach the activity plan and activity report to the acquittal report and submit them to Finance Division.

Fixed Assets Register

My review of the Fixed Assets Register (FAR) revealed that the Register was incomplete and could not be relied upon. Accordingly, the following discrepancies were noted:

- The Information Technology (IT) Section keeps a separate record of all the IT or Information and Communication Technology (ICT) equipment (both hardware and software) purchased by the Secretariat. However, the ICT equipment was not captured in the FAR maintained by the Secretariat. As a result, ICT equipment totalling K263,549 that were purchased during the year under review from the Development Account were not taken up in the FAR; and
- A total of 393 assets listed in the FAR did not have historical cost/purchase cost, purchase date, cheque/ILPOC numbers and serial numbers of which 44 were purchased in 2012. Consequently, I was unable to carry out physical inspection to confirm certain fixed assets against the records to verify their existence and condition.

Due to the above observations, the FAR did not represent the total value of the assets owned by the Secretariat and I was unable to verify and confirm the existence of individual assets.

The Management admitted that the FAR was incomplete and responded that NACS will now maintain a Master FAR that will incorporate ICT and General Assets and ensure to upload all necessary details and particulars of each asset.

Renovation or Office Improvement

During the year, the Secretariat carried out office refurbishment at the Head Office and various PACs Offices at a total cost of K222,379. However, the payment was not recognised as lease improvements (Capital Expenditure) and was not subsequently captured in the FAR.

The Management responded to my observation as follows:

"NACS will now ensure to capture all office refurbishment cost for Head Office and PACs under appropriate expenditure category and upload details in the FAR."

Travel Advances Register

My analysis of travel advances revealed that the Secretariat did not maintain a proper Travel Advances Register. As a result, the following details were not updated in the Register:

- Return date for each responsible officer from duty trip;
- Acquittal dates;
- Year-end final balances on how much were acquitted and how much were still outstanding;
- For those travels that have been acquitted, it did not show any evidence that the Financial Delegate had verified the acquitted amounts as correct; and
- Further, payments totalling K436,729 for duty travels were not captured in the Travel Register and subsequently were not acquitted. It is a requirement under the *Financial Management Manual Part 20 paragraphs 11.2* and *12.10* that cash advanced to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel and advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form.

Due to above weaknesses, I was unable to confirm the correctness of the duty travel payments, amount acquitted and the amount outstanding at the year end. Further, I was unable to state whether the responsible officers on duty travel had acquitted within the required time frame.

Management responded to the above issue as follows:

"NACS maintains Travel Acquittal Register, but the officers on duty travel are not cooperating in terms of acquittal.

The controls surrounding the Travel Acquittal Register will now be strengthened and those who do not acquit their first travel allowance will not be given travelling allowances when they want to travel for the second time until the first travel allowance is acquitted. NACS will ensure that officers on duty travel acquit their travel advances upon return within the required timeframe."

Staff/Salary Advances Register

The Secretariat allows its staff to obtain cash advances for personal use. However, I noted that the Secretariat did not maintain a Staff/Salary Advances Register to keep track of advances made and their subsequent recoveries. Consequently, on several instances, five staff frequently skipped their fortnightly repayments for advances received without formal approval from the Director. This indicates that staff advances and repayments were not properly managed. In the absence of Staff Advances Register, I was unable to confirm whether staff advances had been properly accounted for during the year under review. The Management admitted that there was no proper Staff Advances Register and responded that as a way forward, the Payroll Officer had created a Cash Advance Register for NACS officers that were given cash advances.

Advance Payments without Proper Approval

The Payroll Officer, received advance for his annual housing allowance of K5,300 in February 2012 with fortnightly repayment of K203 within twenty six fortnights. In May 2012, he further advanced himself an additional K5,300 without going through proper approval procedures. Though the total advance was K10,600, he did not increase his fortnightly repayments of K203. Occasionally, he reduced his fortnightly repayments to K103 and deliberately skipped repayments during the year.

The Management agreed with my observation and responded as follows:

"The current Director has banned all forms of advances and that all existing and outstanding advance holders have signed pledges with the Director to forgo their final entitlements should they exit NACS for whatever reason and deductions to continue without hindrance until the advances are fully recovered."

Three Years Employment Contract Motor Vehicle and Housing Allowances Paid in Advance

Three senior officers were paid in advance K94,310, K60,698 and K87,406 respectively their three years employment contract motor vehicle and housing allowances between March and May 2012.

The then Acting Director approved his own three years advances totalling K94,310 on 5 March 2012 in his capacity as Acting Director when the former Director, was on recreational leave.

The other staff requested for their housing and motor vehicle allowances to be advanced for the period of their contracts. The Acting Director then sent an Internal Memo dated 29 May 2012 to all staff advising that their requests would not be approved as this was not right, as the remaining two years were not part of the current financial year's budget. Nevertheless, the Acting Director against the established practice went ahead and paid advances to him and the other two senior officers their three years contract motor vehicle and housing allowances. As a result, much of the budget appropriations has been advanced to the three senior officers and thus affected the Secretariat's cash flow to meet its operational needs.

The above issue was brought to the attention of Management and they responded as follows:

"The former Acting Director erroneously approved the senior officers' three (3) years employment contract motor vehicle and housing allowances to be paid in advance. The current Director when appointed to the Office in April 2013 has banned all forms of staff advances and has put in recovery initiatives to ensure that all current staff debts are repaid in full during the term of their contract."

Payments Without Sufficient Documentation – K870,000 (Development Account)

During my audit, I noted that payments totalling K870,000 were made to PACs for the improvement of the Volunteer Counseling and Testing (VCT) sites. However, there were no invoices or improvement reports to indicate that actual improvements were carried out on various VCT sites. Consequently, I was unable to state whether there were actual improvements carried out.

Management noted my finding and responded as follows:

"NACS only paid lump sum grant for the improvement of the VCT sites. Hence, paid vouchers and supporting documents including invoices are kept at the PACs level. Unfortunately, NACS has not made any attempts to keep copies at Head Office."

Havies Database Consultants - K215,000

Havies Data Consultant was engaged on 15 July 2012 to develop and set up ART Logistical Management Information System to be rolled out to selected sites in PNG. I noted that, initially the contractual agreement was signed between the service provider (Havies Data Consultant) and the National Department of Health. However, the obligation to pay the Consultant was transferred from the Department of Health to the NACS without proper documentation. Subsequently, on 2 August 2012 and 30 October 2012 payments of K105,000 and K110,000 were made to the Consultant on cheque numbers 4540 and 4864.

Further, I was unable to determine basis on which NACS was obliged to pay for the arrangement made between the Consultant and the National Department of Health.

Moreover, I was unable to state whether the payment was budgeted for in 2012 budget. Despite the payments being made, there were no progress and completion report received from the Consultant to confirm the outcome of the ART database roll out in the Provinces.

The above concern was brought to the attention of the Management and they responded as follows:

"The Monitoring & Evaluation Manager had erroneously advised the former Acting Director who approved the payment to the Consultant by way of contract outside the established procedures of the PFMA and which was an unbudgeted expenditure. It was also a Department of Health function to pay for such a technology because it will be used by the Department of Health. Whether the project was completed or not remains a question and mystery up to now. The Monitoring and Evaluation Manager will now follow-up with the Consultant to provide report on the project undertaken to NACS."

Leave Fares – K192,584

My review on leave fares revealed the following discrepancies:

- On several instances, I noted that applications for recreational leaves submitted by officers applying for leave were not approved by the Director. Despite leave applications not being approved by the Director, officers proceeded on leave and were paid leave fares. Further, leave application forms were not attached to the payment vouchers and were not subsequently filed in the respective employee's file; and
- *General Order 14.47* states that an officer shall pay to the State at the time of applying for the payment of recreation leave fares, a contribution towards the cost of the fares which shall be calculated at 10% of his/her gross substantive fortnightly salary at the date immediately prior to proceeding on recreational leave. However, the Secretariat had not been deducting the 10% of the employees' gross substantive fortnightly salary prior to employees' proceeding on recreational leave. As a result, employees were not contributing towards their leave fare costs thereby breaching the aforementioned General Order.

Management agreed with my above observations and responded as follows:

"*Leave applications for all NACS staff going on recreational leave will now be approved by the Director.*

NACS will ensure to attach the copy of the leave applications to the payment vouchers and filed in the employee files. Further, the General Order 14.47 will now be applied to all staff recreational leave payments."

Non Remittance of Salaries and Wages Taxes to Internal Revenue Commission (IRC)

The payroll records showed that group taxes for pay periods 14 to 26 of 2012 totalling K750,922 remained outstanding at year end. Pursuant to *Section 299G* of the *Income Tax Act 1959* the group employer (in this case the NACS) is required to remit salary and wages tax to IRC within 7 days after month-ended. Failure to remit salary and wages tax on time will result in penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount that remains unpaid.

Management noted my finding and explained as follows:

"Pay periods 14 to 26 group taxes were not paid due to cash flow problem faced by the Secretariat. In 2014, a submission was made to the Department of Treasury for additional funds for NACS to settle its outstanding group tax liability was not fruitful."

21.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Council had submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit and arrangements were being made to commence the audits without delay.

22. NATIONAL BROADCASTING CORPORATION

22.1 INTRODUCTION

22.1.1 Legislation

The National Broadcasting Commission (NBC) was established under the *Broadcasting Commission Act (Chapter 149)*. This Act was amended in 1995 by the *National Broadcasting Commission (Change of Name and Corporate Structure) Act 1995.*

In terms of Section 4 of the *Broadcasting Commission (Change of Name and Corporate Structure) Act No.49 of 1995* the name of the Commission was changed to Corporation.

The *Amendment Act No.49 of 1995* came into operation on 23 April 1996 as per Gazettal Notification No.G.32.

22.1.2 Functions of the Corporation

The principal functions of the Corporation are to provide balanced, objective and impartial broadcasting services and in so doing, to take in the interests of the community, all such measures as in its opinion are conducive to the full development of suitable broadcasting programs.

The Corporation's other functions are to:

- Ensure that the services that it provides, when considered as a whole, reflect the drive for national unity and at the same time give adequate expression to the culture, characteristics, affairs, opinions and needs of the people of the various parts of the country and in particular of rural areas;
- Do all in its power to preserve and stimulate pride in the indigenous and traditional cultural heritage of PNG;
- Take extreme care in broadcasting material that could inflame racial or sectional feelings; and
- Co-operate with the Government in broadcasting social, political, economic and educational programs.

22.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2013 was in progress.

The financial statements of the Corporation for the year ended 31 December 2014 had not been submitted for my inspection and audit.

23. NATIONAL CAPITAL DISTRICT COMMISSION

23.1 INTRODUCTION

23.1.1 Legislation

The *National Capital District Government (Preparatory Arrangements) Act 1982* established the National Capital District Interim Commission. The purpose of this Act was to establish an interim government for the NCD and make preparatory arrangements for the establishment of a government for the NCD as required by *Section 4(4)* of the National Constitution. The *National Capital District Government (Preparatory Arrangements) (Amendment) Act 1986* came into operation in 1987.

The *National Capital District Commission Act 1990,* which became operational on 5 November 1990, established the NCD Commission. The introduction of this Act resulted in the amalgamation of Motu Koitabu Interim Assembly with the NCD Commission. Consequently, the assets, liabilities and the obligations of the Interim Assembly were absorbed by the Commission on the commencement date.

Amendments through the *National Capital District Commission (Amendment) Act 1992* which came into effect on 30 November 1992 resulted in the establishment of the Motu Koitabu Council.

That was followed by the establishment of the system of government for the NCD through the *National Capital District Commission (Amendment) Act 1995* which came into operation on 19 July 1995. The NCD comprises the NCD Commission, the Motu Koitabu Council and Local-level Governments in the NCD.

23.1.2 Functions of the Commission

The functions of the NCD Commission are to:

- Control, manage and administer the NCD to ensure its welfare and that of the persons in its jurisdiction; and
- Ensure that an adequate level of assistance is given towards the successful operation of Tabudubu Limited - the Company established by the Motu Koitabu Interim Assembly for the Motu Koitabu people of the NCD.

23.1.3 Subsidiaries of the Commission

The subsidiaries of National Capital District Commission are *National Capital District Botanical Enterprises Limited, Port Moresby City Development Enterprises Limited and Port Moresby Nature Park Limited*. Comments in relation to these subsidiaries are contained in paragraphs 23A, 23B and 23C of this Report.

23.1.4 Projects of the Commission

The National Capital District Commission implements *National Capital District Urban Youth Employment Project.* Comments in relation to this Project are contained in the **Special Project Audits Report to Parliament**.

23.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

23.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the years ended 31 December 2010, 2011 and 2012 were issued on 6 November 2014, 13 April and 4 May 2015 respectively. The reports contained Disclaimer of Opinions, hence only the 2012 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope Regarding Opening Balances

Because of the disclaimer of opinion in respect of the prior year ended 31 December 2011, I was not able to satisfy myself as to the resolution of the issues which formed the basis for the disclaimer on the opening balances. Since these opening balances entered into the determination of the result of operations, financial position and cash flows of the Commission in the current year, I was unable to determine whether adjustments to the results of operations, financial position and cash flows might have been necessary as at and for the year ended 31 December 2012.

Deposit at Call

As set out in *Note 7* of the Financial Statements, deposits on call totaled K477,615. The financial institutions with whom these deposits were held at balance date did not respond to my request for confirmation of balances. Furthermore, due to the absence of appropriate third party documentation in the Commission's possession, I was unable to adequately and comfortably conclude on the existence and confirmation of the Commission's rights over this balance as at year end.

Land and Garbage Rate Debtors

Land and garbage rate debtors, net of provision at balance date totaled K31 million. The database from which generation reports are produced and based on now these debts have been extracted and journalised into the general ledger debtors accounts, has been inaccurate and physically unverifiable to physical building and properties. Consequently, it appeared that the rates debtors were incomplete and inaccurate.

Due to this limitation of scope and exceptions, I was unable to obtain comfort over the completeness and accuracy of the debtors as well as the adequacy of the doubtful debts provision.

Capital Road Works

The Commission in 2005 capitalised all road improvement costs totalling K136.6 million that were previously expensed. I was unable to satisfy myself with the existence, completeness and accuracy of the road improvement cost capitalised in 2005 due to unavailability of appropriate physical verification exercise documentation.

The carrying value of these assets at 31 December 2012 was K116.5 million which primarily includes amount capitalised in 2005. I was unable to test check the accuracy of the depreciation charges for reasonableness as the lives of these roads are unpredictable given the extreme tropical weather experiences in NCDC. As a result, I was unable to verify reasonableness of the corresponding yearly depreciation charge of K40.6 million on the road assets and their carrying values as at year end.

Investments

As set out in *Note 13* of the financial statements, the Commission has investments in various unquoted securities with a total carrying value, net of impairment provision of K152,982. Management had not performed an exercise to determine the fair value of these investments at year end. Accordingly, I was unable to confirm whether these investments are reflected at appropriate carrying value.

Land, Garbage and Sanitation Rates Income

The Land, Garbage and Sanitation rates income was calculated based on the information recorded within the TARMIS system. The property data base was unverified and outdated in contrast to the development of the city. I noted that more property owners were not registered and more revenue could have been collected if the data base was updated and physical verification exercise was conducted by the NCDC. In addition, the initial calculation of the rates included certain properties of institutions which were exempted from paying these rates. This error was adjusted as part of the provision for doubtful debts.

Furthermore, provision and adjustments for defaulters of 40% for land rates and 60% for garbage rates were made against the TARMIS generation report figures. These figures were on estimate basis and have no valid support for the adjustments amounting to K16.3 million included in the opening balance which was incorporated in relation to exempt properties and institutions. As a result, I was unable to determine if the Land, Garbage and Sanitation rates income were fairly stated in the income statement.

Provision for Employee Benefits

Employee benefits provision comprising of long service leave and annual leave amounted to approximately K6.9 million. I was unable to substantiate this balance as the Commission's Human Resource staff could not locate and provide me the appropriate supporting documentation. Consequently, I was unable to satisfy myself with the completeness and accuracy of this balance.

Prior Year Adjustments

Prior year tax adjustment totaled K4.4 million was deducted against the Retained Earnings during the year under audit. I was not provided with proper supporting audit evidence to support the adjustment, as a result, I was unable to execute my planned audit procedures. Accordingly, I was unable to conclude on the validity and accuracy of the Prior Year adjustments reported in the financial statement as at 31 December 2012.

Contingent Liabilities

Note 19 of the financial statements outlined a significant number of pending legal cases amounting to over K30 million. As I did not receive adequate information from the Commission or it's legal advisors regarding the nature and likely outcome of these cases, I was unable to obtain comfort regarding whether or not the treatment of these claims as contingent liabilities was appropriate.

Related Party Disclosures

As set out in *Note 12* of the financial statements, not all disclosures required by *IAS 24- Related Party Disclosures* were included in the financial statements. The amounts involved were not disclosed in the following related party transactions – grant to Motu Koitabu Assembly, Tabudubu Limited and National Capital Botanical Enterprises Limited, stipends or sitting allowances to commissioners and salaries and other employment benefits to key management personnel. This represents a departure from *IAS 24 – Related Party Disclosures*.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of the National Capital District Commission for the year ended 31 December 2012."

23.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the years ended 31 December 2010, 2011 and 2012 were issued on 6 November 2014, 13 April and 4 May 2015 respectively. The reports contained similar comments; hence only the 2012 report is reproduced as follows:

Budget and Controls

While there appears to be adequate budget controls and monitoring procedures in place, the effectiveness of these controls and their application on transactions could not be reviewed as selected vouchers for audit purpose could not be located. In addition to the specific issues I have identified in the course of my audit, my general observation was that the issues identified were isolated incidents and general physical controls environment had been gradually changed a step at a time. The complete change of culture had been initiated and it would require the full endorsement and support of all staff.

I recommended that the issues around internal controls, governance and appropriate resources requirement be reviewed regularly to ensure adherence and continuity as a matter of priority.

Further, while I was not required to specifically look for fraud, my audit suggested that the inadequate internal control environment provides an ideal opportunity for fraud or other improper activities to occur. A number of staff of the finance division have been involved in misappropriation of the assets of the Commission and have been terminated in relation to fraud. This indicates that a thorough investigation into all the matters identified in my report was required as a matter of priority to ensure that fraudulent activities were uncovered and promptly corrected. Accordingly, I recommended that a regular surprise audit be conducted as a matter of priority, together with a review to strengthen the processes and procedures.

Minutes of Board Meetings

Board minutes were not provided for my review. I was unable to conclude on the completeness and accuracy of the board minutes due to the Commission's inability to secure quorums on all those board meetings. Furthermore, copies of tender board minutes and other sub-committee meetings were not provided for my review.

Record Keeping within the Finance Office

Filing and safeguarding of payment authorisation forms and other supporting documents required significant improvement. During the course of my audit, a number of payment authorisation forms and the supporting documentation requested were not provided to me as they were missing from the files.

I recommended to Management that store room access must be limited to authorised personnel and movement of records in and out of the store room must be recorded in documents register and monitored to avoid losing. The Management agreed to my recommendation.

General Controls relating to Information Technology

General controls around information technology need urgent attention. Some of the significant issues noted and reported were:

- Lack of documentation surrounding IT risk assessment;
- Lack of information and communication on IT policies and procedures; and
- Lack of a disaster recovery plan.

I recommended to Management the following:

- IT policies and procedures should be formally documented and communicated to staff;
- There should be a *"help desk"* log book in which staff can raise issues with the IT consultants;
- Management ensure that environment risks (i.e. fire, smoke, water, power, temperature, humidity, destruction of accounting records and supporting documentation etc.) to the computer locations are appropriately mitigated; and
- Management ensures that disaster recovery plans are documented, tested and updated regularly as part of business continuity plan.

Motor Vehicle Controls

Vehicle usage control register was not fully implemented by all divisions of NCDC. Number plate appeared to be all private without the *"Z"* plate as required under the *Motor Traffic Act*.

23.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

23A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED (Subsidiary of NCDC)

23A.1 INTRODUCTION

The NCD Botanical Enterprises Limited was incorporated under the *Companies Act 1997* on 17 January 2000. Port Moresby City Development Enterprises Limited, a 100% owned subsidiary of the NCD Commission, holds 94% of the shares and the NCD Commission holds the remaining 6% shares directly or indirectly through trust.

The main objective of the Company is to take control over the operations of the Botanical Gardens.

23A.1.1 Functions of the Company

The Company's activities include the sale of flowers and conducting research relating to orchids and horticulture.

23A.2 AUDIT OBSERVATIONS

23A.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2007 was issued on 17 November 2014. My reports for the years ended 31 December 2008, 2009, 2010, 2011 and 2012 were all issued on 4 May 2015. The reports contained Disclaimer of Opinions, hence, only the 2012 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope regarding Opening Balances

Because of the disclaimer of opinion in respect of the prior year ended 31 December 2011, I was not able to satisfy myself as to the resolution of the issues which formed the basis for the disclaimer on the opening balances. Since these opening balances entered into the determination of the results of operations, financial position and cash flows of the entity for the period audited, I was unable to determine whether adjustments to the results of operations, financial position and cash flows might have been necessary as at and for the year ended 31 December 2012.

Limitation of Scope regarding Accounting Records

I refer to the Management Declaration dated 22 April 2015 which stated that

"The Company has gone into care and maintenance basis for the years ended 31 December 2008 to 2012 and no records were maintained by its management on its activities. Based on this understanding, the Commission holds no current records of current transactions". As a result of this limitation, I was unable to perform the necessary and appropriate audit procedures.

Preparation of the Financial Statements

National Capital District Botanical Enterprises Limited has not prepared its financial statements within five months after the balance date and has consequently breached *Section 179 (1)* of the *Companies Act 1997.* The Company's financial statements were submitted to me on 12 November 2014.

DISCLAIMER OF OPINION

In my opinion, because of the limitation of the scope of my work and other matters referred to in the Basis for Disclaimer of Opinion paragraphs above, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations and other matters not existed, I am unable to and do not express an opinion on the financial statements of the National Capital District Botanical Enterprises Limited for the year ended 31 December 2012.

OTHER MATTER

In accordance with the *Audit Act 1989*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. Without qualifying the audit opinion, I draw attention to the following issue:

Going Concern

Note 1B(i) of the financial statements stated that the accounts have been prepared on the basis of the continuation of Company as a going concern. This is dependent upon generating adequate cash flows from operations and the continued financial support of the Company's shareholders. The Company has been making losses in the past and is in a net liability position at year end. The continuity of the entity depends on the subsidy received from the National Capital District Commission, however the entity has not received any written commitment from the Commission that subsidy will continue to be given for the foreseeable future. Accordingly, there is significant uncertainty about the ability of the Company to continue as a going concern should the Commission discontinue the subsidy."

23A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

23B. PORT MORESBY CITY DEVELOPMENT ENTERPRISES LIMITED (Subsidiary of NCDC)

23B.1 INTRODUCTION

The NCD Commission acquired 100% shares of Vatar No.16 Pty Limited in 1994 with the intention to utilise the land called 'Duran Farm' for the construction of houses for its staff on the Home Ownership Scheme. The Company changed its name in November 1996 to Port Moresby City Development Enterprises Limited. This Company is a fully owned subsidiary of the NCD Commission.

23B.1.1 Functions of the Company

The Company's activities include business promotions in the NCD and the management of the Taurama Leisure Centre's gymnasium.

23B.2 AUDIT OBSERVATIONS

23B.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2006 and 2007 were both issued on 17 November 2014. My reports for the years ended 31 December 2008, 2009, 2010, 2011 and 2012 were all issued on 4 May 2015. The reports contained Disclaimer of Opinions, hence, only the 2012 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope Regarding Accounting Records

I refer to the Management Declaration dated 22 April 2015 which states that *"The Company has gone into care and maintenance basis for the years ended 31 December 2008 to 2012 and no records were maintained by its management on its activities. Based on this understanding, the Commission holds no current records of current transactions".* As a result of this limitation, I was unable to perform the necessary and appropriate audit procedures.

Preparation of the Financial Statements

National Capital District Botanical Enterprises Limited has not prepared its financial statements within five months after the balance date and has consequently breached *Section 179 (1)* of the *Companies Act 1997.*

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I was unable to express an opinion on the financial statements of Port Moresby City Development Enterprises Limited for the year ended 31 December 2012.

OTHER MATTER

In accordance with the *Audit Act 1989*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. Without qualifying the audit opinion, I draw attention to the following issue:

Going Concern

Note 12 of the financial statements stated that the Company is dependent upon the continued financial support of its shareholders (NCDC) to meet its obligations. The Company has been making losses in the past and is in a net liability position at year end. The continuity of the entity depends on the subsidy received from the National Capital District Commission, however the entity has not received any written commitment from the Commission that subsidy will continue to be given for the foreseeable future. Accordingly, there is significant uncertainty about the ability of the Company to continue as a going concern should the Commission discontinue the subsidy."

23B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

23C. PORT MORESBY NATURE PARK LIMITED (Subsidiary of NCDC)

23C.1 INTRODUCTION

23C.1.1 Legislation

Port Moresby Nature Park Limited was incorporated on 1 December 2011 under the *Companies Act 1997.* The Company is a subsidiary of the National Capital District Commission (NCDC).

In early 2012, a Deed of Trust was signed between Port Moresby Nature Park Limited (being the Trustee) and the National Capital District Commission (being the Settlor). The Trust Deed provided the intention of the Settlor (NCDC) to make Port Moresby Nature Park Limited a charitable body to be known as *"Port Moresby Nature Park Trust."*

On 11 June 2012, the Port Moresby Nature Park Limited was granted status of a charitable body based on the nature of its business operations. Hence, the Company has been exempted from Income Tax.

23C.1.2 The Objective of the Company

The objective of the Company is to allow the residents and visitors to Papua New Guinea (PNG) enjoying a botanical and zoological experience consisting of the flora and fauna of PNG in a safe, secure setting in Port Moresby, for the purposes of education and for purposes beneficial to the community, including:

- Allowing persons, including residents of, and visitors to, PNG to enjoy the benefits of flora and fauna of PNG in a peaceful, well-ordered and secure recreational settings in the grounds of the Port Moresby Nature Park;
- Encouraging a greater understanding of the cultural significance of the flora, fauna and environment of Papua New Guinea;
- Furthering the appreciation and learning of Papua New Guinea in relation to the flora, fauna and environment of Papua New Guinea;
- Promoting the use of the Port Moresby Nature Park to stimulate interest and research into Papua New Guinea flora, fauna and environment and assisting the conservation efforts of the Government of Papua New Guinea and the National Capital District Commission (NCDC) in relation to the environment; and
- Allowing students from any educational institute to gain practical training, education and research opportunities on specific terms.

23C.1.3 Functions of the Company

The functions of the Company include:

- Encouraging, promoting and supporting the use of new and established technologies to make the unique natural environment of Papua New Guinea more accessible to the public of Papua New Guinea;
- Promoting, assisting and initiating research in Papua New Guinea into the study of Papua New Guinea flora, fauna and the environment including the provision of such financial assistance as may be necessary to enable or assist such research;
- Promoting, supporting and initiating research in Papua New Guinea on the flora, fauna and environment of Papua New Guinea and educating and informing different communities about the results of such research;
- Providing a forum for information from international contributors from the global community for the purpose of educating the Papua New Guinea public in relation to the flora, fauna and environment of Papua New Guinea;
- Doing such other lawful acts and things as are incidental to or conducive to the attainment of any of the foregoing activities; and
- Generally:
    - Carrying out fund raising schemes and charitable projects for the purpose of the Company, including exhibition and competitions; and
    - Establishing, promoting and fostering workshops and other educational activities for the purpose of the Company;

23C.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2012 and 2013 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

24. NATIONAL CULTURAL COMMISSION

24.1 INTRODUCTION

24.1.1 Legislation

The National Cultural Commission was established under the *National Cultural Commission Act 1994*. This Act came into operation on 15 November 1994 there by repealing the *National Cultural Committee (Interim Arrangements) Act 1993*.

Under the Act, all assets held by and obligations and liabilities imposed on the former National Cultural Committee immediately before the operationalisation of the Act were on that date transferred to the Commission.

24.1.2 Functions of the Commission

The main functions of the Commission are to:

- Perform the cultural functions of the former National Cultural Committee and in this connection, to assist and facilitate, preserve, protect, develop and promote the traditional cultures of the indigenous people of PNG;
- Encourage the development, promotion and protection of the contemporary cultures of PNG;
- Facilitate the marketing of selected and approved aspects of the cultures of PNG;
- Co-ordinate with related Government and non-Government agencies on cultural matters;
- Co-ordinate cultural activities with provincial cultural bodies;
- Liaise with non-Government organisations on cultural matters; and
- Liaise with international cultural organisations.

24.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2012 was suspended due to lack of information flow from the Commission to proceed with the audit.

The financial statements of the Commission for the year ended 31 December 2013 had been submitted for my inspection and audit.

The financial statements of the Commission for the year ended 31 December 2014 had not been submitted for my inspection and audit.

25. NATIONAL ECONOMIC AND FISCAL COMMISSION

25.1 INTRODUCTION

25.1.1 Legislation

The National Economic and Fiscal Commission was established in April 1996 under the *National Economic and Fiscal Commission Act 1996* and *Section 117* of the *Organic Law on Provincial and Local-level Governments*.

25.1.2 Functions of the Commission

The main functions of the Commission are to:

- Provide assessment and views on national macro and micro economic issues and their relevance on the overall development of rural and urban communities;
- Consider and co-ordinate requests by Provincial Governments and Local-level Governments for foreign grants, loans and other financial assistance for development purposes;
- Ensure that Provincial Governments and Local-level Governments obtain a fair share of the national wealth and make recommendations to the NEC on the allocation of grants to Provincial Governments and Local-level Governments;
- Recommend suitable economic development strategies and sound fiscal management policies to the Minister responsible for financial matters;
- Carry out cost and benefit analysis on the development of all natural resources and the impact of such development on national development and make such analysis available to the NEC;
- Review public accounting and related practices;
- Make yearly reports and recommendations to the NEC through the Minister responsible for financial matters;
- Assist the Provincial and Local-level Service Monitoring Authority with assessments and views on the planning and implementation systems of the Provincial Governments and Local-level Governments;
- Establish and maintain a gradation system for the purpose of classifying provinces and districts according to the stages of development of each;
- Assist the Provincial and Local-level Service Monitoring Authority in carrying out its other functions; and
- Provide advice to the Minister responsible for Provincial Government and Local-level Government (now Inter Government Relations) matters as and when required.

25.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

25.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the year ended 31 December 2014 was issued on 29 May 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Salaries and Allowances

The Commission has disclosed its Salaries and Allowances as K895,657 at 31 December 2014 in the financial statements. The supporting documentation in relation to payroll records were not provided for my review and verification. In the absence of these documentation, I was unable to confirm and verify the accuracy of the account balance of K895,657 stated at the year end.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraph above:

(a) The financial statements are based on proper accounts and records; and
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission for the year ended 31 December 2014 and the results of its financial operations for the year then ended."

25.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2014 was issued on 29 May 2015. The report contained the following observations:

Meeting Minutes

The Commission, under *Section 9(1)* of the *National Economic and Fiscal Commission Act 1996* is expected to meet at least three times in each year and to record Minutes of its Meetings and forward copies of the minutes to the Minister. I noted that there were no Board Meetings held as required by the enabling *Act*. I requested the Management to explain why no Board Meetings were held during the year under review and the Management responded as follows:

"*NEFC provided a recommendation and a NEC submission to the Minister of Treasury to re-establish the Board but the Minister wanted a provincial reprehensive in the Board although the NEFC Act does not specifically state so and thus the submission is currently being reviewed. The AGO recommendations are acknowledged and will be adhered."*

Finance and Administration

I recommended the Commission to recruit additional staff to assist the current Finance and Administration Officer and also to provide training to ensure that the officers are appropriately and adequately skilled in discharging their duties. There should be different officers performing incompatible functions to maintain segregation of duties for effective internal control of the organisation. The Management responded to my observation as follows:

"We have submitted the NEFC structure realignment and is in the process of being approved by the Department of Personnel Management. We acknowledge this internal control weakness raised and have since appointed an officer with suitable skills. This will also provide an opportunity for more important segregation of functions."

Fixed Assets Register

The Commission, under the *Public Finances (Management) Act 1995* and the *Financial Management Manual (Section 12)* is required to properly maintain and safeguard Assets under its custody. My review of the Fixed Assets revealed that the Commission did not maintain a proper Register for all its Assets for the year under review. The Register did not capture the total value of the assets as at the balance date and there was no physical stock take of the Commission's assets as at balance date. As a result, I was unable to determine the fair value, the state, and the location of the assets.

I recommended the Management to perform a complete stock-take of all its assets and update the Fixed Assets Register to reflect the accurate information. The Commission responded to my concern as follows:

"We acknowledged the issue raised and will address the matter as soon as the structure realignment is approved by DPM."

Staff Personnel Files

My review of the personnel emoluments revealed that Staff Personal Files were not properly maintained. I noted that records such as salaries and allowances variation advices, tax declaration forms and appointment letters were either missing or not maintained regularly.

The Commission also did not maintain control records like salary history cards/leave history records (annual leave, long service leave and sick leave) to assist in the verification of annual leave and long service leave entitlements.

I recommended the Management to update all Staff Personnel Files on a regular basis for ease of reference and the Management responded as follows:

"We acknowledged the issue raised and will engage an experience HR Officer as soon as DPM approves the structure realignment as a corrective measure."

Travel and Subsistence

Financial Management Manual Part 20 (paragraph 11.2-12.10) requires all travel allowances received by officers on duty travel to be properly acquitted. However, I noted that travel advances were not fully acquitted upon return by the officers of the Commission. I advised the Management of the Commission that duty travels must be acquitted within seven days of return from duty trips for domestic travels and within fourteen days for overseas travels.

The Management responded to my observation as follows:

"Some officers have not properly acquitted advances despite ongoing follow ups by the Administration Team. We acknowledge and agree with the issue raised and will comply in taking corrective measures to rectify this weakness."

26. NATIONAL FISHERIES AUTHORITY

26.1 INTRODUCTION

26.1.1 Legislation

The National Fisheries Authority was established under the *Fisheries Management Act 1998*. This Act came into operation on 11 February 1999 and replaced the *Fisheries Act 1994*. Under this Act, all assets including monies held in trust accounts which were held or occupied by the National Fisheries Authority established under the *Fisheries Act* were transferred to and became assets of the Authority.

26.1.2 Functions and Powers of the Authority

The primary functions and powers of the Authority are described as follows:

- The Authority shall:
  - Manage the fisheries within the fisheries waters in accordance with this Act, taking into account the international obligations of PNG in relation to tuna and other highly migratory fish stocks;
  - Make recommendations to the Board on the granting of licences and implement any licensing scheme in accordance with this Act;
  - Liaise with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning fisheries;
  - Operate research facilities aimed at the assessment of fish stocks and their commercial potential for marketing;
  - Subject to the *Pure Foods Act*, the *Commerce (Trade Descriptions) Act*, the *Customs Act*, the *Customs Tariff Act* and the *Exports (Control and Valuation) Act* control and regulate the storing, processing and export of fish and fish products;
  - Appraise, develop, implement and manage projects, including trial fishing projects;
  - Prepare and implement appropriate public investment programmes;
  - Collect data relevant to aquatic resources;
  - Act on behalf of the government in relation to any domestic or international agreement relating to fishing or related activities or other related matters to which the Independent State of PNG is or may become a party;
  - Make recommendations on policy regarding fishing and related activities;
  - Establish any procedures necessary for the implementation of this Act, including tender procedures; and

- Implement any monitoring, control, and surveillance scheme, including co-operation, agreements or arrangements with other States or relevant international, regional or sub-regional organisations, in accordance with this Act.

- The Authority has, in addition to the powers otherwise conferred on it by this Act and any other law, full powers to do all things that are necessary or convenient to be done for or in connection with the performance of its functions and the achievement of its objectives.

26.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2012 was substantially completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2013 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

27. NATIONAL GAMING CONTROL BOARD

27.1 INTRODUCTION

27.1.1 Legislation

The National Gaming Control Board was established in September 1993 by the enactment of the *Gaming Machine Act 1993.*

27.1.2 Functions of the Board

The principal functions of the Board are to consider applications for and where appropriate grant permits and licences under this Act and to control the operations of gaming machines as specified in this Act and any other law.

27.1.3 Subsidiary of the Board

National Gaming Control Board Community Benefit Trust Fund is a subsidiary of the Board. Comments in relation to this subsidiary are contained in paragraph 27A of this Report.

27.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

27.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Board's financial statements for the year ended 31 December 2013 was issued on 13 March 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Opening Balances

In year 2013, the Board's financial statements reflected only the operations of the Board as the Community Benefit Fund (CBF) balances were removed from the Board's accounts and accounted for separately under CBF. Due to errors and material limitations of scope highlighted in previous audits, I was unable to confirm the completeness and accuracy of the opening balances as at 1 January 2013. Consequently, I could not perform tests to verify the completeness and accuracy of these balances as at 31 December 2013 as well as amounts transferred to CBF in year 2013.

Fixed Assets

A poker machine register was maintained by the Board.

However, it was evident that the Board did not prepare and maintain a complete fixed assets register to record details of all fixed assets costing K58,424,001. There was also no physical stock take (excluding poker machines) undertaken by the Board to confirm the existence of these assets and/or possible impairment. Considering this, I was unable to confirm the completeness, existence, accuracy and valuation of fixed assets and associated depreciation recorded in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of the Board for the year ended 31 December 2013:

(a) Give a true and fair view of the financial position and the results of its operations for the year then ended; and
(b) With exception of instances of non-compliance described under Other Matter, the financial statements have been prepared in accordance with the Finance Instructions issued under the *PFMA*.

OTHER MATTER

In accordance with the *Audit Act*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issue:

- The Board has not prepared and submitted its financial statements prior to 30 June for the year ending 31 December proceeding, to enable me to conduct audit and report results before the deadline resulting in breach of *Section 63(2)* and *Section 63(4)* of the *PFMA*. The financial statements were submitted to me for audit on 3 July 2014."

27.2.2 Audit observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the year ended 31 December 2013 was issued on 13 March 2015. The report contained the following observations:

Fixed Assets

i) As per Ministerial approval under *Section 61* of the *PFMA*, the Board entered into an agency agreement with Consolidated Gaming Services (PNG) Limited (Agent) for five years at a cost of K62.6million. The agreement allowed the Agent to, *"import, supply, acquire, possess, service, maintain, install and operate approved gaming machines to premises."* In accordance with the agreement, the agent imported and supplied poker machines/spares at a cost of K8.58 million to NGCB.

The importation and supply by the Agent appears to be a breach of *Section 130 (3)* of *Gaming Control Act 2007*, as only the Gaming machine operators have the license to import and supply poker machines under the current legislation. It also appears that this procurement did not have National Executive Council (NEC) approval as the contract value exceeded K10 million.

In the absence of NEC approval, and delivery details, I could not confirm if this major procurement was in accordance with provisions of *PFMA, Gaming Control Act 2007* and if all machines or spares paid for have been received.

ii) The Board did not have listing of spare parts for poker machines. Thus the value of spares, if any, was not reflected in the financial statements.

iii) The poker machine register indicated that there were 1,172 machines as at balance date. However, as per Central Control Monitoring System (CCMS) report, only 1062 machines were functioning and/or *"online"* and remaining 110 machines being *"off line"*. The operational/functional status of these machines could not be established.

I recommended to Management that all major procurements are to be in accordance with the *PFMA* and *Gaming Control Act 2007*. If doubt arises, appropriate legal advice is to be sought and followed. In addition, all Poker machines delivered must be substantiated with delivery dockets and shipping documents, as well as detailing quantity and machine and serial numbers of machine(s) supplied. These details must be promptly registered in the Poker machines register. Instances where the machines are obsolete, damaged or unserviceable, adjustments must be made on the poker machine register and financial statements to reflect this potential impairment of loss.

Management responded as follows:

i) *"Consolidated Gaming Services (PNG) Ltd. was contracted by NGCB to import, supply and service gaming machines on behalf of NGCB which NGCB paid on invoice by CGS. This is in line with Section 130(3)(f) - delegate to, or engage a corporation to service, repair and maintain gaming machines. NGCB (deem holder of operator license) purchase gaming machines from Consolidated Gaming Services;*

ii) *This has to be verified with CGS. We have received invoices charging on gaming machines only no mention of spare parts. We have been paying for machines as stated on invoice; and*

iii) *This will be corrected because CMCS report only indicates machines that are online."*

Other Debtors and Prepayments

Other Debtors included Gaming Revenue debtors of K6.75 million. This largely included amounts not banked by respective gaming permit holders. Based on subsequent collection in the year 2014, audit could not confirm if the entire amount had been realised and recovered. There was inadequate monitoring and enforcement of banking requirements of gaming permit holders. This potentially tantamount to breaches of the *Gaming Control Act 2007*. I recommended Management that there must be stricter monitoring and enforcement of timely banking of gaming profits. This will also ensure that site owners do not use the gaming proceeds in advance.

Gaming Machine Operators

I observed that the three gaming machine operators, (Lord and Co, Monian and United Pacific Corporation) with their respective gaming machine licenses expired in March 2013 but only renewed in August 2013.

As the permit(s) allow the respective operator to import, supply, service and operate gaming machines, any operation/trading including sites during the period April to August 2013 was a breach of *Section 156(3)* of *Gaming Control Act 2007*. I recommended Management to ensure that all license renewal(s) applications are to be received timely and attempts should be made to issue new licenses upon the expiry of existing license to ensure full compliance with the *Gaming Control Act 2007*.

Revenue

Review of Revenue account had noted the following:

i) As per *Section 163(1)* of *Gaming Control Act 2007*, Gaming Machine permit holder and/or machine operators must bank the previous day's gross profit. I did not find evidence of compliance, in entirety. Considering this, the Board did not enforce *Section 163(2)* of the *Gaming Control Act 2007*, by disabling gaming sites in accordance with *section 172(4)* of *Gaming Control Act 2007*;

ii) In the absence of a proper monitoring/reporting system, audit could not confirm the correctness and completeness of K930,521 earned as Text Lotto levy from Digicel in the year; and

iii) As per *Section 199(1)* of *Gaming Control Act 2007*, *"it is a condition that each licensed bookmaker must maintain with the Board a deposit of K50,000 and a bank guarantee of K100,000."* However, I noted that the Board held bank guarantee(s) that were not current.

I recommended Management that there must be a stricter monitoring of banking of gaming proceeds and enforcement for non-compliance with the respective provisions of the *Gaming Control Act 2007*.

Management agreed to my recommendation to address the issues and to make improvement.

Administrative Expenses

There were instances, where other administration related payments were not supported by three quotations, official invoice(s) and delivery docket(s). Other exceptions included travel related expenses not being substantiated with evidence of travel and car hire payments made on proforma or quotes without official invoice and receipts. In the absence of the above, I was unable to establish the status of refunds, if any in relation to travel, accommodation and car hire.

I recommended the Management that procurement must be in accordance with *PFMA*. Hence, the practice of obtaining three quotes and calling for tenders should be followed.

I also recommended Management that all payments are to be adequately supported with original invoices or receipts and delivery dockets to confirm receipt of goods ordered and paid for. In respect to hotel, travel and hire car, it is imperative that final invoice(s) is obtained to ensure all charges are reflected correctly and to follow up on any unused funds, if any.

Management responded as follows:

"There is no legal requirement for NGCB to obtain three quotations for the supply of goods and services required for the effective and efficient management of its affairs. There is no provision in the relevant legislations which imposes a duty on NGCB to obtain three quotations although it is good business practice to obtain quotations to compare prices for economic reasons. This is a matter of choice but not a requirement. In relation to travel acquittal, nearly all or most acquittals have boarding passes attached."

Conflict of Interest

I have observed that the provisions of the *Gaming Control Act 2007* permit NGCB as one of the four Gaming Machine Operators in the country. I viewed this as a potential for conflict of interest as one of the major player in the industry is also the regulator. This has potential for non-compliance with provisions of the *Gaming Control Act 2007* as well as perceived bias against other players in the industry. I brought this issue to the Management and they responded as follows:

"There may be a possibility of conflict of interest but the position of NGCB as an operator is not by choice. The position is expressly created by the legislation in Section 130(3) of the Act.

If the legislation has considered that there was a potential for a conflict of interest then it would not have enacted the said provision. Parliament in its wisdom considered that there was no conflict of interest situation and therefore enacted Section 130(3) which states, "The Board shall be deemed to be the holder of an operator's license."

Annual Reports

The Board did not comply with *Section 23(1) Gaming Control Act 2007*, by not furnishing to the Minister a report on the progress and performance of the Board for the previous financial year then ended. Board also did not adhere to *Section 23(4)* by not reporting to each Provincial Government every six months on the gaming activities conducted in the provinces. I brought this to the attention of the Management and they responded that the 2013 draft annual report has been produced and is in the pipeline to be printed. Management will also address the requirement of reporting the operation of gaming machines to Provincial Governments.

Prior Year Issues

The following issues highlighted in prior year audit remain unresolved:

a) There was still no financial policy and procedure manual in place;
b) The utilisation and/or monitoring of an operational budget was not evident in year 2013; and
c) The NGCB has yet to obtain the source code from Coutara Limited.

27.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Board for the year ended 31 December 2014 was in progress.

27A. NATIONAL GAMING CONTROL BOARD COMMUNITY BENEFIT FUND TRUST (Subsidiary of National Gaming Control Board)

27A.1 INTRODUCTION

27A.1.1 Legislation

The Community Benefit Fund (CBF) was established under the provision of *Section 163(6)(a)* of the *Gaming Control Act 2007* on 1 May 2007 when the *Act* was passed and certified by the Parliament.

The *Gaming Control Act* authorises the Board of NGCB to establish a *"Community Benefit Fund"* and shall open a trust account to be called the *"Community Benefit Fund Account"* in which payments of 14% of monthly gaming revenues are made.

The Trust is managed and operated by a Board of Trustees comprised of the Chairman of the NGCB Board and four additional Trustees as members appointed by the Minister in a notice in the National Gazette, and in accordance with the terms of a trust deed that is settled by the Board.

The CBF started its operations in 2008.

27A.1.2 Objectives of the Fund

- The trust is established to provide for and apply the income and capital of the Trust Fund towards generally charitable purposes, including without limitation, the alleviation of poverty, the advancement of education, sports development and other purposes generally beneficial to the people of Papua New Guinea;
- To undertake research into the problems associated with gambling activities including the social and economic impact of gambling on individuals, families and the communities at large; and
- To promote community awareness and education in respect of problem gambling and the provision of counselling, rehabilitation and support services for problem gamblers and their families.

27A.1.3 Functions of the Fund

To provide for and apply the income and capital of the fund toward generally charitable purposes, including but not exclusive of, the following areas:

- Provision and improvement of social welfare;
- Development of sports and improvement of recreational facilities;

- Improvement of education and learning tools (not including school fees);
- Assistance to churches and religious groups;
- Provision of medical assistance;
- Assistance to education, health and law and order projects; and
- Undertake research into problems on gambling and promote community awareness and education on negative aspects of gambling.

27A.2 AUDIT OBSERVATIONS AND RECOMMENDATION

27A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the year ended 31 December 2013 was issued on 5 March 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Opening Balances

In year 2013, Community Benefit Fund (CBF) balances were removed from National Gaming Control Board (NGCB) accounts and accounted for separately under CBF. Due to errors and material limitations of scope highlighted in prior audits of NGCB, I could not confirm the completeness and accuracy of opening balances of CBF as at 1 January 2013. Consequently, I could not perform tests to verify the completeness and accuracy of CBF balances as at 31 December 2013 as well as amounts transferred to CBF in year 2013.

Donations

A total of K80,628,198 had been paid out as donations for various purposes during the year. Out of that amount, K14,310,973 payments were not supported with any form of acquittals or reports. In the absence of the supporting documents, I could not confirm if the respective payments made were for all intended purposes and/or objectives of the payments were achieved.

QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs the financial statements of the NGCB Community Benefit Fund for the year ended 31 December 2013:

(a) Give a true and fair view of the financial position and the results of its operations for the year then ended; and
(b) The financial statements have been prepared in accordance with the Finance Instructions issued under the *PFMA*."

27A.2.2 Audit observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Fund for the year ended 31 December 2013 was issued on 5 March 2015. The report contained the following observations:

Trust Deed

My review of the Fund noted that there was no gazettal of the Trust Deed. The Community Benefit Fund (CBF) bank account also operated as a normal account rather than a Trust account. As highlighted in the past audit, Trust Deed also did not make any reference to the *PFMA*, the acquittal needs, investments and accountability.

In addition, the delay in the preparation of financial statements was also a breach of *clause 10.4(d)* of the Trust Deed.

I recommended the Management to ensure that the CBF bank account is appropriately named as a Trust account. I also suggested in the past that the Trust Deed must specify the requirements of complying with the relevant legislations including *PFMA*, eligibility for assistance, investment guidelines, the reporting and acquittal processes and others. The Management responded as follows:

"CBF Management will organise gazettal of the Trust Deed upon Trustees approval in its next meeting on the 11 December 2014 Trust Deed has been finalised as is per BOT's approval."

Donations

My review of the donations noted the following observations:

i) A number of payments were made on account of Prime Minister's commitment(s) and approvals by the Prime Minister, based on written memo and requests;
ii) There were instances of donations made without being recorded in the CBF register;
iii) There were also cases of funding made without proper CBF application(s); and
iv) I also did not sight evidence of acquittals relating to prior years.

Board Expenses (BOT)

During the year, the BOT related expenses amounted to K305,704.

I noted that three of the Directors were paid their monthly board fees as one annual lump sum in advance in January 2013.

In the absence of BOD rates determination, I could not confirm the correctness of the amounts paid as stipends and sitting allowances.

27A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Fund for the year ended 31 December 2014 was in progress.

28. NATIONAL HOUSING CORPORATION

28.1 INTRODUCTION

28.1.1 Legislation

The *National Housing Commission Act (Chapter 79)* was repealed by the *National Housing Corporation Act 1990.* The assets and liabilities of the former National Housing Commission were transferred to the National Housing Corporation in March 1990.

28.1.2 Functions of the Corporation

The principal functions of the Corporation are to:

- Improve housing conditions;
- Provide adequate and suitable housing or letting to eligible persons;
- Sell houses to eligible persons;
- Make advances to eligible persons and approved applicants to enable them to become the owners of houses occupied by them;
- Develop residential land by way of providing adequate services for human settlements;
- Carry out and promote research or investigations into matters connected with urban development and human settlements; and
- Maintain dwellings and associated buildings vested in the Corporation.

28.1.3 Subsidiary of the Corporation

The National Housing Corporation has a subsidiary Company, **National Housing Estate Limited**. The Company was incorporated under the *Companies Act* on 28 September 2007. The principal purpose of the Company is to provide Real Estate Services. From information available, the Company commenced its normal operations as of 1 January 2010.

However, the Company had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013 and 2014 for my inspection and audit despite numerous reminders from my Office.

28.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the Corporation for the year ended 31 December 2011 was in progress. The financial statements for the year ended 31 December 2012 had been submitted and the audit arrangements were in progress to commence the audit without delay.

The financial statements for the years ended 31 December 2013 and 2014 had not been submitted for my inspection and audit.

29. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY (NICTA)

29.1 INTRODUCTION

29.1.1 Legislation and Objectives of NICTA

The National Information and Communications Technology Authority (NICTA) was established on 1 November 2009 by the *National Information and Communications Technology Act 2009.* The Authority succeeds the PNG Radio Communications and Telecommunication Technical Authority (PANGTEL) which was established on 1 January 1997 as part of the Government's policy to corporatise the Post and Telecommunication Corporation (PTC) and to have it divided into three different organisations namely: Telikom PNG Limited, Post PNG Limited and Pangtel.

NICTA is a 100% Government-owned statutory authority, established to regulate the telecommunication industry in PNG.

Under the *Post and Telecommunication Corporation (Corporatisation) Act 1996* assets, rights and liabilities as well as employees of the Corporation were transferred to Pangtel as per the allocation statement approved by the then Minister for Communications at the net book value recorded in the books of the Corporation as at 31 December 1996. In the same manner, the assets, rights and liabilities as well as employees of Pangtel were transferred to NICTA by virtue of *Section 305* of the *National Information and Communications Technology Act.*

29.1.2 Functions of the Authority

The main functions or principal activities of the Authority are to exercise all licensing and regulatory functions in relation to the Information and Communications Technology Industry and perform all other functions as stated under *Section 9* of the *NICTA Act 2009.*

29.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2012 was in progress.

The financial statements of the Authority for the years ended 31 December 2013 and 2014 had not been submitted for my inspection and audit.

30. NATIONAL MARITIME SAFETY AUTHORITY

30.1 INTRODUCTION

30.1.1 Legislation

The National Maritime Safety Authority was established by the *National Maritime Safety Authority Act 2003.*

30.1.2 Functions of the Authority

The functions of the Authority are to:

- Perform the functions and exercise the powers as are conferred upon it by this Act or under any other law;
- Co-ordinate search and rescue operations for vessels in distress or lost at sea pursuant to the terms and conditions of a search and rescue plan prepared by the Minister, from time to time, and approved by the Authority;
- Co-ordinate with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning maritime safety, marine pollution prevention or search and rescue operations at sea;
- Collect data relevant to maritime safety, marine pollution prevention and search and rescue operations at sea;
- Act on behalf of the State in relation to any domestic or international agreement relating to maritime safety, marine pollution prevention or search and rescue operations at sea to which the State is or may become a party;
- Make recommendations on policy to the Minister regarding maritime safety, marine pollution prevention and search and rescue operations at sea;
- Provide consulting services, training and management services relating to any of its functions whether in PNG or overseas;
- Where appropriate to consult with:
  - *Other agencies of National Government;*
  - *Provincial Governments;*
  - *Local-level Governments; or*
  - *Commercial, industrial and other relevant bodies and organisations, in relation to matters affecting them in the performance of its functions.*
- Generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

30.2 AUDIT OBSERVATIONS

30.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2013 and 2014 were issued on 26 January and 28 May 2015 respectively. The reports contained Qualified Opinions, hence only the 2014 report is reproduced.

"BASIS FOR QUALIFIED OPINION

Fees and Levies

The Authority disclosed its Operating Revenue as K29,938,173 in the financial statements. Included in this account balance was revenue earned from fees and levies of K24,238,077. During my review of the billing and collection of the various fees and levies, I noted that there was no proper and accurate system or database available to capture all the foreign vessels operating in PNG territorial waters. Further, the Authority did not keep proper, accurate and complete information such as name of the vessels, owner, length of vessels, and the place of registration. I noted that billing and collection of these fees and levies were based on the information provided by the shipping agents which may not be reliable. In the absence of a proper database and a comprehensive revenue collection system, I was unable to state whether the revenue billing and collection by the Authority was accurate and complete. However, the Authority is currently addressing this issue by introducing new systems and mechanisms so that there is a high degree of certainty that all revenue is captured by the system.

QUALIFIED OPINION

In my opinion, except for the effects of the matter referred to in the Basis for Qualified Opinion paragraph the financial statements of National Maritime Safety Authority;

(a) Are based on proper accounts and records and are in agreement with those accounts and records; and
(b) Comply with generally accepted accounting practice and give a true and fair view of the financial position of the Authority as at 31 December 2014 and the results of its operations and its cash flows for the year ended on that date."

30.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Authority for the years ended 31 December 2013 and 2014 were issued on 26 January and 28 May 2015 respectively.

The reports contained similar observations, hence only the 2014 report is reproduced as follows:

Trade Debtors

My review of the Authority's trade debtors revealed that a large number of debtors totalled K596,750 which represents 15% of the total accounts receivable remained outstanding for over 90 days. I further noted that most of these long outstanding debtors may not be collectable.

I brought this matter to the attention of Management and they responded as follows:

"We understand that and have already provided for over 15% for doubtful debts in the financials. Recovery process is in progress at this stage and all debts over ninety (90) days are being referred to our legal team who have instigated legal proceedings. Management will seek board approval for write-off once we hear from them."

Fixed Assets

During my review of the Fixed Assets Register, I noted that the Authority's Fixed Assets Register contained many old assets which existence cannot be verified. I further noted that the Authority did not conduct a complete stock take of all its Fixed Assets. As a result, those assets with nil written down values from previous years were still reported in the Assets Register.

I brought this matter to the attention of Management and they responded as follows:

"Management acknowledged that due to lack of manpower there was no proper maintenance of our Fixed Assets Register. We have created a Fixed Assets Register and management to record and classify items purchases. The recruitment of the procurement Officer who will properly record, classify, monitor, labeling and doing quarterly audit of the fixed assets. We are currently working on identifying assets with zero balance book values. Asset verification exercise will follow thereafter and the register will be updated with old assets disposed/sold."

31. NATIONAL MUSEUM AND ART GALLERY

31.1 INTRODUCTION

31.1.1 Legislation

The National Museum and Art Gallery of Papua New Guinea was established under the provisions of the *National Museum and Art Gallery Act 1992.* This *Act* came into operation on 15 April 1992.

31.1.2 Functions of the Museum

The main functions of the Museum are to:

- Protect and conserve the cultural and natural heritage of PNG;
- Research and document the prehistory of PNG and manage the national archaeological collections, and monitor archaeological research in PNG;
- Maintain the national register of traditional and archaeological sites;
- Identify and maintain a register of national cultural property and monitor the collection and export of artefacts; and
- Issue permits and perform other duties as required by the *National Cultural Property (Preservation) Act (Chapter 156).*

31.2 AUDIT OBSERVATIONS

31.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Museum's financial statements for the years ended 31 December 2011 and 2012 were both issued on 22 September 2014. These reports contained Disclaimer of Opinions, hence only the 2012 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Accounting System

The Museum did not maintain a proper accounting system for a systematic preparation of financial statements. Consequently, the financial statements, trial balance and the cashbook presented for my review could not be relied upon. The Museum did not maintain necessary accounting records and documents such as receipt books, Fixed Assets Register and expenditure records which should form the basis of the preparation of the financial statements. In the absence of these records and documents, I was not able to place any reliance on the computer generated Access-Based General Ledger which was used as the basis for the preparation of the financial statements.

I therefore, could not extend my audit procedures to perform sufficient tests to verify the validity and accuracy of the figures reflected in the financial statements.

Statutory Records

During my examination, I observed that there were significant variances between the financial statement balances and general ledger balances. Further, some payrolls and payment vouchers were not provided for my verification. As such, I was unable to reconcile these balances due to lack of proper and reliable accounting records.

Cash at Bank – K1,425,283

The Museum disclosed its bank balance as K1,425,283 at 31 December 2012. During my examination, I noted that the *JK McCarthy Bank Account* and *Museum Book Shop Account* were not reflected in the general ledger and the financial statements submitted for my review. Further, transactions that took place from these bank accounts and the *Project Account* were not documented and incorporated into the Museum's financial statements together with those from the *Main Operating Account*. I was also not provided with the independent bank confirmation for these undisclosed bank accounts for my review. As a result, I was unable to ascertain the accuracy and completeness of the total bank balance of K1,425,283 disclosed at the year end.

Fixed Assets – K3,019,182

The Museum did not properly maintain and update its Fixed Assets Register with the details of acquisitions and disposals during the year. During my review, I noted that the JK McCarthy Museum and other land and improvements in Goroka were valued at K700,000. The Museum also has seventeen other land improvements in Port Moresby, however, the Museum has only disclosed land and building value of K621,646 in its financial statements.

Furthermore, I noted that artifacts and science collections have accumulated over many years and hence there was a large volume of collections and artifacts for which there was no proper database system maintained to record, update and revise the collections periodically.

In the absence of such proper documentation, the accuracy, completeness and existence of these collections could not be verified.

Salary and Allowances (Payroll) – K2,399,427

During my examination, I was provided with incomplete payroll summary sheets for all the fortnights to verify the payments made during the year. I was unable to perform the necessary audit examination to satisfy myself as to the accuracy of the amount stated in the accounts. As a result, I was unable to state whether the amount has been fairly stated in the accounts.

DISCLAIMER OF OPINION

In my opinion, because of the significance of the matters described in the Basis for the Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient audit evidence and accordingly, I was unable to express an opinion on the financial statements of the Papua New Guinea National Museum and Art Gallery for the year ended 31 December 2012."

31.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Museum for the years ended 31 December 2011 and 2012 were both issued on 22 September 2014. These reports contained similar observations, hence only the 2012 observations are reproduced.

Non-Submission of Financial Statements

The Museum had not prepared and submitted its financial statements to my Office before 31 March 2013 to enable me to conduct the audit and issue the report within the timeframe stipulated by the Law. Consequently, the Museum has breached *Sections 63 (2)* and *63 (4)* of the *PFMA.*

Acquittal of Travel Related Expenses

During my examination, I noted that the payments relating to Travel and Subsistence totalling K420,596 was paid to staff during the year. A total of K49,812 was not acquitted by officers of the Museum after travel which was contrary to the requirements of the *PFMA.*

Staff Personnel Files

During my review on the Museum's Staff Personnel Files, I noted that the personnel files were not properly maintained and updated on a regular basis. Some employees did not have employment contracts, appointment letters and other staff advices relating to salary and allowances. Although, some employees had employment contracts in their files, the rates of salaries and allowances did not correspond to the rates on which salaries and allowances were paid to them. Further, salaries/wages declaration forms and leave records of employees were not properly maintained.

As a result, I was not able to verify the rates on which some of the casual employees were paid their wages since their personnel files were not provided for my review.

Ministerial Support/Grant

I observed that the Museum was funding a monthly grant of K8,333 while Tourism Promotion Authority and National Cultural Commission were paying K25,000 and K8,333 respectively per month. These grants are for the purpose of supporting the Ministry's operations in terms of logistical support including airfares and associated costs incurred by the Minister while on official duty for any one of these three institutions. This monthly grant by the Museum has now increased to K20,000 as advised by the Finance Manager.

During my review, I noted that there were no proper acquittals made by the Ministry over the years for the use of these grants. I also noted that this arrangement between the Ministry and its three sister institutions had no legal basis as there was no documentary evidence to legitimise the funding to the Ministry.

Bank Reconciliations

I noted that there was lack of control over bank reconciliations process as there was no independent verification of the reconciliation to certify that they were done correctly. Also bank reconciliations for several months were not provided to me for my review upon requests thus I was unable to perform further tests to verify the accuracy of the cash at bank balance.

Internal Control Weaknesses

Other internal controls breakdown and weaknesses noted during my audit are summarised in the subsequent paragraphs:

(i) The Board of Trustees Meeting Minutes for the year ending 31 December 2012 were not provided for my review;

(ii) I was not provided with the 2012 budget documents despite numerous requests and as such, I was unable to perform budget analysis with actual expenditure incurred during the year;

(iii) Payroll records were not maintained properly as the payroll summary sheets were incomplete and as such, I was not able to verify the total payroll amount from the payroll file;

(iv) The Museum did not maintain any schedules and calculations of all Contract Gratuities paid to its contract officers during the year;

(v) I was not able to substantiate the validity and the authenticity of payments amounting to K82,969 due to insufficient or missing supporting documents;

(vi) There were no Terms of Reference or Service Agreements between the Museum and various service providers;

(vii) The Museum has neither maintained any records for petty cash, nor done any reconciliations;

(viii) Leave records of employees of the Museum were not properly maintained by the Human Resources Department. I was not able to determine when the leave fares were paid and to verify if employees were qualified for recreational leave and leave fares in the absence of the leave records; and

(ix) The Management responded to all the observations highlighted in my Management Letter and agreed to take necessary action to rectify the issues.

31.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Museum for the years ended 31 December 2013 and 2014 had not been submitted for my inspection and audit, despite reminders.

32. NATIONAL NARCOTICS BUREAU

32.1 INTRODUCTION

32.1.1 Legislation

The National Narcotics Bureau was established in April 1992 by the enactment of the *National Narcotics Control Board Act 1992.*

32.1.2 Functions of the Bureau

The principal functions of the Bureau are to make recommendations to the Board on policies, plans, matters or projects relating to abuse of drugs; coordinate and monitor the Government and non-Government drug education, awareness and rehabilitation program, and conduct surveys and gather and evaluate information, on the consumption, cultivation, trafficking and manufacture of drugs.

32.2 AUDIT OBSERVATIONS

32.2.1 Comments on Financial Statements

My reports to the Minister under *Section 8(4)* of the *Audit Act* on inspection and audit of the accounts and records of the Bureau for the years ended 31 December 2010, 2011 and 2012 were all issued on 22 September 2014. The reports contained Disclaimer of Opinions, hence only the 2012 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The 2011 audit report was issued with a disclaimer of opinion due to limitation of scope arising from my inability to obtain satisfactory accounting records, source documentations and reconciliations to satisfy myself as to the accuracy and completeness of opening balances of Fixed Assets, Cash at Bank and the Surplus disclosed at year end. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have consequential effects on the financial statements of the Bureau for the year ended 31 December 2012.

Scope Limitation – Cash at Bank

The Bureau did not provide me the monthly bank reconciliation statements for my inspection and verification.

Bank reconciliation is a control mechanism to ensure effective management of cash to detect and avoid misstatements, errors and fraud that may occur in handling of cash. In the absence of bank reconciliation statements, I was unable to verify and confirm the validity, completeness and accuracy of the cash at bank as at 31 December 2012.

Scope Limitation – Fixed Assets

The financial statements disclosed Fixed Assets as K2,060,175 at 31 December 2012. However, the Bureau did not maintain a proper, complete and accurate Fixed Assets Register to record the details and movements of assets under its custody and control, nor a stock take conducted annually to verify their existence and values. Physical inspection of certain assets against the records to confirm their condition and existence was not possible because of the absence of a proper Fixed Asset Register. Consequently, I was unable to determine the completeness, existence and accuracy of the fixed assets balance of K2,060,175 as disclosed in the financial statements.

Scope Limitation – Lack of Supporting Documents

A surplus of K60,032 was determined at the yearend after recognising receipts of K5,670,583 and payments of K5,240,219 during the year ended 31 December 2012. However, majority of the payment vouchers and source documents relating to payments were not provided for audit verification. Consequently, it was not possible for me to carry out necessary audit procedures to verify the correctness of the payments made during the year to arrive at the surplus of K60,032 as disclosed in the financial statements for the year ended 31 December 2012.

DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation of scope on my work as described in the Basis for Disclaimer of Opinion paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I was unable to and do not express an opinion on the financial statements of the Bureau for the year ended 31 December 2012."

32.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on inspection and audit of the accounts and records of the Bureau for the years ended 31 December 2010, 2011 and 2012 were all issued on 22 September 2014. For the purpose of this Report, only significant matters arising out of 2012 report is reproduced below:

Non–Compliance with the *Public Finances (Management) Act 1995*

The *PFMA Section 63(2)* and *63(4)* requires the Bureau to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the Bureau shall submit them to the Auditor-General who shall report to the Minister. However, the Bureau has not prepared and submitted its financial statements for the year ended 31 December 2012 to my Office on a timely basis to enable me to conduct the audit on time. Accordingly, the Bureau had breached *Section 63(2)* and *63(4)* of the *PFMA.*

Board of Directors

I observed that since 2002, the Bureau was operating without a fully constituted Board to implement the Bureau's policies on drug abuse and initiate legislation covering drug abuse. The fully constituted Board shall initiate and implement policies on drug abuse, initiate adequate legislation covering all aspects of drug abuse, advise the Government on all international aspects of drug abuse and carry out other functions as stipulated under *Section 7* of the *National Narcotics Bureau Act 2002.* In the absence of a fully constituted Board, I was unable to confirm whether the functions of the Bureau had been fully implemented.

Management responded to my observation as follows:

"The appointment of the Board of Directors is done by the portfolio Minister and the National Executive Council (NEC) under the NNB Act 2002 and Regulatory Statutory Act 2004."

Corporate Plan

My audit revealed that the Bureau did not have a Corporate Plan in place to measure its performance against the functions for which the Bureau was established. In the absence of this document, I was unable to state whether the functions of the Bureau had been effectively and efficiently carried out.

Operational and Accounting Procedural Manual

I noted that the Bureau was operating without any proper internal control mechanism such as Operational and Accounting Procedural Manual. The Manual must be compiled, well documented and communicated to all levels of the organisation and be used in every day work by all personnel.

I recommended Management to adopt the Accounting and Administration Procedural Manual in line with the *PFMA* and General Orders of the Public Service. Management informed me that *"since the inception of the Bureau, the Bureau was operating without a Procedural Manual, however under the current leadership, a procedural manual will be produced when funds are available."*

Personnel Files

My review of Personnel Files revealed that the Bureau did not properly maintain Personal Files of its employees. The absence of maintaining and updating of Personnel Files had resulted in the following:

- Several contract officers' employment contract documents were not on file. As a result, I was unable to verify the legitimacy of the contract positions held by the officers and the corresponding salaries and allowances paid to the officers during the year; and
- Tax declaration forms were not completed and filed in the respective officer's personal files. In the absence of filed tax declaration forms, I was unable to validate the salary and wages tax deductions.

Scope Limitation – Accounting System and Records

Subject to *Section 62(1)* of the *PFMA*, the Bureau is obliged to keep proper accounts and records of its transactions and affairs. However, my review of the Bureaus' accounts and records keeping and filing system revealed that the Bureau did not maintain a proper accounting records and filing system. I noted that payment vouchers were not filed in a sequential order and most vouchers were missing from the file. The accounting records such as registers, bank reconciliation statements, cashbooks and receipt books were not available for my review. The Bureau has a serious problem in maintaining a proper filing system and record keeping. Consequently, the following documents were not on file:

- Signed employment contract documents;
- Payroll reports for each pay periods, gratuity and other allowances calculations/working papers;
- Most of the payment vouchers and source documents for the payments made during the year; and
- Lease agreement documents for certain contract officers' accommodation rental.

Due to lack of source documents and proper record keeping, I was unable to perform the necessary audit procedures to determine the authenticity of amounts disclosed in the expenditure accounts. The absence of source documents limits the scope of my audit.

Management responded to the above weakness as follows:

"We assure that we will try to improve in the record keeping and filing system."

Segregation of Duties – Internal Control

My review of internal control functions surrounding segregation of duties revealed that the Bureau lacked segregation of duties. As a result, the Bureau may be vulnerable to risks of fraud, error and misappropriation of public funds.

Contract Agreements

The Bureau engaged a security Firm to provide security service and employed ECCOM Business to provide consultancy service. However, I was not provided with the Contractual Agreements for my review. Consequently, I was unable to verify the payments made to the service providers as valid and correct payments.

Procurement Process – Internal Control

My review of the payment process of the Bureau revealed that payments totalling K436,622 lacked three written quotations from three different suppliers. The Bureau breached the requirements under *Financial Management Manual Part 12, Division 3,* which states that three written quotations must be obtained for purchases valued between K5,000 and under K100,000. Further, there were no supporting documents to substantiate the payments made. Accordingly, I was unable to obtain comfort over the controls surrounding the functions of payment process.

The procurement process weaknesses were brought to the attention of Management and they responded that *"they will try to improve in their procurement process."*

Travel Advance Register

My examination of duty travel expenditures revealed that the Bureau did not maintain a Travel Advance Register to keep proper records of all the duty travel advances and expenses made during the year under review. I also noted that travel advances were never acquitted. As required under *Financial Management Manual Part 20, Paragraph 12.2* a Financial Delegate/Authorising Officer shall maintain a Register of Advances on duty travel. In the absence of Travel Advances Register and the corresponding Travel Advances Acquittals, I was unable to confirm that the duty travel payments were made for intended purposes.

Cash Advances

My examination of cash advances revealed that the Bureau allows its officers to obtain cash advances for personal use. Conversely, the Bureau did not maintain a Staff Advance Register to keep track of advances made and their subsequent recoveries. Accordingly, I was unable to confirm whether staff advances had been properly accounted for during the year under review. Further, the Bureau also provided cash amounting to K429,500 to group of staff to carry out program activities such as drug awareness, rehabilitation and education. However, the payment of K429,500 to group of staff members to carry out program activities was never acquitted. In the absence of acquittals, I was unable to authenticate as to whether the funds were used for the intended purposes.

32.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Bureau had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit, despite reminders.

33. NATIONAL RESEARCH INSTITUTE

33.1 INTRODUCTION

33.1.1 Legislation

The National Research Institute (NRI) was established under the *Institute of Applied Social and Economic Research Act (Chapter 165)*. The name of the Institute was changed from *'PNG Institute of Applied Social and Economic Research'* to *'National Research Institute'* following the approval of the NEC through its Decision No. 42/90 of 7 March 1990.

The *Institute of Applied Social and Economic Research (Amendment) Act 1987* came into operation on 1 January 1988, and on this date, the promotion and cultural functions of the former Institute of PNG Studies; and functions to do with Educational Research for National and Provincial Departments of Education carried out by the former Educational Research Unit (UPNG), formed part of the National Research Institute.

33.1.2 Functions of the Institute

The functions of the Institute include the promotion of research into PNG society and economy; the undertaking of research into social, political and economic problems of PNG in order to formulate practical solutions to such problems; where practicable, the provision, by agreement with the body concerned, of consultancy services to the Government and to Government institutions; the promotion of the functions and objects of the Institute of PNG Studies; and research into all aspects of education for National and Provincial Departments of Education.

33.2 AUDIT OBSERVATIONS

33.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on inspection and audit of the accounts and records of the Institute for the years ended 31 December 2013 and 2014 were issued on 25 February and 16 June 2015 respectively. The reports did not contain any qualification.

33.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on inspection and audit of the accounts and records of the Institute for the years ended 31 December 2013 and 2014 were issued on 25 February and 16 June 2015 respectively.

For the purpose of this Report, only matters arising out of the 2014 report are reproduced below:

Fixed Assets Register

My examination of the Fixed Assets Register (FAR) revealed that the Register was not properly maintained. Accordingly, the following discrepancies were noted:

- A total of one hundred and ninety-eight assets in the Register did not have serial numbers. Without proper tagging/labeling, the identification of the Institute's fixed assets would be deemed impossible. It will be difficult for the Institute to know if the assets are lost through theft. In addition, I was unable to carry out physical inspection to confirm certain fixed assets against the records to verify their existence and condition due to lack of asset identification;
- Assets purchased prior to 2013 had no acquisition/purchase dates recorded in the Register. In the absence of the purchase dates, I was unable to confirm the depreciation charges calculated and expensed against the assets in the accounts; and
- Institute did not have a clear policy on capitalisation of fixed assets where all items above certain limit should be recorded in the FAR. As such, I noted instances where items without useful lives were captured in the Register.

Due to the above observations, I was unable to rely on the FAR maintained by the Institute.

Management agreed with my findings and responded as follows:

"We will organise for a physical stock-take of fixed assets towards the end of 2015. During the stock-take we will arrange to tag all the assets with serial numbers where possible. The Institute has also formulated a fixed assets policy to determine the capitalisation limit of the fixed assets in 2015. Further, the Institute has started indicating the acquisition dates."

Title Deeds to Leasehold Land

The Institute claimed to own three properties located at section 482 allotment 61, allotment 62 and section 484 allotment 35 with a total carrying value of K224,240. However, I was not able to confirm the ownership of the above properties as the Institute did not have title over the properties. I noted that the said properties were registered under a deregistered company's name. During my prior year audit, I brought the same issue to the attention of the Management and they responded that they have now engaged a land administration specialist to advice on the necessary arrangements required to effect the transfer of title deeds.

The above issue was again brought to the attention of the Management and they responded as follows:

"We will advise you further on the progress regarding the transfer of title in the next course of your audit."

Travel Advance Register & Travel Advance Acquittals

My inspection of the Travel Advances Register revealed that the Register was not properly maintained. Thus, most of the travel advances and the related travel & subsistence expenses incurred during the year were not captured in the Register. Accordingly, the Institute had breached the requirement under *Financial Management Manual Part 20 paragraph 12.2* that a Financial Delegate/Authorising Officer shall maintain a register of advances to officers on duty travel.

Further, the Institute had also neglected the requirements under the *Financial Management Manual Part 20 paragraphs 11.2 and 12.10* that cash advanced to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel and advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form.

Due to the above weaknesses, I was unable to substantiate as to how much advances were acquitted and how much were outstanding at the year end. Management responded to my observation as follows:

"As this has been an issue for some time, we will try our very best to up-date and keep a proper Travel Advance Register in the future."

Appointment of Council Members

I noted that the Chairman and the Community Representative of the NRI Council term had expired on the 17 January 2010. During my 2014 audit, I observed that there were no appointments made for the respective position. The Institute advised me that they are awaiting response from National Executive Council, based on Minister for Higher Education, Research, Science and Technology submission.

34. NATIONAL ROAD SAFETY COUNCIL

34.1 INTRODUCTION

34.1.1 Legislation

The National Road Safety Council was established under the *National Road Safety Council Act 1997*. This Act came into operation on 1 May 1998. The Council commenced its operational activities from May 1998.

34.1.2 Functions of the Council

The principal functions of the Council are to:

- Determine the goals and objectives in the promotion of road safety in PNG;
- Advise the National Government on all matters relating to road safety which the Council may from time to time consider desirable or which the National Government may refer to the Council;
- Recommend to appropriate authorities the adoption of precautionary measures of all kinds calculated to prevent accidents involving the use of motor vehicles;
- Foster, promote and conduct educational campaigns designed to stimulate compliance with acceptable and proven principles of road safety;
- Enlist the aid of all agencies and individuals who in the opinion of the Council are able to promote any acceptable and proven principles of road safety;
- Procure sufficient personnel and finance for purposes of the Council and to co-ordinate and control their use;
- Foster and promote road safety research;
- Determine measures which will lead to the improvement of road safety and implementation of such measures;
- Monitor and evaluate the effectiveness of programs and strategies of organisations involved in the promotion of road safety;
- Formulate, monitor and update an appropriate long-term national program for the improvement of road safety in PNG and to supervise its implementation;
- Consider and implement any other aspects of road safety as may be referred to it from time to time;
- Perform such other functions as are given to it under this Act or any other law;
- Advise the Minister and the NEC on all or any of its functions specified in this section; and
- Generally to do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

34.2 AUDIT OBSERVATIONS

34.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act*, on the Council's financial statements for the year ended 31 December 2013 was issued on 26 January 2015. The report did not contain any qualification.

34.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Council for the year ended 31 December 2013 was issued on 26 January 2015. The report contained the following observations:

Fixed Assets

My review of the Council's Fixed Assets Register revealed that the register presented a large quantity of fully depreciated, obsolete or disposed assets in the register. These assets carried either nil or negative balances in the year under review. I sought the Management's explanation and the Management responded as follows:

"*The Management would seek approval from the Board to dispose and remove fully depreciated and obsolete assets still present in the fixed assets register."*

Damaged Motor Vehicle

During my review of the Council's Fixed Assets Register, I followed up on the progress made on the Executive Director's official vehicle (Toyota L/Cruiser - registration no. BDV 596) that was involved in a car collision in 2012. The Police Incident Report and Conviction Notice confirmed the driver of the other (Digicel) vehicle was convicted for drunk driving and caused the accident.

My examination revealed that the matter was still with the courts for Digicel to compensate for damaged vehicle's cost recovery or vehicle replacement cost. I sought explanation from the Management and they responded to my query as follows:

"This particular vehicle concerned involved in a car collision resulting in our vehicle at a disposal state. Our vehicle concerned involved with the accident with Digicel PNG and the driver of Digicel PNG was convicted and the court case is before the National Court. We will advise you of the outcome of the court case when a decision is made."

Traffic Infringement Notices (TIN)

My review of the traffic infringement fines revealed that controls surrounding this area have improved compared to prior years. However, there were instances where TIN books were given to police officers that were never returned to the Council and some inspectors have lost the TIN books. I brought this matter to the Management and the Management responded as follows:

"We are developing an internal control system to control all the TIN books from delivery of the TIN books from the printer to storage and distribution to inspectors and police officers, and whoever loses their TIN books issues is responsible and is penalised."

Personnel Files

My review of the Staff Personnel Files revealed that salary history cards, employment letters, birth/marriage certificates and salary declaration forms were not maintained for most of the files examined. In the absence of such valid documents, I was unable to verify each officer's salary/wage and allowances paid and accruals provided for at year end. I requested the Management for explanation and the Management responded as follows:

"We have instructed the division to properly keep the personnel files of our staffs and update each staff file regularly."

34.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the year ended 31 December 2014 had not been submitted for my inspection and audit.

35. NATIONAL ROADS AUTHORITY

35.1 INTRODUCTION

35.1.1 Legislation

The National Roads Authority was established by the *National Roads Authority Act 2003* and came into operation in 2004.

35.1.2 Objectives of the Authority

The objectives of the Authority are to:

- Raise funds for the maintenance of public roads;
- Ensure the efficient preparation of effective annual road maintenance programmes; and
- Ensure that all routine, specific and emergency maintenance of roads and road rehabilitation and reconstruction funded by the Authority are executed in a transparent, effective and efficient manner, in order to optimise the contribution of road assets to the economic and social development of PNG.

35.1.3 Functions of the Authority

The functions of the Authority are to:

- Establish and operate a Road Fund from road user charges, budget and other sources;
- Establish resources and an organisation to enable the Authority to perform its functions;
- Maintain and manage updated data on asset conditions using the Road Asset Management System, Bridge Inventory and Bridge Maintenance and other approved systems;
- Formulate and determine prioritised annual road maintenance plans and programmes using the Road Asset Maintenance System, Bridge Inventory and Bridge Maintenance and other approved systems to be supported by the road sector cost recovery revenues;
- Establish annual road maintenance funding requirements in accordance with the future annual road maintenance plans;
- Determine and implement road user charges in accordance with the financial resource requirements of the annual road maintenance plans;
- Deliver the required routine, specific and emergency road maintenance in accordance with the maintenance service levels established for each class or type or road, through the contracting of independent contractors, and to monitor and supervise the contracts as they are executed;

- Deliver road improvement, and road restoration when required, by undertaking the design studies necessary for the programmed road improvement or rehabilitation projects by:
  - *Prepairing corresponding construction plans, specifications, cost estimates, and the other documents required for the proper tendering of the programmed works;*
  - *Monitoring and supervising the works as are executed, by such qualified consultants and/or contractors as are engaged; and*
  - *Ensuring safety audits on design, construction, maintenance and safety aspects of road.*

- Establish and sustain contract management capacity to ensure the validity of contracts and the effective management of contracts awarded for the execution of agreed road maintenance works and rehabilitation and reconstruction projects;
- Ensure that all contracts are tendered through a transparent and competitive procedure to ascertain economic efficiency and sustainability in delivery of road maintenance and rehabilitation works;
- Keep adequate records and to maintain a management information system which provides the Board and staff with accurate and timely information on commitments, expenditures and revenue for the purchase of consultancy and contracting services and other purchases and outlays;
- Report publicly and transparently on collection of user charges, revenues, and in detail on the use of the revenues on the road maintenance programs in accordance with internationally accepted accounting principles;
- Establish environmental management capacity;
- Provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- Construct, erect or affix signs or marks on road transport infrastructure in accordance with the *Motor Traffic Act (Chapter 243).*

35.2 AUDIT OBSERVATIONS

35.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2013 was issued on 20 February 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Cash at Bank – K70,930,974

During my review of the Authority's Operating and Road Fund Bank Accounts,

I noted that the bank reconciliations were not done on a monthly basis and the bank reconciliations for 2013 were prepared only in 2014. Further, the bank reconciliations were not done properly and checked by an independent person. The cash at bank balance of K70,930,974 disclosed in the financial statements as at 31 December 2013 did not agree to bank reconciliation balance of K69,578,582 resulting in a variance of K1,352,392. As a result, I was unable to obtain comfort over the accuracy and completeness of cash at bank balance of K70,930,974 as reported in the financial statements at 31 December 2013.

QUALIFIED OPINION

In my opinion, except for the effects of the matter referred to in the Basis for Qualified Opinion paragraph above:

(a) The financial statements are based on proper accounts and records; and
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Authority for the year ended 31 December 2013 and the results of its financial operations and cash flows for the year then ended."

35.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2013 was issued on 20 February 2015. The report contained the following observations:

Corporate Plan

Audit noted that the Authority did not have a Corporate Plan in place to guide its operations and performance. Without a Corporate Plan, the Authority will not have a clear direction and vision on as to how it will achieve its short and long term objectives and goals. In the absence of this document, I was unable to state whether the functions of the Authority had been effectively and efficiently carried out and the expected outcome was achieved.

The Management noted my observation and responded as follows:

"*It realises the importance of having in place a Corporate Plan and a Business Plan. Thus the Authority is now channeling its concentration on certain activities to enable the development of the Corporate Plan 2015-2020 and a Business Plan 2015-2020.*"

ACCPAC Accounting System

During my review, I observed that the Authority has not fully utilised all the options available in the ACCPAC Accounting System.

Further, officers using the System were not given adequate training to use it. The Authority only uses the receipt, payment and payables general ledger (GL) accounts in the ACCPAC Accounting System to post transactions. The other facilities such as debtors GL account, creditors/debtors aged listings functions and bank reconciliation module in the Accounting System were not utilised. Based on posting of transactions in the above mentioned GL accounts, the System produced GL account details and the trial balance from which the financial statements were manually prepared by using Microsoft Excel.

The Management agreed to my findings and responded as follows:

"The Authority needs to fully utilise the models in the Accounting System. As such, the Management has identified that the Accounting System version 5.5A needs to be upgraded to version 6.5 with the hiring of ACCPAC specialist to upgrade the System and to install other accounting modules. They also indicated that staff training is also featured in the Terms of Reference for hiring the ACCPAC expert."

Withholding Taxes

Withholding taxes mainly relates to withholding of 10% of the payments that were made to the contractors that did not have valid Certificate of Compliance. The 10% withholding taxes are payable to Internal Revenue Commission (IRC). In accordance with *Section 280(1f)* and *(6)* of the *Income Tax Act 1959,* it is a requirement that the paying authority (in this case its National Roads Authority) shall remit to IRC the total amount of tax deducted from those payments made during the 12 months that ended 31 December in the preceding year by 21 February. A paying authority who contravenes, or fails to comply with, a provision of this section is guilty of an offence. Further, *Section 354O(1)* of the *Income Tax Act 1959* stipulate that a person/organisation who is a paying authority shall, before 15 January or within fourteen days after entering into a contract, complete a registration form and lodge it with IRC to register as a paying authority. A paying authority, who fails to comply with this requirement, is guilty of an offence and must remit the 10% contract payment withholding taxes, the Authority has to register as paying authority with IRC. In the absence of paying authority's registration, I was unable to confirm that the Authority has remitted 10% contract payment withholding taxes to IRC.

The Management agreed to my observation and stated that the Authority would follow up with IRC and register to obtain the new Tax Identification Number to effect the remittance of withholding taxes.

Certificate of Compliance

My review of road maintenance contract payments revealed that several contractors without valid Certificate of Compliance (COC) were paid a total amount of K2,638,244.

Despite the contractors lacking valid COC, the Authority failed to withhold the 10% of the claim for remittance to IRC. It is specified under *Section 280 (9*) of the *Income Tax Act 1959* that the paying authority is required to deduct 10% of the gross amount of the payment and remit the tax to IRC.

The Management agreed to my observation and responded as follows:

"Due to oversight or transaction not being appropriately posted to the balance withholding tax account, 10 % of few payments were not withheld for remittance to IRC. However, in the future the Management will ensure that correct amount is withheld for the period and is captured in the ACCPAC System."

Payments without Obtaining Three Quotations

I noted that payments totalling K119,690 (which were valued between K5,000 and under K100,000) were made without obtaining three quotations from different suppliers. It has breached the requirements of *Financial Management Manual Part 12 Division 3* which states that three written quotations must be obtained for purchases valued between K5,000 and under K100,000. The Authority did not comply with this provision.

The Management concurred with my finding and responded as follows:

"*There were instances where three quotes were not obtained from different supplies due to availability of only one supplier, consideration of quality of goods and services from reputable companies and urgency of procuring certain expenditures.*

Ultimately, the Management agrees that three quotations must be obtained for purchases above K5,000 and less than K100,000 in compliance to Part 12 Division 3 of PFMA."

Segregation of Duties

During my review on internal control of the Authority, I noted that payments amounting to K258,214 were not being authorised by requisition authorising officer, certified by certifying officer and approved by financial delegate for commitment. Individuals doing more than one task at the same time may compromise internal control and prone to make mistake and likely to open avenues for malpractice. In the absence of segregation of duties, I was unable to obtain comfort over the controls surrounding procurement process.

Management has taken note on my observation and stated that necessary actions will be taken to improve the internal control weakness.

Duty Travel Expenses Lacking Acquittal

My review of the travel expenses revealed that payments totalling K739,507 for duty travels posted to Travel Allowances and Travel and Accommodation Accounts were not acquitted. As a result, I was unable to verify the airfare payments and hotel accommodation payments to boarding passes and receipts docket. It is a requirement under the *Financial Management Manual Part 20 paragraphs 11.2 and 12.10* that cash advanced to officers travelling overseas on official duty must acquit travel advances within fourteen days of return from duty travel and advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form. In the absence of travel acquittals, I was unable to confirm the legitimacy of duty travel expense payments.

Management responded to my concern as follows:

"This area has been lacking effective control measures to properly account for travel related expenses and informed me that a travel coordinator has been appointed to manage the travel acquittal process."

Salary and Wages Tax and Dependents Declaration Forms

My examination of personnel files revealed that most of the Authority's employees did not have salary and wages tax declaration forms and birth certificates of officers' children in their personal files. A completed and signed salary and wages declaration form and birth certificates are the basis for claiming dependents tax rebates and also for claiming dependents leave fares. In the absence of salary and wages tax declaration forms, I was unable to state whether salary and wages tax were properly calculated without adjusting for dependent rebates.

Further, the *Public Services General Order # 14.41* specify that the officers can claim leave fares for their spouse and children under the age of 19 who are wholly dependent and maintained by the officer. However, due to lack of dependents declaration and birth certificates of the children, I was unable to comment on the legitimacy of dependents leave fares claimed by officers.

Management agreed with my findings and stated that necessary actions will be taken to ensure that signed tax declaration forms and birth certificates are kept in the employee files.

35.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2014 for my inspection and audit and arrangements were being made to commence the fieldwork shortly.

36. NATIONAL TRAINING COUNCIL

36.1 INTRODUCTION

36.1.1 Legislation

The National Training Council was established under the *National Training Council Act 1991*. Although the Act came into operation on 5 December 1991, the Council formally began operating in April 1992 following its inauguration.

36.1.2 Objectives of the Council

The objectives of the Council are to:

- Foster the comprehensive development of training with regard to the needs and the resources of the country;
- Foster the co-ordination of training institutions so that the most effective use can be made of resources available for training which ensures increased productivity and capacity building in the workforce;
- Make the benefits of training as widely as possible;
- Plan and encourage the development of a system of training fitted to the requirements of the country and its people;
- Establish, preserve and improve standards of training throughout the country;
- Make the most effective use of the resources available for training related purposes in so far as this can be done by legislative and administrative measures; and
- Generally augment and support the role and functions of the Commission for Higher Education as specified in the *Higher Education Act (Chapter 397).*

36.1.3 Functions of the Council

The principal functions of the Council are to be responsible for supervising and managing the implementation of the National Training Policy and for monitoring, reviewing and revising the National Training Policy when necessary; to provide guidelines to the NEC, Provincial Government, and the in-service Training Institution's Governing Councils on any issues related to training; and to formulate and publish guidelines on human resource requirements, localisation and indigenisation issues and related matters.

36.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

36.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Council's financial statements for the years ended 31 December 2010, 2011, 2012, 2013 and 2014 were all issued during the audit cycle. The 2010 and 2011 reports were issued on 31 October 2014, the reports for 2012 and 2013 were issued on 26 January 2015 and the 2014 report was issued on 2 June 2015. The reports contained Qualified Opinions, hence only the 2014 report is reproduced.

"BASIS FOR QUALIFIED OPINION

Other Receipts – K73,046

The Council disclosed in its accounts K73,046 as Other Receipts received for registration and renewal fees from the training providers during the year. I noted that some receipts were recorded from the receipts issued while others were taken directly from the bank statements without proper supporting documents. As a result, there was no audit trail to verify that all the fees expected to be collected from the training providers have been collected and accounted for in the financial statements. Consequently, I was unable to ascertain the accuracy and valuation of the fees collected at year-end.

Fixed Assets – K783,134

My review of the Fixed Assets Register maintained by the Council revealed that it was not properly maintained. In the absence of a proper Fixed Assets Register and lack of stock-take and valuation reports, I was unable to determine the value, condition and existence of assets totalling K783,134 disclosed by way of notes in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

(a) The financial statements of the Council are based on proper accounts and records; and
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Council as at 31 December 2014 and the results of its operations for the year then ended."

36.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Council for the years ended 31 December 2010 and 2011 were issued on 31 October 2014, the reports for 2012 and 2013 were issued on 26 January 2015 and the 2014 report was issued on 2 June 2015. These reports contained similar observations, hence only the 2014 report is reproduced.

Accounting System

I noted that the Council had not maintained a proper accounting system to record its transactions. The accounts and records of the Council were prepared manually and transferred to spreadsheets. There were no proper trial balance and general ledgers created apart from the cashbook provided for my examination. Further, I noted that there were no operational and policy manuals such as procedural policy and accounting procedures manual to guide the administration of the Council.

I recommended that the Council deliberate on the matter and employ a proper automated accounting system (such as MYOB or other systems) appropriate for the entity and compile procedural manuals for internal use.

Management concurred with my comments and added that they would do their best to secure a suitable accounting system for its usage.

Project Funds

I noted that as part of its operations, the Council also maintains the following project expenditures:

- Training levy of 2% as support grants to training providers; and
- Overseas Students Support Grants which is used to assist Papua New Guinean students undertaking studies overseas.

My review of the above project expenditures revealed that there was no separate policy for each of these projects. In addition, there were no proper guidelines, control and monitoring on how each project would be managed and assistance granted. Further, there were no evaluations done for each of the projects in relation to the grants and assistance provided to different recipients under each project. I recommended Management to develop a proper policy for each project and to withhold the 2% training levy until a proper policy was developed.

Management concurred with my comments and would do their best to develop a policy for each Project. Further, the 2% training levy was put on hold pending proper policy and guidelines to be approved by the National Training Council Secretariat.

Personnel Emoluments

My examination of the staff personnel files revealed that the files were not properly and timely maintained. I noted that part of the staff files were maintained by the Department of Labour and Industrial Relations. Further, I noted that staff salary and wages declaration forms were not lodged with the Internal Revenue Commission and the history cards were not timely updated.

In addition, I noted that the Council had not been remitting superannuation contributions and wages tax on behalf of the casuals and probationary officers employed in 2014 as stipulated by the *Superannuation Act 2000 and General Order 17, and Income Tax Act 1959 (as amended)*. I also noted breaches in *General Order 14.48* relating to the administration of recreational leave fares.

I recommended Management to look into these areas and ensure corrective actions are taken.

Management agreed with my comments and accepted my recommendations and ensured proper controls will be maintained.

Expenditure Control Weaknesses

During my review of the operational expenses in 2014, I noted that payments totalling K115,807 were made without proper supporting documentations. In addition, payments totalling K110,630 were made without obtaining the required three written quotations. As a result, I was unable to verify and confirm the above payments as to their validity and appropriateness.

I brought these issues to the attention of Management and was advised that corrective actions will be taken.

37. NATIONAL VOLUNTEER SERVICE

37.1 INTRODUCTION

37.1.1 Legislation

The National Volunteer Service was established on 12 April 1990 under the *National Volunteer Service Act 1990*.

37.1.2 Functions of the Service

The principal functions of the National Volunteer Service are to promote a spirit of sacrifice and service to the people of PNG; to provide labour, skills, education and training to the community for development projects; to cooperate and assist National and Provincial Government agencies as well as other organisations whose goals include the development of the people of PNG, in achieving their plans and purposes; and to encourage and participate generally in the advancement of the development of PNG.

37.2 AUDIT OBSERVATIONS

37.2.2 Comments on the Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the National Volunteer Service financial statements for the years ended 31 December 2011, 2012 and 2013 were all issued on 27 February 2015. These reports contained Qualified Opinions, hence only the 2013 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Cashbook

The Service did not maintain proper books of accounts and records and cashbook to produce a trial balance and its financial statements. The financial statements were prepared from bank statements and schedules prepared manually on Excel spread sheet. The cashbook balances form the basis of a proper trial balance. In the absence of a proper and complete cashbook and trial balance, I was not able to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the account balances presented in the financial statements for the year ended 31 December 2013.

Cash at Bank – K32,300

My examination revealed that the Service did not perform any bank reconciliations during the year under review.

Bank reconciliation is a key control mechanism which helps to detect errors and instances of fraud and embezzlement and ensures the bank records are reconciled with the cashbook of the Service to report a correct ending bank balance. In the absence of the monthly bank reconciliations, I was not able to perform necessary audit procedures to satisfy myself as to the accuracy of the bank balance of K32,300 as disclosed at the year end.

Fixed Assets – K235,118

The Service presented its total Fixed Assets balance in *Note 2* to the financial statements as K235,118 as at 31 December 2013. My review of the Fixed Assets Register revealed that the Service did not maintain a proper Fixed Asset Register of all the assets under its custody and control. The Register provided for my review was an incomplete asset inventory listing maintained in a spread sheet. The register recorded only assets acquired from 2010 onwards.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

(a) The financial statements are based on proper accounts and records; and
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Service for the year ended 31 December 2013 and the results of its financial operations for the year then ended."

37.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records for the years ended 31 December 2011, 2012 and 2013 were issued on 27 February 2015 respectively. These reports contained similar observations, hence only the 2013 observations are reproduced below.

Council Meeting Minutes

I observed that a sum of K10,669 (for chq.940863, dated 7/2/2013) was paid by the Service for airfares for the Council members to attend a council meeting hosted in Manus province. There was no signed meeting minutes provided for my review to confirm that meeting was held on 7 February 2013. Apart from this meeting, no other Council meeting was held as the term of the Council expired on 6 May 2013. I drew this to the attention of the Management and they responded to my observations as follows:

"The Council had the council meeting in February of 2013 in Kokopo before their term was expired on 6 May 2013.

However, the copy of the meeting is not available for your reference due to documents being misplaced during the movement of office from Waigani to Boroko."

Budget Control Analysis

I noted that in the 2013 financial year the management of the Service did not implement proper budgetary control over some expenditure items. Actual expenditures significantly exceeded the budgeted amounts and some expenditure items were not budgeted for. I further observed that the management of the Service has not properly forecasted expenditures in light of changes in operational activities, price changes and manpower capacity. I drew this to Management attention and they responded to my observations as follows:

"The Service has considered your recommendations and has taken on board the IFMS Government Budget Application for this year to prepare for its 2015 Budget to minimise over-expenditure and control the funds of the agency within its requirements to avoid such circumstances. However, the Service will still comply with your recommendations in the future."

Group Tax Liabilities – K155,878

The Service reported Group Tax Liabilities totalling K155,878 as at 31 December 2013. From this total, K41,402 payment was outstanding since 2011, K33,421 payment was outstanding since 2012 and K81,055 was the amount for 2013 liabilities. I observed that the Service was not able to meet these obligations due to liquidity problems. Negotiations with the Internal Revenue Commission to have this liability written off were unsuccessful and the Service was required to fully meet this obligation. I brought this to the attention of the Management and the Management responded to my observations as follows:

"The Service has included these liabilities in its 2015 Budget and hopes to settle these issues in the next financial year, however, the Service will abide and comply to your recommendations. The Service has taken a step further by being in the Government Alseco Payroll on the 7 June 2014 to eliminate similar issues and strives to improve its Financial and Administration practices. The Service wishes to advise that these liabilities will be settled this year due to funding being allocated by the Department of treasury and Finance."

Outstanding Superannuation Contribution – K73,957

The Service failed to remit superannuation contributions totalling K73,957. This comprised Nambawan Super Limited contribution arrears of K38,789 for 2012 and K35,168 for 2013. The Service had been paying these arrears by instalments; however continuous financial constraints have not enabled it to fully settle this liability. I brought this to the attention of Management and they responded as follows:

"The Service has paid off a total of K38,789 to the Superannuation for the staff arrears. A balance of K59,712 is still outstanding which includes 2014 contributions. The Management has taken into consideration and has input figures in the 2015 budget for funding to settle these liabilities. However, since the 7th June, 2014, all taxation of salaries and staff contributions is dealt with by the Department of Finance. The Service will settle all liabilities this financial year due to funding allocated by the Department of Finance. However, the Service will still comply with your recommendations."

Personnel Emoluments – K894,777

During my review of Personnel Emoluments, I noted the following weaknesses:

(i) The employee superannuation contribution component of 6% and the employer superannuation contribution component of 8.4% were both supposed to be calculated on the base salary only, instead the Service calculated superannuation on the total salary and allowances of employees; and

(ii) The taxable salary of employees is the gross salary and not the balance after deducting the employee component of the superannuation contributions and housing allowances. The employee components to superannuation and housing allowances are part of the taxable income (if no housing variation was lodged with the Internal Revenue Commission for housing allowances). This resulted in a lower taxable income and consequently a lower tax paid by employees of the Service.

I drew this to the Management's attention and they responded to my observation as follows:

"The Service admits this error which was over sighted by the former Manager-Finance and Administration. Since the 7 June 2014 all payroll data and transaction is administered by the Department of Finance on Government Alesco Payroll System. This eliminates all irrelevant practices. The Service will comply with your recommendations."

Travel Acquittal Register

My review of the travel expenses revealed that the Service has not maintained a proper Acquittals Register for duty travels taken by officers. Travel acquittals with supporting documents such as flight itineraries and ticket butts were not attached to the payment vouchers, but in most instances those travel acquittals attached were incomplete and without all acquittable documents.

The Management concurred with my observation and assured me of creating a proper travel acquittal register.

Consultancy Agreement

My examination on selected payments revealed that consultancy payment of K13,500 had no signed contracts and terms of reference between National Volunteer Service and the Freelance consultant for consultancy services. I only sighted the work plan which forms the basis for the payment without proper references such as project schedule, basis of payment of fees. I drew this to the attention of the Management and they responded as follows:

"The Service will surely avoid similar situations in the future."

37.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Service for the year ended 31 December 2014 was not submitted for my inspection and audit.

38. NATIONAL YOUTH COMMISSION

38.1 INTRODUCTION

38.1.1 Legislation

The National Youth Commission was established under the *National Youth Service Act 1991*. This Act came into operation on 3 July 1991.

38.1.2 Functions of the Commission

The functions of the National Youth Commission are to:

- Train youths in vocational and related livelihood skills and in self-discipline;
- Provide opportunities to enable youths to participate meaningfully in community activities;
- Promote self-reliance among youths and to discourage dependability on outside assistance;
- Provide the means to enable youths to contribute actively towards the maintenance of law and order, and establish better relationship between law enforcing agencies and the community;
- Assist and encourage youths to improve their education, and attain competency in numerical and communication skills;
- Provide the means for tertiary students to enter into the Service;
- Promote and maintain amongst youths acceptable social norms and values; and
- Generally do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

38.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the years ended 31 December 2012 and 2013 had been submitted for my inspection and audit and the audit will commence shortly.

The financial statements for the year ended 31 December 2014 had not been submitted by the Commission for my inspection and audit.

39. OFFICE OF CLIMATE CHANGE AND DEVELOPMENT

39.1 INTRODUCTION

39.1.1 Legislation

The Office of Climate Change and Development (OCC&D) was created on 22 March 2010 through *NEC Decision No. 54/2010*. On the same date, the NEC in its *Decision No. 53/2010* had noted and approved *NEC Decision No. 181/2009* on the abolishment of formerly the Office of Climate Change and Environmental Sustainability (OCC&ES).

The former OCC and ES was created in 2009 and was operating under the Department of Environment and Conservation.

On 10 November 2011 the NEC through its *Decision No. 96/2011* had approved to rescind and amend *NEC Decision No. 53/2010, 54/2010 and 55/2010* and approved for the creation and establishment of the *PNG Climate Change Authority (PNGCCA)*. However, SCMC in its meeting held on 22 May 2012 had withheld the submission of the organisational structure due to the certified governing Act not in place.

Then on 27 November 2012 the NEC approved to rescind whole of *NEC Decision No. 96/2011 of 10 November 2011*. As a result, establishment of the PNG Climate Change Authority was abandoned. However, Management of the OCC & D through dialogues with bureaucratic committees is currently pursing to submit the 3rd Draft Bill in July 2014 to the NEC on the establishment of the PNG Climate Change Authority.

39.1.2 Objective of the Office

The objective of the OCC and D is to provide a coordination mechanism at the national level for research, analysis and development of the policy and legislative framework for the management of climate change within the *Government's National Strategy on Climate-Compatible Development (CCD)* as per *NEC Decision No. 55/2010*.

39.1.3 Functions of the Office

Major functional responsibilities of the Office are:

- Policy development:
  - Adopt and incorporate national strategies and plans on climate change compatible development into the national development strategies and plans;
  - Coordinate and facilitate the implementation of the National's Strategy on Climate Compatible Development;

- Align national development policies and plans to ensure climate compatibility across different government departments;
- Commission research and development to support the development of a comprehensive greenhouse gas inventory and a more comprehensive understanding of the impacts of climate change in the country; and
- Formulate and refine the policy framework and legislation.

- Coordination of projects and programs:
  - Coordinate with relevant government departments, NGOs, Private Sectors and indigenous landowners (or local forest custodians) to implement and manage pilot projects, demonstration projects and programs;
- Stakeholder management and consultation:
  - Collaborate and coordinate with development partners to inform and improve upon the Government's preliminary policy initiatives;
  - Coordinate the development of a robust Measurement, Reporting and Verification (MRV) system and a fair and equitable benefit sharing mechanism to protect rights and interest of resource owners; and
  - Communicate to the people of PNG the benefits (economic, social and environmental) arising from the implementation of the National Strategy for Climate Compatible Development.
- Funding and international negotiations:
  - Implement a national financial strategy in collaboration with development partners to build capacity for Reducing Emissions from Deforestation and Forest Degradation Plus Conservation, Sustainable Forest Management and Carbon Stocks Enhancement (REDD+) and other aspects of climate compatible development; and
  - Support Government of PNG with the international climate change negotiations and climate change funding in order to provide consistent and reliable data and finances to improve and sustain forest governance and livelihoods of the forest communities.

39.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Office for the year ended 31 December 2011 was in progress.

The Office had not submitted its financial statements for the years ended 31 December 2012, 2013 and 2014 for my inspection and audit.

40. OIL PALM INDUSTRY CORPORATION

40.1 INTRODUCTION

40.1.1 Legislation

The Oil Palm Industry Corporation was established by the *Oil Palm Industry Corporation Act 1992* which came into operation on 1 June 1992. Under the Act, all assets (other than land held by the State) and liabilities previously held or occupied by the Division of the Department of Agriculture and Livestock responsible for the provision of extension services to oil palm industry, were transferred to the Corporation at commencement date.

40.1.2 Functions of the Corporation

The main functions of the Corporation are: to promote the development of the oil palm industry; to encourage the increase in productivity by efficient provision of extension services to smallholders; to provide advice and disseminate information and educate smallholders regarding oil palm production methods; and to consult, liaise and collaborate with the State and other agencies involved in the oil palm industry.

40.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2011 had been completed and Management responses were being awaited to finalise the audit reports.

The financial statements for the years ended 31 December 2012, 2013 and 2014 had not been submitted by the Corporation for my inspection and audit, despite numerous reminders from my Office.

41. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA

41.1 INTRODUCTION

41.1.1 Legislation

The Ombudsman Commission was established under the provisions of the Constitution of the Independent State of PNG. The principal objectives of the Commission are: to ensure that all governmental bodies are responsive to the needs and aspirations of the people; to help in the improvement of the work of governmental bodies and the elimination of unfairness and discrimination by them; to help in the elimination of unfair or otherwise defective legislation and practices affecting or administered by governmental bodies; and to supervise the enforcement of the Leadership Code.

41.1.2 Functions of the Commission

The functions of the Commission are:

- To investigate on its own initiative or on complaint by a person affected, any conduct on the part of any State or provincial or local governmental, or other governmental body or a member or officer or employee of any such body, any member of the personal staff of the Governor-General, Minister or the Leader or Deputy Leader of the Opposition, or any other body or person as may be declared by an Organic Law or an Act of Parliament, to which the Leadership Code applies;
- To investigate any defects in any law or administrative practice appearing from any such investigation;
- To investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices; and
- Any functions conferred upon it by *Part III Division 2 (Leadership Code)* of the National Constitution.

41.2 AUDIT OBSERVATIONS

41.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2013 was issued on 27 March 2015. The report did not contain any qualification.

41.2.2 Audit Observation Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on inspection and audit of the accounts and records of the Commission for the year ended 31 December 2013 was issued on 27 March 2015. The report contained the following matters:

Bank Reconciliation

Audit noted that the Commission's Operating Bank Account bank reconciliations were not done on a monthly basis and the bank reconciliations for 2013 were only prepared in 2014. Further, the bank reconciliations were not properly prepared and checked by an independent person. As a result, posting errors in the cashbook and few deposits and withdrawals in the bank statements that remained unposted were not detected and rectified in a timely manner. I noted that the Operating Account balance of K2,851,177 disclosed in the financial statements as at 31 December 2013 did not agree to the bank reconciliation balance of K479,241 resulting in a variance of K2,371,936. In the absence of proper reconciliation, I was unable to place reliance on the bank reconciliation process of the Commission and was unable to confirm the accuracy and completeness of the Operating Bank Account balance at the year end.

Rental Lease Agreements

The Commission paid K725,691 to Ray White Trust, Huon Gulf Estate, Arthur Strachan, Pilgrim Village and Highlands Products Limited for regional officers' rental accommodation during 2013. However, I was not provided with the current tenancy lease agreements to verify the rental payments. As a result, I was unable to substantiate whether the rental amounts paid were based on the rates stipulated in the agreements.

The Commission acknowledged my finding and stated that they will ensure that all current and future lease agreements are properly executed and filed.

Missing Payment Vouchers

I was unable to verify payments amounting to K164,437 from the commitment ledger accounts to the supporting documents as nine payment vouchers were not sighted during the course of my audit. It must be noted that the Commission is obliged to keep proper accounts and records of its transactions and affairs as required under *Section 62 (1)* of the *PFMA.* However, due to lack of source documents and proper record keeping, I was unable to perform the necessary audit procedures to determine the authenticity of payments made for K164,437. The absence of source documents limits the scope of my audit.

The above observation was brought to the attention of the Commission and they responded to my query as follows:

"The Commission acknowledges the finding and will ensure that there exists proper and effective filing system to avoid missing payments vouchers in the future."

External Parties Grants and Other Assistance

The Commission had received benefits totalling K560,533 from the Australian Development Assistance (AusAid) for the year in respect of the Law and Justices Sector Project and dispensed K531,287 within the set guidelines of the Annual Program Plan (APP) which is outside the Commission's normal business operations and is not subject to audit by me. The Commission is under an obligation to ensure full accountability of the funds expended and the Program is subject to annual audit by the Program auditors.

41.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit, despite reminders.

42. PACIFIC GAMES (2015) AUTHORITY

42.1 INTRODUCTION

42.1.1 Legislation

The Pacific Games (2015) Authority was established by the National Parliament under the *Pacific Games (2015) Authority (as amended) Act 2011*. This Act came into operation on 24 October 2011.

42.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Consult with the Pacific Games Association (PGA) and the Games Organising Committee (GOC) to ensure the effective implementation of the Host Contract;
- Authorise and direct collection and disbursement of funds to the Venue, Infrastructure and Equipment Committee (VIEC) and the GOC or other appropriate bodies or organisations for the holding of the Games and the construction or rehabilitation of the Games venues;
- Enter into and perform contracts for the construction and rehabilitation of the Games venues and ancillary works and services;
- Exercise critical oversight over, and to ensure that transparent, efficient and economical expenditure of moneys so authorised or disbursed, or otherwise under its control;
- Liaise and consult with the GOC to ensure the efficient and successful running of the Games;
- Co-operate with and assist sporting and other bodies in stimulating interest in the preparation for the Games;
- Oversee the work of the VIEC to ensure the efficient and successful construction and rehabilitation of the Games venues; and
- Do all things ancillary to the foregoing.

42.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2012 and 2013 had been completed and the results were being evaluated.

The Authority had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

43. PNG ACCIDENT INVESTIGATION COMMISSION

43.1 INTRODUCTION

43.1.1 Legislation

The *PNG Accident Investigation Commission* was established under *Section 218 of the Civil Aviation Act 2000 (as amended)* and came into operation in January 2011.

43.1.2 Objectives of the Commission

The principal purpose of the Commission is to determine the circumstances and causes of accidents and incidents with a view to avoiding similar occurrences in the future, rather than to ascribe blame to any person.

43.1.3 Functions of the Commission

- The principal function of the Commission is the Investigation of aviation accidents and incidents;
- The Minister may, by notice in the National Gazette, direct the Commission to investigate any serious land or marine transport accident or incident;
- Where a direction is given under *Subsection (2)* all references to an *"aircraft"* shall be read as a reference to the vehicle or vessel or other form of transport involved in the accident or incident to be investigated;
- Without limiting the principal function under *Subsection (1)* the Commission shall also have the following functions:
  - Make such inquiries and investigations as it considers appropriate in order to ascertain the cause or causes of accidents or incidents;
  - Co-ordinate and direct all such inquiries and investigations and to determine which other parties, if any, should be involved in the investigation;
  - Prepare and publish findings and recommendations, if any, in respect of any such inquiries and investigation;
  - Where requested by the Minister, to deliver a written report on each investigation to the Minister, including any recommendations for changes or improvements that it considers will ensure avoidance of accidents and incidents in the future;
  - Co-ordinate and co-operate with other accident investigation organisations of Contracting States, including taking or collecting evidence on their behalf;
  - Request from the Authority or PNG Air Traffic Services (PNGATS) or any other person such information as it considers appropriate regarding any accident or incident that the Commission believes that it is required to investigate under this Act;

- Perform any other function or duty conferred on the Commission under any Act or prescribed by regulations; and
- With the consent of the Minister, to provide consulting services, training and management services relating to any of its functions, whether in PNG or overseas.

43.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the years ended 31 December 2011 and 2012 was in progress.

The Commission had not submitted the financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

44. PNG IMMIGRATION AND CITISENSHIP SERVICE AUTHORITY

44.1 INTRODUCTION

44.1.1 Legislation

The *PNG Immigration and Citizsnship Services Authority* was established under the *Immigration and Citisenship Service Act 2010*. This Act came into operation on 9 July 2010.

Under this Act, all assets used for the Authority services (other than land held by the State) which immediately before the coming into operation of this Act, were held by the Department of Foreign Affairs and Trade and which, by agreement between the Department Head of that Department and the Authority are necessary to be transferred to the Authority for the purposes of the Authority are on that coming into operation, transferred to and become assets of the Authority.

44.1.2 Objectives of the Authority

The objectives of the Authority are the following:

- The management, development and protection of the nation's interest in so far as the security of the nation is protected;
- Elimination of corruption and increase in accountability;
- Provision of a more flexible operational working environment;
- Increased operational and management efficiency in financial management, accountability and performance management;
- Provision of a mechanism for the achievement of best practice;
- Provision of financial and administrative autonomy;
- Increased levels of client service delivery;
- Encouragement of study and research in areas which will contribute to the protection and security of the nation;
- Increased acquisition and dissemination of skill, knowledge and information in immigration and citisenship through education and training;
- Pursuit of effective strategies including improved administrative and legal machinery for managing immigration, citisenship and passport matters; and
- Ensure the Authority retains its primacy and leadership role with regard to the provision of effective border control and security through the effective management of entry and stay of people in PNG.

44.1.3 Functions of the Authority

The functions of the Authority are to:

- Perform the functions and exercise the powers conferred on an authorised person or an officer under the *Migration Act* (Chapter 16) or the *Passports Act* (Chapter 17);
- Assist the Ministers responsible for the administration of the *Migration Act* (Chapter 16) and *Passport Act* (Chapter 17) in the performance of their functions under those Acts respectively;
- Assist the Minister responsible for citisenship in the performance of his/her functions under Part IV of the *Constitution* and the *Citisenship Act* (Chapter 12);
- Collect fees, penalties and other revenue authorised under the *Migration Act* (Chapter 16), *Passport Act* (Chapter 17) and *Citisenship Act* (Chapter 12);
- Administer the APEC Business Travel Card Scheme under the *Migration Act* (Chapter 16);
- Collect, monitor, secure and maintain information and technological systems to enable fully integrated and supported immigration, citisenship and passport operations;
- Undertake development of legislation and policy to support the operations of the Authority and the effective administration of the *Migration Act* (Chapter 16), *Passport Act* (Chapter 17) and the *Citisenship Act* (Chapter 12);
- Advise the Minister on policy issues which relate to this Act and the effective administration of the *Migration Act* (Chapter 16), *Passport Act* (Chapter 17) and the *Citisenship Act* (Chapter 12);
- Exercise and carry out such functions and powers and perform all duties which under any other written law are or may be or become vested in the Authority or delegated to the Authority by this Act or any other law; and
- Carry out such other duties as are necessary, supplementary, incidental to or consequential to achieve the objectives or the discharge of its functions under this Act.

44.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2012 and 2013 were completed and results were being evaluated.

The financial statements for the year ended 31 December 2014 had not been submitted by the Authority for my inspection and audit.

45. PNG FOREST AUTHORITY

45.1 INTRODUCTION

45.1.1 Legislation

The PNG Forest Authority was established under the *Forestry Act 1991* which came into operation on 25 June 1992.

The prime objective of the Authority is to provide for and to give effect to the National goals and the directive principles regarding:

- Management, development and protection of the Nation's forest resources and environment in such a way as to conserve and renew them as an asset for succeeding generations;
- Maximisation of PNG's participation in the wise use and development of the forest resources as a renewable asset;
- Utilisation of the Nation's forest resources to achieve economic growth, employment creation and increased "downstream" processing of the forest resources;
- Encouragement of scientific study and research into forest resources so as to contribute towards a sound ecological balance, consistent with the national development objectives;
- Increased acquisition and dissemination of skills, knowledge and information in forestry through education and training; and
- Pursuit of effective strategies, including improved administrative and legal machinery, for managing forest resources and the management of National, Provincial and Local interests.

The Authority was formed by the amalgamation of the Department of Forests, the Forest Industries Council, the Provincial Divisions of Forestry, the Forestry College in Bulolo, the Timber Industry Training College and the Research Institute in Lae.

With the establishment of the Authority the following Acts were repealed: the *Forest Industries Council Act (Chapter 215)*; the *Forestry Act (Chapter 216)*; and the *Forestry (Private Dealings) Act (Chapter 217)*.

45.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Provide advice to the Minister on forest policies and legislation pertaining to forestry matters;
- Prepare and review the National Forest Plan and recommend it to the NEC for approval;

- Through the Managing Director, to direct and supervise the National Forest Service;
- Negotiate Forest Management Agreements;
- Select operators and negotiate conditions on which timber permits, timber authorities and licences may be granted in accordance with the provisions of the *Forestry Act*;
- Appoint and supervise the State Marketing Agency;
- Subject to the *Customs Act Customs Tariff Act and Exports (Control and Valuation) Act* to control and regulate the export of forest produce;
- Oversee the administration and enforcement of the Forestry Act and any other legislation pertaining to forestry matters, and of such forestry policy as is approved by the NEC;
- Undertake the evaluation and registration of persons desiring to participate in any aspect of the forestry industry;
- Act as agent for the State, as required, in relation to any international agreement relating to forestry matters; and
- Carry out such other functions necessary to achieve its objectives or given to it under the Act or other relevant law.

45.2 AUDIT OBSERVATIONS AND RECOMMENDATION

45.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2009 was issued on 23 October 2014. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

General Ledger

Proper accounting records were not maintained by PNG Forest Authority for the year ended 31 December 2009. As a result, an external accounting firm was engaged to perform the reconciliation of the accounts and preparation of the financial statements. Numerous journal entries were made while compiling the financial statements of PNGFA. I was unable to obtain a complete list of the journals processed during the year, or supporting documents for journal entries made. As a result, I was unable to obtain sufficient appropriate audit evidence over a number of transactions recorded in the general ledger. Due to this limitation, I was unable to obtain sufficient appropriate audit evidence over the existence and accuracy of a significant number of amounts recorded in the financial statements or determine whether adjustments might be necessary to the results of operations and cash flows for the year ended 31 December 2009 and financial position for the year then ended of the Authority.

Opening Balances

My report on the financial statements of PNG Forest Authority for the year ended 31 December 2008 was a disclaimer of opinion, identifying issues in respect to royalty trust fund, reforestation levy fund, production development levies, property plant and equipment, suspense accounts, deferred expenses and other liabilities. I was unable to satisfy myself as to the accuracy or completeness of the opening balances for the year ended 31 December 2009.

Since the opening balances entered into the determination of the results of operations and cash flows of the Authority for the year ended 31 December 2009, any adjustments that are found to be necessary on such opening balances would have a consequential effect on the profit and loss and cash flows for the year ended 31 December 2009. I was unable to determine whether any such adjustments to the results of operations and cash flows of the Authority might be necessary for the year ended 31 December 2009.

Royalty Trust Fund, Plantation Royalties, Reforestation Levies Fund and Project Development Levies

The records over timber royalties, plantation royalties, reforestation levies and project development levies for the period ended 31 December 2009 have not been properly maintained by the Authority. As at 31 December 2009, the royalty trust fund had a balance of K14,426,015 as disclosed in *Note 3,* the PNGFA plantation royalty had a balance of K8,527,856 as disclosed in *Note 4* and the project development levies had a net balance of K3,467,502 as disclosed in *Note 6* of the financial statements. I was unable to obtain sufficient appropriate audit evidence over the completeness and accuracy of royalties and levies due and received. Due to the inability to reconcile royalties and levies to the production of the respective timber permits or logging operations, it was not possible to obtain persuasive evidence regarding the computation and recording of royalties and levies including that these were recorded for and paid to the legitimate beneficiaries. As a consequence of these, I was not able to ascertain the completeness and accuracy of the various royalties and levy accounts and the validity of the payments arising thereon during the year.

Property, Plant and Equipment

The property, plant and equipment register provided for audit was reconstructed backwards from the 2010 assets register to determine the carrying value of Property, Plant and Equipment of K36,569,043 as disclosed in *Note 9* of the financial statements. No physical verification was performed as at 31 December 2009 to confirm the existence of the assets. I therefore, could not obtain sufficient appropriate audit evidence over the existence of Property, Plant and Equipment as at 31 December 2009.

In addition, the Authority owns five plantations within Papua New Guinea. All plantation lands were stated at cost and additional costs incurred on land improvements were not capitalised in accordance with IAS 16 *"Property, Plant and Equipment".* The Management had not estimated the uncapitalised land improvements to determine any impact to the carrying amounts of land in the financial position and related income and expenditure as at 31 December 2009. I therefore, could not obtain sufficient appropriate audit evidence over the accuracy of the depreciation charged for the year ended 31 December 2009.

Biological Assets

Plantation trees (biological asset) were not accounted for in the financial statements of the Authority. Instead, cost incurred in the tree seedlings and planting activities were expensed in the profit and loss, which is not in compliance with IAS 41 *"Biological Assets"* which requires these biological assets to be recorded at fair value less cost to sell. The Management had not estimated the fair value to determine any impact to the carrying amounts of biological assets in the 31 December 2009 financial position and related income and expenditure.

Suspense Account

As disclosed in *Note 15* of the financial statements, the Authority had changed their accounting software from Accpacc to Attaché in 2001. Lack of proper migration of account from the old system to the new system resulted in an unknown balancing difference of K7,458,716 carried forward from that date and recorded as an asset in the balance sheet of the Authority from 2001 through to 31 December 2009. I was not able to ascertain appropriate audit evidence over the nature or basis of this suspense account balance which is increasing assets in the balance sheet by these amounts or whether adjustments might be necessary to the results of operations and cash flows for the year ended 31 December 2009 and financial position at 31 December 2009 of the Authority.

Deferred Expenses

Included in *Note 7* of the financial statements was deferred expenses of K600,000 related to the Bulolo/Wau National Forest Plantation. I have not been able to obtain sufficient appropriate audit evidence regarding the basis for recognising this deferred expense as an asset with future benefit or whether adjustments might be necessary to the results of operations and cash flows for the year ended 31 December 2009 and financial position at 31 December 2009 of the Authority.

Plantation Income

Included in *Note 14(a)* of the financial statements for the year ended 31 December 2009 was Bulolo/Wau plantation income of K3,950,907.

I was not provided with invoices and supporting documents to obtain persuasive evidence over the existence and accuracy of the plantation income reported in the statement of income and expenditure. Further, I was not provided with a reconciliation of the plantation income recorded for the year to the volume of timbers extracted. As a result, I was not able to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of the plantation income reported in the financial statements, or whether adjustments might be necessary to the results of operations and cash flows and the financial position as at 31 December 2009 of the Authority.

Other Liabilities

Included in *Note 6* of the financial statements in the other liabilities were a number of accounts totalling K6,238,451. I was not provided with appropriate evidence, nor was I able to perform alternative procedures to evaluate the accuracy and completeness of these accounts that were categorised as other liabilities. Accordingly, I was unable to obtain sufficient appropriate audit evidence over the accuracy, completeness and existence of other liabilities at the year ended 31 December 2009 or determine whether adjustments might be necessary to the results of operations and cash flows and the financial position for the year ended 31 December 2009.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the PNG Forest Authority for the year ended 31 December 2009 do not contain all the presentation and disclosure required by IFRS.

Litigation and Claim Liabilities

I have not been provided with the records of legal cases or claims currently afoot at 31 December 2009. Neither have I received any independent confirmation of current legal cases from the solicitors of the Authority. Therefore, I was not able to obtain sufficient appropriate audit evidence over the completeness of legal liabilities that may exist as at balance date or whether adjustment might be necessary to the results of operations and cash flows for the year ended 31 December 2009 and financial position at 31 December 2009 of the Authority.

Going Concern

I was unable to assess the financial position of the Authority as at 31 December 2009 due to significant matters described in paragraphs above. Consequently, I was unable to determine whether the Authority will continue as a going concern. Should the Authority be unable to continue as a going concern, it is unlikely they will be able to realise their assets and extinguish their liabilities in the normal course of business and at amount stated in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion paragraphs;

(i) I am unable to and do not express an opinion on the financial statements as to whether the financial statements give a true and fair view of the state of Authority's affairs as at 31 December 2009 and the results of its operations and cash flows for the year then ended; and

(ii) I have not obtained all the information and explanation that I considered necessary for the purpose of the audit.

EMPHASIS OF MATTERS

Without qualifying my opinion, I wish to draw attention to the following matters which I consider significant.

Compliance with Public Finances (Management) Act 1995

The audit of the 2009 statutory financial statements commenced in August 2013 which was after the deadline of 30 June 2010. As such, the Directors did not meet the deadline set by *Section 63* of the *PFMA* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

Reporting Requirements under Forestry Act 1991

Section 20 of the *Forestry Act 1991* request the Board of PNGFA to furnish to the Minister of Forest an annual report on the progress and performance of the finances of PNGFA before the end of March of the next year. The Authority had not complied with this requirement."

45.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2009 was issued on 23 October 2014. The report contained the following observations:

Property, Plant and Equipment

The Authority did not progressively maintain a fixed asset register as at 31 December 2009. The current fixed asset register was only constructed in 2010. The physical verification exercise to confirm existence of property, plant and equipment was not conducted during the year under audit.

I recommended Management to conduct a physical verification exercise and the fixed assets register be adjusted in accordance with the result of the physical verification. The management responded as follows:

"We agree fully with the recommendation. A consultant was engaged for the revaluation of all fixed assets of the PNGFA after physical verification of the assets in 2010. They visited most of the site in the country where most of the assets were located, verify physical existence of assets and furnish a report to Management. The report is awaiting management and Board approval before the assets values can be adjusted in the fixed assets register and the books of accounts of the PNGFA."

Trade Creditors

I noted that the Authority adopted the cash receipts and payments basis of accounting. Therefore, there was no creditor listing maintained throughout the year. The creditors recorded in the accounts as at 31 December 2009 were based on invoices subsequently paid but related to debts outstanding at the end of the year.

I recommended Management that the Authority recognise creditors on an accrual basis throughout the year. I appreciate that as a statutory Authority, PNGFA is required to maintain its books under the cash basis but there should be a monthly process implemented to ensure that all creditors are properly accrued throughout the year.

The Management responded as follows:

"We concur with the recommendations. However, we operate a cash basis accounting throughout the year based on the fact that we are funded fully by the Government through the National Budget. We have no other sources of funds to meet our operational expenses. Hence, we are required to report to the Management and to the Department of Treasury and Finance on how the cash grants are spent. Therefore, we find it more convenient to report monthly on a cash basis throughout the year. Then we accrue accounts only at year end when it comes to preparing final year accounts. Secondly the fact that our accounts are still behind by some years and still not up to date makes it hard to report on an accrual on a monthly basis."

Interest Bearing Deposits (IBD)

The Authority did not maintain a register of IBD's during the year. The IBD balance as at 31 December 2009 was established based on the bank certificates and statements.

A register of IBD is an important control mechanism to monitor the withdrawal and placement of funds on IBD and also to correctly calculate and record the interest earned.

I recommended Management that IBD register be maintained which records all new investments, reinvestment or withdrawals of funds on IBDs. The Management responded as follows:

"We concur with the recommendation and we will take necessary action to establish an IBD register which can be reconciled to the GL accounts. In retrospect we have done that already for the 2011, 2012 and 2013 accounts."

45.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the Authority's financial statements for the year ended 31 December 2010 was completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2011 and 2012 were in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

46. PNG INSTITUTE OF MEDICAL RESEARCH

46.1 INTRODUCTION

46.1.1 Legislation

The PNG Institute of Medical Research was established by the *Institute of Medical Research Act (Chapter 166)* on 1 January 1980.

46.1.2 Functions of the Institute

The primary functions of the Institute are to conduct and foster research into any branch of medical science or biology, anthropological and sociological aspects of health, and matters relating to public health generally, that are of relevance to PNG.

46.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

46.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the years ended 31 December 2012 and 2013 were issued on 23 April 2015. The reports contained Disclaimer of Opinion, hence only the 2013 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

LIMITATION OF SCOPE

Opening Balance - K14,602,774

I was unable to confirm the correctness of the opening balance as at 1 January 2013 due to errors and a material difference noted between the closing balance of the Statement of Receipts and Payments and the aggregate bank balance in my prior year audit. As a result of this material variance, I was unable to perform the necessary audit tests to verify the completeness and accuracy of the opening balance for the year ended 31 December 2013.

Bank Accounts – K8,928,586

During 2013, the Institute maintained thirty-eight bank accounts and three fixed term deposits. My examination of the bank reconciliations and related records revealed that six bank accounts with closing balances totalling K557,930.81 were not properly and timely reconciled and provided for my verification. In addition, I noted that cheques totalling K3,775,588.26 have become stale but were not investigated and written back or corrected as at 31 December 2013.

I noted that some of the cheques made payable to service providers were not disbursed to the respective payees but still kept by the Institute. As such, I was unable to determine the accuracy of the bank balances and their aggregate closing balance of K8,928,586 as at 31 December 2013.

Statement of Receipts and Payments and the Ending Bank Balance

I noted that the Institute's accounts are prepared using the cash basis of accounting. This accounting method recognises cash transactions and does not take into account those are payable and receivable on an accrual basis. The difference between total receipts and payments should agree to the bank balance. However, I noted a material difference of K5,049,820 between the reconciled bank balance and the Statement of Receipts and Payments balance. I was not provided any explanations for this variance. As such, I was unable to conclude on the accuracy of the closing balance of the receipts and payments and the aggregate bank balance at year end.

Fixed Assets – K35,593,736

My review of the Fixed Assets Register and capital expenditures revealed that the Register was not properly maintained and updated on a timely basis. I was not provided with the updated Register for the year. As a result, I could not perform all my planned audit procedures to satisfy myself on the amount stated in the accounts. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K35,593,736 disclosed in the financial statements.

Gratuity Payments – K629,917

My review of the gratuity payments for the year ended 31 December 2013 revealed that the Institute recognises transfers of gratuity earnings (accrued) from various project accounts to gratuity savings account as gratuity expense instead of the actual gratuity payments to comply with the cash basis of accounting adopted by the Institute. As such, I was unable to determine the valuation and accuracy of the closing balance disclosed in the financial statements at year end.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Papua New Guinea Institute of Medical Research for the year ended 31 December 2013."

46.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Institute for the years ended 31 December 2012 and 2013 were issued on 23 April 2015. The reports contained similar observations, hence only the 2013 observations are reproduced.

Fixed Assets Register

My review of the Fixed Assets Register and capital expenditures for the year ended 31 December 2013 revealed that PNG Institute of Medical Research did not properly maintain an updated Fixed Assets Register (FAR) on a timely basis.

The Institute's accounts are prepared using cash basis of accounting therefore FAR is a vital record of its assets. I noted that the purchase dates, location, asset numbers, value and condition of assets listed were not properly updated in the Register to reflect the assets owned by the Institute in 2013. No stocktake exercises were carried out in the last eight years to confirm their existence and condition of assets owned by the Institute. I also noted that capital expenditures relating to building and construction were not properly stated in the work-in-progress schedules to capture and fairly measure the value of the Projects in progress.

I drew Management's attention to *Section 62* of the *PFMA* that requires all Public Bodies to maintain adequate controls over their assets or assets in their custody. I recommended management to employ a qualified and dedicated officer to manage the assets of the Institute. The Management acknowledged my findings and took note of my recommendation.

Non-Acquittal of Travel Advances

My review of the travel expenses totalling K2,605,787 by staff on duty travel (domestic and overseas) revealed that the Institute did not maintain a travel advances register to ensure that the advances were properly recorded and timely acquitted. As a result, a total advance of K918,302 remained outstanding or not acquitted at the year end.

I drew Management's attention to the *PFMA* and paragraph *12.10 Part 20* of the *Financial Management Manual* which states that all travel advances must be acquitted within a specified time limit of seven days for domestic travel and fourteen days for overseas travel. Management responded that appropriate action would be taken.

46.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

47. PNG INSTITUTE OF PUBLIC ADMINISTRATION

47.1 INTRODUCTION

47.1.1 Legislation

The PNG Institute of Public Administration was established in 1993 under the *PNG Institute of Public Administration Act 1993*.

47.1.2 Functions of the Institute

The functions of the Institute are to plan, organise, conduct and assess a wide range of practices and relevant training programmes and, if applicable, in the South Pacific Region and to undertake relevant research and consultancies on issues and problems of management and administration and to act as a centre for collection, storage, retrieval and dissemination of information.

47.2 AUDIT OBSERVATIONS

47.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the year ended 31 December 2011 was issued on 31 October 2014. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Cash at Bank – K162,407

During my review, I noted a difference of K214,508 between the bank reconciliation statement balances of K52,101 and the financial statements balance of K162,407. The Institute did not perform the bank reconciliation on a timely basis to identify any errors and correct them promptly. The bank reconciliations were done only up to July 2011. Further, the Institute was unable to explain the above difference. As a result, I was unable to establish the correctness and completeness of Cash at Bank balance as reported in the financial statements at the year end.

Fixed Assets

The Institute has not maintained a proper Fixed Assets Register for the assets under its custody to record the movements of assets including additions and disposals of assets made during the year. As such additions totalling K1,539,552 were not recorded in the Asset Register. As a result, I was unable to comment on the existence, accuracy and completeness of the fixed asset balance at the year end.

Facility Hire Debtors – K877,400

The Facility Hire Debtors balance related to hire of PNGIPA facilities used by various business houses including the University of Papua New Guinea (K729,220), Legal Training Institute (K87,550) and Public Sector Workforce Development Program (K20,630). During my review, I noted that there were no movements in some debtors accounts since 2009 and no aged debtors balance was available to ascertain the collectability of the debts. As a result, I was not able to verify the validity and the accuracy of the debtors balance of K877,400 as disclosed in the financial statements.

Student Creditors (Refunds) – K18,900

The Institute disclosed student creditors as K18,900 at 31 December 2011. However, my review of the student ledgers revealed that student creditors balance outstanding at year-end was K60,796 which resulted in an understatement of K41,896 in the accounts balance. Due to lack of co-ordination between the Registry Office and the Finance office, student fee accounts have not been reconciled on a timely basis resulting in the above variance. Further, the Institute had not taken these unreconciled liabilities into account. As a result, I was unable to comment on the validity and the accuracy of the Student Creditors balance as stated in the financial statements at the year end.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the basis for qualification paragraphs above:

(a) the financial statements of the Institute are based on proper accounts and records; and
(b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Papua New Guinea Institute of Public Administration in accordance with the *Financial Instructions* under the *PFMA* as at 31 December 2011, and the results of its financial operations for the year then ended."

47.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2011 was issued on 31 October 2014. The report contained the following significant matters:

General Fund Account Cheque Payment Process

My observation on the payment processes for the General Fund Account revealed that cheques were drawn and paid before Financial Forms FF3 and FF4 forms were authorised and approved by a responsible Officer. Further tests showed that on three occasions cheques totalling K319,612 were paid without completing FF3 and/or FF4 by financial delegates.

Bypassing of the proper procurement process without complying with the *Financial Instructions under the PFMA* may lead to illegitimate payments to suppliers of goods and services providers, creating an environment where fraudulent activities may easily occur.

I brought the matter to the attention of Management and they concurred with my findings and advised that it would appropriately address the issue.

Bank Reconciliations

The bank reconciliation statements for the Institute were not done on a regular basis. During the audit, I noted that the bank reconciliations were done only up to July 2011. The reconciliations of bank accounts for the remaining months up to December 2011 had not been done. The failure by the management in not performing these bank reconciliations on a timely basis contravene the *Public Finances Management Manual Part 3, Section 4.7 "Bank Reconciliations"* which requires all Heads of Government Departments and Statutory Authorities to ensure that their bank accounts are reconciled on a monthly basis.

I brought the matter to the attention of the Management and the Institute agreed with my observation and stated that it was making attempts to resolve this issue by recruiting and training its staff.

47.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2012, 2013 and 2014 had not been submitted by the Institute for my inspection and audit.

48. PNG MARITIME COLLEGE

48.1 INTRODUCTION

48.1.1 Legislation

The PNG Maritime College was established under the *PNG Maritime College Act (Chapter 355)*. It was previously known as the Nautical Training Institute. However, by virtue of the *Nautical Training Institute (Change of Name) Act 1985* which became effective on 25 July 1985, the names of Nautical Training Institute and *Nautical Training Institute Act* were changed to PNG Maritime College and *PNG Maritime College Act* respectively.

48.1.2 Functions of the College

The principal functions of the College are to provide training and other instructional facilities for the theoretical and practical training of persons in maritime skills and any other objects incidental or ancillary thereto.

48.2 AUDIT OBSERVATIONS

48.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the College for the years ended 31 December 2011 and 2012 were issued on 22 September 2014 and 31 October 2014 respectively. The reports contained Qualified Opinions, hence only the 2012 report is reproduced.

"BASIS FOR QUALIFIED OPINION

Student Tuition Fee Deposits – K943,102

My review of the Student Tuition Deposit account as at 31 December 2012 revealed that the account did not have proper listing, reconciliations and other supporting documents in respect of the account balance to enable me to verify the amounts as reported in the financial statements. My review also revealed that the beginning balance of K517,608 which represents the advance payment from sponsors and students for school fees were not fully reversed and adjusted in the revenue account. As a result, I was unable to confirm the accuracy and completeness of the 2012 tuition fee deposit closing balance and the corresponding tuition fees (income) reported in the financial statements.

Long Service and Annual Leave Provisions – K103,500

The leave provisions disclosed was K103,500 as at 31 December 2012.

The College did not maintain proper accounts and records for the provisions of long service and annual leave for its employees. Further, the closing balance had been brought forward from prior years balance without proper supporting documents to substantiate the amount.

In the absence of proper accounting records and source documents such as individual employee control ledgers detailing leave credits available and utilised, it would be difficult for the College to determine the leave accruals for each employee**.** As such, I was unable to verify the long service and annual leave provisions balances as disclosed in the financial statements.

Trade Debtors – K665,061

The College's disclosed trade debtors' account balance of K665,061 as at 31 December 2012. This account balance mainly comprised of long outstanding students' tuition fees receivables and it was not properly monitored and followed up. I noted that substantive portion of the trade debtors were long outstanding debts. This indicates that College did not thoroughly check and update its trade debtors to reflect the correct balance. As a result, I was unable to satisfy myself over the accuracy and completeness of the trade debtors account balance as disclosed in the financial statements.

Goods and Services Tax (GST) Receivable

The financial statements disclosed GST receivable account balance of K225,475 at year-end. I noted that the College did not remit its GST Returns to Internal Revenue Commission (IRC) on a regular basis. In the absence of monthly GST reconciliation and lodgment of returns to IRC, I was unable to confirm whether the GST receivable amount was fairly stated in the financial statements.

Inventory – Uniforms and Safety Boots – K241,047

My review on the uniforms & safety boots inventory account included under other debtors account at year-end revealed that no stock-take was carried out. Further, I noted the accounts and records of the uniforms and safety boots were not properly maintained by the College. Consequently, I was unable to confirm the accuracy and completeness of the above account balance.

Inventory – Fuel – K165,506

My review of fuel inventory account included under other debtors account revealed that there were no fuel readings taken during December 2012 to provide an accurate fuel inventory balance as at 31 December 2012. Consequently, I was unable to verify the fuel inventory balance as disclosed in the financial statements at year-end.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraph above:

(a) The financial statements are based on proper accounts and records; and
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the College for the year ended 31 December 2012 and the results of its financial operations and cash flows for the year then ended."

48.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records for the years ended 31 December 2011 and 2012 were issued on 22 September 2014 and 31 October 2014 respectively. The reports contained similar observations, hence, only the 2012 report is reproduced as follows:

Non-Compliance with the Public Finances (Management) Act 1995

The College did not prepare and submit its financial statements to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament before 30 June, 2012. Consequently, the College breached *Section 63(2)* and *63(4)* of the *PFMA.*

Withholding Taxes (Salary Taxes) – K232,040

During my examination of the Withholding Tax (Salary Tax) Account, I noted that monthly group taxes were not remitted to Internal Revenue Commission (IRC) on time as required by the *Income Tax Act* (under *Section 299G* of the *Income Tax Act 1959).* The group employer is required to remit salary and wages taxes to IRC within 7 days after month-end. Failure to remit salary and wages taxes on time will result in penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount that remains unpaid. I noted that, the College has been carrying forward balances without remitting them in the year salary and wages were paid to employees. Thus, at the year-end College has a substantial amount of payroll taxes to settle with the Internal Revenue Commission.

I brought the matter to the attention of the management and it has accepted the responsibility of the withholding tax (Salary Taxes) liabilities and advised me that it would ensure that this liability would be cleared.

Title Deeds of College Properties

The College claimed that it had title deeds to seventeen properties.

However, College only provided title deeds of four properties for my confirmation due to difficulty in locating the other thirteen titles. I noted that title deeds were not properly filed and kept for easy access to the documents. In the absence of title deeds, I was unable to verify the College's ownership and rights over the 13 properties.

I brought the above issue to the attention of the Management and I was advised that:

"College is still pursing with both Lands Department and the National Housing Commission for transfer of titles of the said properties."

Fixed Assets Register (FAR)

During my audit review of the Fixed Assets Register, I noted that 2012 FAR was incomplete due to adjustments made to 2011 FAR and General Ledger (GL) has not being updated and captured in 2012 Fixed Assets Register.

Further, the Fixed Assets Register were never been counted and tagged with number for easy reference and identification. As a result, I was unable to confirm the Fixed Assets Register closing balance as stated in the GL accounts at the year end.

Management responded to my observation as follows*:*

"The College now employs an asset officer devoted to tracking and managing state of affairs of assets of the College."

Filing and Record Keeping

The College is obliged to keep proper accounts and records of its transactions and affairs as required under *Section 62(1)* of the *PFMA*. However, I noted that the College did not maintain a proper filing and record keeping system for easy access to records and source documents. As a result, the following documents were not on file:

- Property title deeds;
- Signed employment contract documents;
- Signed employment offer acceptance letters; and
- Copies of invoices were not attached to copies of receipts issued for payments.

Management responded to the above weakness as follows:

"There is now a continuous discussion and awareness on keeping proper files and records and efforts have been made to improve on areas lacking appropriate attention."

48.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the College for the year ended 31 December 2013 had been completed and awaiting Management responses to finalise the audit reports.

The College had not submitted the financial statements for the year ended 31 December 2014 for my inspection and audit.

49. PNG NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY

49.1 INTRODUCTION

49.1.1 Legislation and Objectives of the Institute

The PNG National Institute of Standards and Industrial Technology was established by the *National Institute of Standards and Industrial Technology Act 1993* and this came into operation on 3 January 1994. The objectives of the Institute are: to carry out scientific and technological research and to develop a National Standards system; to co-operate with international organisations of measurement and technical standards; to promote and undertake industrial integrated standardisation and quality assurance; and to enter into any agreement both within and outside PNG to further the objectives and functions of the Institute.

The *National Standards Act (Chapter 378)* and the *National Technical Standards Act (Chapter 379)* were repealed, and all funds standing to the credit of and on accounts operated under the authority of the repealed Acts and all assets and liabilities owned or held by the bodies established under the repealed Acts were transferred to and became the assets and liabilities of the Institute on the commencement of the new Act.

49.1.2 Functions of the Institute

The main functions of the Institute are to:

- Safeguard PNG against the dumping and supply of unsafe, unhealthy and inferior or substandard products;
- Establish and co-ordinate the National Standardisation system;
- Provide education, training and industrial extension and consultative services to assist industries;
- Promote public and industrial welfare, health and safety;
- Recognise as testing authorities, bodies and institutions;
- Establish a National Certification System of conformity;
- Assist industries overcome technical barriers on its products and services to international trade; and
- Assist industries to produce quality products and services.

49.2 AUDIT OBSERVATIONS

49.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the year ended 31 December 2010 was issued on 23 October 2014. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Short Term Investment – K2,814,358

I was unable to verify or confirm the Short Term Investment of K2,814,358 as disclosed in the financial statements as the bank confirmation in respect of the above balance was not furnished to me during the audit. As such, I was not able to confirm the amount as disclosed in the financial statements.

Staff Advance – K9,530

My review of the staff advances revealed that an amount of K9,530 was not disclosed by way of notes in the financial statements. Consequently, the staff debtor's account has been understated by the same amount.

Fixed Assets – K2,247,744

The Fixed Assets Register provided to me for my review was not properly maintained and updated. During my examination, I was not provided documentation to substantiate the purchase of fixed assets of K421,317 for my verification. As a result, I was not able to verify the amount disclosed in the financial statements.

Payments – K996,302

During my review of the payments, I noted that a substantial amount of payment vouchers/cheque requisitions amounting to K996,302 could not be located or were missing from their respective files. As a result, I was not able to verify the expense incurred in respect of the above amount.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

a) The financial statements are based on proper accounts and records; and

b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Institute for the year ended 31 December 2010 and the results of its financial operations for the year then ended."

49.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Institute for the year ended 31 December 2010 was issued on 23 October 2014. The report contained the following comments:

Non-Submission of Financial Statements

The Institute has not prepared and submitted its financial statements to my Office before 31 March 2011 to enable me to conduct the audit within the timeframe stipulated by the *Audit Act 1989 (as amended)*. Consequently, the Institute had breached *Sections 63 (2)* and *63 (4)* of the *PFMA.*

NISIT Council and Director General

As per the *NISIT Act 1993*, *Section 7*, *"there shall be a National Institute of Standards and Industrial Technology Council which shall carry out the functions and objectives, manage the affairs and exercise the powers of the Institute."* At the time of audit NISIT did not have a Council in place to perform its responsibilities conferred upon it by the Minister; and NISIT has been without a Director General since the appointee passed away in July 2008. An officer in charge of the Institute was overseeing the operations of the Institute although his appointment period had already lapsed.

Fixed Assets Register

During my review of the Fixed Assets Register, I noted that the Institute did not maintain a proper Fixed Assets Register for all the assets under its custody and control. The Fixed Assets Register provided for my review was incomplete and did not contain sufficient information to enable me to determine the value of individual assets. In addition, there was no year-end stock take of these assets. As a result, I was unable to determine the fair value, condition and location of the fixed assets held under the custody of the Institute as at 31 December 2010.

Financial Statements Presentation

During my examination, I noted that the Financial Statements of the Institute were presented on a cash basis, reporting only the receipts, payments and cash balance at year end.

However, the Attaché system recorded the transactions on an accrual basis and the nature of business of the Institute demands that the accounts be maintained on an accrual basis to properly account for the trade debtors and creditors to present a fair financial position of the Institute. Currently, the accounts are maintained on an accrual basis on the system but the financial statements are prepared on a cash basis. I recommended the Institute to consistently adopt one basis of accounting system.

Internal Control Weaknesses

Other internal controls breakdown and weaknesses noted during my audit are summarised as follows:

(i) The Prepaid Insurance balance of K51,362 as at 31 December 2010 was not disclosed by way of notes in the financial statements. The remaining balance was recognised as an asset of the Institute and should be disclosed until expensed in the subsequent year;

(ii) Work in progress balance of K455,236 referred to machinery bought by the Institute for future use and this amount was not disclosed in the financial statements as at 31 December 2010. This amount must be taken up in the Fixed Assets Register by the Institute and disclose as fixed assets in the financial statements;

(iii) During my examination of the payments, I noted that three quotations were not sought for payments of K5,000 and above amounting to K135,421. It is in breach of the *Financial Management Manual, Division 3, Paragraph 14*, which states that *'three (3) written quotes should be obtained for purchases valued between K5,000 and under K100,000';*

(iv) I was not provided with the contract between the Institute and National Association of Testing Authorities, Australia (NATA) signed on 20 of July 2010. As a result, I was unable to verify the validity, accuracy and authenticity of payment made as per cheque: 496312 dated 09/03/2010 for K39,999 (AUS$ 14,740) for Assessment of Biological Testing Laboratory equipments; and

(v) I observed that there were irregularities in the payment vouchers and supporting documents of some payments made to a Construction Company amounting to K37,500 (49.5%). Total payments made during the year was K75,800.

The irregularities noted in the above payments are as follows:

- Correction fluid (white out) was used over a written quotation of K30,000 (cheque: 496777 dated 07/12/2010.

The quotation was altered to reduce the cost lower than the other two quotes so that contract was awarded to a preferred Construction Company. This practice indicates that proper procedures were not followed by NISIT staff in awarding the Contract to this particular Construction Company; and

- A payment of K7,500 was made on 12/11/10 per chq number 4996727. I noted that quotations of the competing companies were altered or tampered with to inflate the amount quoted by these companies to secure a preferred Company.

Response to Management Letter

Management of the Institute, despite numerous reminders, had not submitted its responses to my Management Letter, dated 26 June 2014 to enable me to include their views as part of this report.

49.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements for the years ended 31 December 2011, 2012 and 2013 had been completed and the results were being evaluated.

The financial statements for the year ended 31 December 2014 had not been submitted by the Institute for my inspection and audit.

50. PNG SPORTS FOUNDATION

50.1 INTRODUCTION

50.1.1 Legislation

The PNG Sports Foundation was established by the *PNG Sports Foundation Act 2005*. This Act was certified on 8 August 2006 and became operational on the same date and replaced the *PNG Sports Commission Act 1992*.

Under this Act, all assets held or occupied by and all liabilities and obligations of the PNG Sports Commission prior to the operation of this Act were transferred to and became assets and liabilities and obligations of the Foundation at commencement.

50.1.2 Objectives of the Foundation

The principal objectives of the Foundation are: to encourage the private sector to contribute to the funding of sports to supplement assistance by the government of PNG; to provide leadership in the development of PNG's performance in sports; and to encourage increased participation and *'Sport for All'* by Papua New Guineans in sports.

50.1.3 Functions of the Foundation

The principal functions of the Foundation are to:

- Advise the Minister in relation to the development of sports;
- Co-ordinate activities in PNG for the development of sports and to develop and implement programs to promote equality of access to and participation in sports by all PNG and;
- Develop and implement programs for the recognition and development of persons who excel it, or who have the potential to achieve standards of excellence as sports coaches, umpires, referees or officials essential to the conduct of sports;
- Undertake research development related to sports science and sports medicine and to provide sports medicine services and sports science services to persons participating in programs of the Foundation;
- Establish, manage, develop and maintain facilities for the purposes of the Foundation;
- Collect and distribute information and provide advice on matters related to the activities of the Foundation;
- Fostering co-operation in sports between PNG and other countries and to provide access to persons from other countries to the resources, services and facilities of the Foundation;

- Raise money through the National Sports Trust or by other means for the purposes of the Foundation and to administer and expand money appropriated by the Parliament or raised in accordance with and for the purpose of the Foundation;
- Consult and co-operate with appropriate authorities of the National Government or the Provinces and Local-level Governments and with other persons, associations and organisations on matters related to the activities of the Foundation;
- Provide advice on matters related to sports to the PNG National Olympic Committee or other persons, bodies or associations; and
- Co-operate with districts, provincial, national and international sporting organisations in aiming to foster a sporting environment that is free from the unsanctioned use of performance enhancing drugs and doping methods.

50.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

50.2.1 Audit Observations Reported to the Ministers

The Foundation failed to submit its financial statements for the years ended 31 December 2005 to 31 December 2013 despite my repeated reminders and follow up. I performed a Special Internal Control Review during 2014 on the Foundation.

My Internal Control Review Report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records was issued on 31 October 2014. The report contained the following comments:

1. Control Environment

The control environment includes the governance and management functions and sets out the foundation for effective control activities and monitoring to provide reasonable assurance regarding the achievement of objectives in the following:

- Effectiveness and efficiency of operation;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

The following control weaknesses were identified during the course of my audit:

a) Strategic Plan

The Papua New Guinea Sports Foundation has in place a three years Strategic Plan from 2013-2015 to coordinate and direct the Foundation and to facilitate the formulation of an annual budget. The Strategic Plan identifies seven Strategic Result Areas of the Foundation activities and a set of objectives and corresponding strategies as well as key performance indicators. These are:

- Organisational Capacity;
- Private Sector Engagement;
- Grass Roots Participation and Provincial and District Engagement;
- Sporting Excellence;
- Education and Training;
- Sport for Development; and
- Facilities.

However, there were no detailed Operational Plans/Work Plans to link to the budget and Strategic Plan in order to identify targets and indicators and to enable the management to determine whether objectives are being met. The Management therefore was not in a position to:

- Asses the effectiveness and efficiency of operation;
- Asses the reliability of financial reporting;
- Ensure compliance with applicable laws and regulation;
- Monitor the achievements of the Foundation's objectives or programs;
- Effect necessary changes;
- Determine areas where change is required; and
- Amend the objectives and strategies.

I recommended that priority be given to develop Operational/Work Plans. Also performance indicators should be clearly specified and quantified/precisely defined. These plans will also assist the management and other interested parties in monitoring whether the objectives set have been achieved and the outcomes measured and assessed accordingly. Management has since responded to my observations as follows:

"The PNG Sports Foundation has recently completed the organisation's Strategic Plan. The organisation is now working on several policies and procedures to help it properly manage and administer its operations. The PNG Sports Foundation accepts the concerns raised in your management report and will do all it can to improve management and operational policies and procedures."

b) Policies and Procedures

It is imperative for the Foundation to ensure that correct procedures are applied on a consistent basis and officers are aware of their responsibility and more detailed policies and procedures are issued by the management. The AGO was not provided with copies of the policies although requested. The only reports furnished were:

- Financial Procedures Manual (Draft Form);
- PNG Games Charter;
- Introduction to Youth Sports Learner's Guide Version 2010.10.01;
- Introduction to Pikinini Sports Learner's Guide Version 2010.10.01;
- Event Management Course Manual;
- Netball Skills and Drills Handbook; and
- Sports Administration Manual.

In the absence of policies and procedures, it was considered that they either did not exist or they were not up to date.

Policies and procedures provide a structure by which a consistent approach to matters can be implemented. Lack of procedures manuals could result in the Foundation not working within a standardised operating framework thus causing confusion and conflict in the resolution of internal matters.

I recommended the Foundation to ensure that policies and procedures exist for all the major business areas and they are updated on a regular basis and the Foundation concurred with my findings and responded as follows:

"The Foundation is now working on several policies and procedures to help it properly manage and administer its operations. The PNG Sports Foundation accepts the concerns raised in your management report and will do all it can to improve management and operational policies and procedures."

c) Internal Audit

Internal audit is a key source of independent and objective assurance advice on an organisation's internal control and risk framework. Because of similarities in the nature and scope of activities performed by internal and external auditors, there are significant efficiencies to be gained if external auditors are able to rely on the work of internal auditors and vice versa. An effective internal program should facilitate external audit to place greater reliance on the work of internal audit, thereby making better use of overall audit resources.

During my review, I noted that the Foundation hasn't established an Internal Audit Unit as per the re-structure approval in 2012. I recommended that an effective internal audit unit should be established to strengthen the system of controls.

Management agreed to my recommendation and stated that:

"The position of Internal Auditor is part of the current recruitment process and will be filled anytime soon when the process is completed and selections done. The Internal Audit Unit will then be established."

2. Reporting Requirements – Annual Financial Statements

The Foundation had not prepared any financial statements for auditing and/or to the Minister since 2005 resulting in significant non-compliance with the *PFMA*.

Section 63(2) and *Section 63(4)* of the *PFMA* requires all public bodies to prepare and submit their audited financial statements to the Minister along with the audit report and Performance Management report prior to 30 June each year.

Management responded to my concern as follows:

"The Foundation accepts the concerns raised and will do all it can to improve from the weaknesses in preparing annual financial statements. The Foundation has engaged a private accounting firm to work on the outstanding financial statements from year 2005 to 2013 and will be forwarded to your office soon."

3. Bank Account

The Papua New Guinea Sports Foundation operates eight bank accounts with the Bank of South Pacific. Out of the total, four are operated at the Head Office, two at National Sports Institute, Goroka, one at Lae Office, while one at Rabaul Office. During the conduct of the Internal Control Review on the Bank Reconciliation Statements, I noted that:

a) Bank Reconciliation

All Regional Bank Accounts reconciliations are normally prepared and sent with the monthly reports but neither the a/Accountant nor a/Corporate Service Director reviewed and certified the bank reconciliation statements produced as there was no evidence to indicate any review on the bank reconciliation statements.

b) No Regular Monthly Bank Reconciliations Prepared and Reviewed

The finance officers at the Head Office and the Regional Offices including National Sport Institute have not prepared and reviewed regular monthly bank accounts reconciliation statements. The Bank Reconciliations prepared for both Head Office and Regional Offices were incomplete at the time of my reviews but were completed at the time of this Report. I recommended the Foundation that:

- The preparation of bank reconciliation on a timely basis is a mandatory requirement as stated in the *Public Finances Management Act Manual* and serves as a tool for cash flow management;
- Bank account reconciliations need to be prepared within a reasonable period to ensure anomalies or errors have been identified and appropriate action undertaken; and
- Foundation should undertake a review of its current setting and direct all the regional bank accounts to be reviewed by the Acting Accountant at the Head Office or appoint a qualified and experienced officer on a fulltime basis to perform this vital exercise.

The Foundation responded to my concern as follows:

"The PNG Sports Foundation agrees that for almost six months in 2013 the bank accounts reconciliations were not done on a timely manner and that was due to manpower shortage after some officers within the accounts resigned. These bank reconciliation statements in arrears have now been completed and they are up to date. The PNG Sports Foundation takes note of your comments and will take appropriate actions."

4. Revenue Collection and Banking

The efficiency of revenue administration largely depends on timeliness and accuracy of records. It ensures fair treatment to taxpayers and facilitates internal control system.

Some revenue records such as entrance fee receipt, bookings and facility hire fees receipts from various regions, office rental payment receipts from various regions, accommodation and catering service fee, and others were not properly maintained.

During my review on the collections, receipts and banking controls, I identified the following weaknesses at the Southern Regional Office:

- Tenancy lease agreements for all the tenants renting the Sports Foundation's office space at the Sir John Guise Stadium in Port Moresby were unsigned and cannot be relied upon. The signed lease agreements were misplaced and the Southern Region Manager prepared new ones during the audit;
- I noted that the past tenants lease agreements were misplaced and those tenants still have outstanding rental to pay;
- On one instance there was no banking summary sheet attached to a list of receipts for submission to the Southern Region Manager's counter check and certification before reaching the Finance and Administration Officer for banking. That had resulted in a delay in banking the cash collection of K1,028.00 for receipt (29447) which was together with a couple of cheques collected. However, the cheques were banked one week earlier than the cash collection;
- I noted that entrance fee - cash collection of K4,990.00 on receipt (29423) was banked after two weeks;
- The reasons for amending the initial amounts on the receipts of two entrance fees – cash collection and the collections and summary sheets for receipt #s (0029461) and (0029075) were not written on both the receipt and the collection and summary sheets. Also there was no footnote from the Southern Region Manager or the Finance and Admin Officer for the amendments made before banking the cash amounts;
- Further, I was unable to trace a list of receipts that were on the same collections and summary sheet that were signed off on the 10 July 2013 for banking amounting to K18,746; and
- No evidence to show that the cash collections were banked.

I recommended that the Foundation should ensure that all the cash and cheques collected are promptly deposited on the same day or most probably the next working day and ensure that before banking, the collections and banking summary sheets are completed properly. Further, an independent senior officer who is not involved in the collections, receipting and banking section should be tasked to check the quarterly revenue reports produced against actual receipt books, collections & banking summary sheets, deposits books, deposit slip and bank statements to ensure all the revenue receipted are banked on time.

Management agreed to my recommendation and responded as follows:

"*The PNG Sports Foundation accepts the concerns highlighted and will do all it can to improve from the weaknesses identified."*

5. Management of Advances

My review of the Advance Register in accordance with *Part 20 of the Financial Management Manual* identified breakdowns at the three Regional Offices, namely:

- Momase Region - Lae Office;
- National Sports Institute (NSI) – Goroka Office; and
- New Guinea Islands Region – Rabaul Office.

During my review of the internal control system of acquittals of the travel advances, accommodation and airfares, I noted that:

- Separate travel acquittal register and acquittal files were not maintained to record travel expenses and travel advances;
- No reports were sighted for officers returning from field trips nor supporting documents like ticket butts, accommodation receipts and the completed acquittal forms attached to the paid vouchers;
- The officers continue to obtain travel advances without acquitting previous travel advances; and
- The Foundation did not exercise prudence in ensuring that all Regional Offices travel expenses were acquitted within the required timeframe with seven days for domestic travel and fourteen days for overseas travel.

The deficiencies in the maintenance of the advance register exposes the Foundation to risk and the financial delegate would not be able to accurately follow up on outstanding advances and report cases of non-compliance in respect to acquittal of both overseas and domestic travels.

I recommended that the Head Office staff and officers responsible at the Regional Offices should ensure that, they maintain travel acquittal register and a travel acquittal file where, the acquittal forms and the supporting documents (such as ticket butts, accommodation receipts and invoices, hire car receipts, etc.) are filed. Further, the financial delegate should be reviewing the advance register regularly to ensure that all advances are being acquitted as required for overseas and domestic travels respectively.

Management responded to my concern as follows:

"PNG Sports Foundation accepts the concerns raised and will do all it can to improve from weaknesses identified. Staff advances register is maintained in salary section and officers are now updating advances paid to the travelling officers. AGO's suggestions and recommendations will be attended."

6. Salaries and Payroll

My review on the salaries and allowances of the Foundation revealed that this cost represents one of the single largest items of expenditure in the accounts.

This represents a significant area of risk and management should ensure that these costs are carefully controlled and monitored and that those responsible for the payroll function have the necessary skills and knowledge to effectively execute their functions. During my review, I noted the following weaknesses:

- The Foundation is an on-line agency to the concept payroll from the Alesco Human Resource Management System with Finance Department and there was no evidence to indicate that payrolls are reconciled to standard payroll and certified by two senior officers;
- No Manual time sheets or attendance registers were used for recording worked time;
- No proper systems to ensure workers are paid for hours worked;
- There was no control to ensure changes to pay rates are checked;
- Manual history cards are used to record employee standing data in relation to salary matters, all sick leave, recreational leave and long service leave. These cards are not always updated;
- Not all changes to employee standing data are supported by authorised notifications from the Personnel or Human Resource Section;
- Leave records were not updated as and when leave was taken and senior personnel do not review these records;
- Calculation of gratuity not reviewed by Director Corporate Service after being prepared by the Accountant; and
- Calculations for shift and overtime allowances were done manually by the Finance and Administration Officer on an excel spreadsheet when appropriate details are input.

I recommended that:

- The Foundation is an on-line agency to the concept payroll from the Alesco Human Resource Management System with Finance Department and therefore, payrolls must be reconciled to standard payroll and certified by two senior officers namely the Accountant and Director Corporate Service;
- The Manual history cards be used to record employee standing data in relation to salary matters, all sick leave, recreational leave and long service leave should always be updated in terms of job performance appraisal assessment effecting promotion, increments and any leaves taken should be updated by the Personnel and Establishing Officer from the Head Office in Port Moresby;

- The Personnel or Human Resource Section should authorise changes to employees standing data;
- Leave records should be updated as and when leave is taken by Senior Personnel and Establishing Officer to review these leave records;
- Calculation of gratuity should be reviewed by Director Corporate Service after being prepared by the Accountant;
- The Human Resource Manager should ensure that employee contract conditions are complied with; and
- Reports are submitted to responsible division who assess and monitors in respect to contract payments through the Performance Appraisal System from the Human Resource Section.

Management of the Foundation responded to my observation as follows:

"The organisation accepts the concerns raised and will do all it can to improve its management of staff working for overtime and records of time worked for.

The personnel files are kept in lockable drawers and only accessible by Authorised officers. The Organisation will take note of your comments and improve on where improvements are required.

AGO's suggestions and recommendations will be attended."

7. Human Resource Management

My examination of the human resources management function revealed the following:

- A personnel strategy was not evidenced to ensure that the right people are employed with the appropriate skills to ensure that Foundation's operations are conducted efficiently and effectively at all times;
- The selection processes for promotion and appointment to vacant positions are sound except that there was no provision for qualified members of the Human Resource Section for the Foundation to fast track the recruitment process of the 85 funded positions from the 120 positions approved establishment by Salaries & Conditions Monitoring Committee on the 25 October 2012. Also, the staff strength of 65 filled positions including the Executive Director were made on acting basis in September 2013. This had resulted in breach of *General Order 3.11 and 3.12*;
- Training was provided to staff on an adhoc basis. However, training was not linked to the staff appraisal where staff development matters should be recorded.

This could cause staff to miss out on proper career development resulting in a skills shortfall within the Foundation;

- There were approximately 17 fulltime casual employees during my review with no policies in place in relation to their employment. Generally, they were employed for specific period of time only however, have continued working and their performance were yet to be reviewed. This practice has:

  i) Created a situation where a significant number of staff is not the right people with the right skills to undertake the task; and
  ii) Facilitates improper selection.

- There were number of senior staff whose contracts had not been renewed however, in the absence of a valid contract of employment, the officers were paid gratuity;
- Job descriptions were not sufficiently defined in terms of reporting lines; and
- There was no policy and commitment from management in support of performance appraisal procedures; and as a result, no employee performance appraisals were done.

I recommended that for the benefit of the Foundation all staff within the organisation should have the necessary knowledge, skills and tools to support the achievement of the Foundation's objectives. The reported inefficiencies in the work force need to be addressed to enable the Foundation to improve its objectives. The Foundation responded to my observation as follows:

"The Foundation's Strategic Objective Plan 2015 – 2019 is about to be completed. Once it is completed it will guide in management's decision making and implementing policies for better improvement in both services delivery and management responsibilities.

The strategic objective plans also cover operations of Human Resources Management to empower personnel strategies and other areas for its conduct efficiently and effectively."

8. Procurement and Payments

I reviewed the adequacy of controls over the accounts payable system/function. In particular, whether such control was sufficient and necessary and complies with legislative requirements, government policy, local policy/procedures, contractual requirements and good management practice/ industry standards. The following issues were noted:

- My examination revealed that the Board of Directors have not formulated the financial policies and delegation of financial powers through financial policies to the Executive Director who then should delegate to the Director Corporate Service and other divisional directors of the Foundation. In the absence of the financial policies, the Executive Director is using his/her powers to authorise the procurement processes of all the payments processes of the goods and services that are provided to the Foundation;

- My examination of the Operational Account payment registers for year 2012 and 2013 revealed that out of the total of the selected payments, some payments were authorised by the Minister for Sports and the Executive Director were without three written quotes, consultancy agreement and reports acquittals;

- The positions of the Corporate Services Division including the Finance & Administration were vacant for one year with staff on substantive positions acting on the positions namely; Director – Accountant, Expenditure Clerk, Senior Budget Officer and Fixed Assets Clerk. We also noted that the Accountant (substantive position) is acting on Director – the Accountant, Expenditure Clerk, Senior Budget Officer and Fixed Assets Clerk are also vacant and are occupied by casuals for more than three years. Consequently, there are no employees with appropriate skills and qualification in the Finance and Administration Division employed by the Foundation;

- During my examination, I noted that project costs for contractors and construction companies were incurred from the Operational Account was not considered as proper as it was allocated only for operational costs and not for projects; and

- It was noted that the Sport Minister's Enhancement Project Allocation Fund were handed out to sporting associations and clubs without proper documentation attached to the payment voucher as per the process for raising payment for Sport Enhancement by the Sports Minister as indicated in the letter to PNG Sports Foundation Executive Director dated 12 December 2013.

Revenue Account

- The Revenue Account was maintained for revenue collection from the Foundation's facilities to run its operational activities.

  Therefore, it should be closed and funds must be transferred to the Operational Account of the Foundation.

- Most of the payments incurred from Revenue Account were for repair and maintenance works which should have been in the recurrent budget of the Foundation under the Operational Account.

Trust Account

- I noted that project costs for contractors and construction companies were incurred from the Trust Account. It was also revealed during my review that this Trust Account had no Trust Instrument that was signed and approved by the Minister for Finance and Treasury.
- I noted that the Sport Minister's Enhancement Project Allocation Fund were handed out to sporting associations and clubs are without proper documentation attached to the payment voucher as a requirement for raising payment for Sport Enhancement Projects.
- The Foundation also lack segregation of duties in relation to placing orders, raising of cheque requisition, cheque payment of goods and services, book keeping and maintaining of records.

Project Account

- I noted that the Former Project Manager designed the agreement between the approved contractors and Construction Company on behalf of the Project Management Committee (PMC). However, no proper monitoring and evaluation was undertaken for projects before making payments.
- A Construction Company was awarded the contract by CSTB 2371 in 2012 to construct the Stadium Hall for the National Sport Institute in Goroka which is yet to be completed. Three quarter of the payment totaled K4,588,682.42 has already been made against the agreed contract sum of K4,934,067.52. According to the letter from CSTB dated 24 November 2011, the Project commenced in September 2012 and expected to be completed within the timeframe of nine (9) months in May 2013. The Project was not been completed at the time of audit.
- My review on National Sport Institute and Regional Office – Momase Account payments selected for verification revealed that some payments were made without written quotations attached to the payment vouchers. Details are as follows:
- The Foundation has not implemented segregation of duties in relation to ordering, raising of cheque requisition, payment of goods and services, book keeping and maintaining of records both the soft and hard copy at National Sport Institute (Regional Office).

I recommend that:

- The Foundation Management and Board should review and approve its drafted Financial Procedure Manual to be implemented and officially used by the Foundation;
- The Foundation to adopt accounting system software to produce accurate, reliable and timely financial information to produce the financial statements;
- The Foundation Management and the Board to fast track the review and approve the draft financial procedure to adopt as an office procurement procedure for payments which are below K100,000;
- All payment vouchers have supporting documents attached such as Inter-Office Memo for request, Cheque Requisition Form, Valid invoice, three written quotation for payments for purchases above K5,000 and less than K100,000, contract agreements, reports, acquittals and a copy of the cheque paid;
- Fast track the recruitment process to fill the vacant positions;
- The Sports Minister's Enhancement Project Allocation Fund that is allocated to the sport association and clubs should have proper supporting documentation attached to the payment vouchers as per the process for raising payments for Sport Enhancement by the Sports Minister as per the letter dated 12 December 2013 to the PNG Sports Foundation Executive Director;
- Revenue Account serve the same purpose as the Operational Account. Therefore, it should be closed and all funds must be transferred to the Operational Account;
- The Trust Account that is kept and maintained without a Trust Instrument being signed and approved by the Minister for Finance and Treasury must be closed and the funds be transferred to the Operational Account with Foundation's Board approval;
- There should be proper monitoring and evaluation of projects in accordance with the terms and conditions for the payments by the Project Manager. Further, the copies of the Contract Agreement be forwarded to Director Corporate Services for safe keeping;
- Foundation should recruit a well-qualified and competent project manager to manage the Projects undertaken by the Foundation;
- There should be segregation of duties for placing orders, raising of cheque requisitions, cheque payment of goods and services, book keeping and maintaining of records both the soft and hard copy at National Sport Institute and Regional Offices; and

- There should be a proper filing system of payment vouchers in the arch lever files with labels in cheque sequence and dates by the Accounts Clerk/Finance and Administration Officer both at the Head Office and the Regional Offices.

Management responded to my concerns as follows:

"The Foundation is reviewing and editing its Financial Procedure Plans and soon it will be submitted to the Board for approval. The PNG Sports Foundation takes note of the comments and taking steps to improve on the weaknesses by complying with the procurement processes. The Foundation takes note of the comments and will take necessary action."

9. Asset Management

The Foundation is responsible for safeguarding property, plant and equipment directly under its control.

a) Assets Register

During my review, I noted that no proper fixed asset registers were maintained by the Head Office and the Regional Offices.

The Foundation had been using a draft financial procedure manual in terms of purchasing and recording assets more than K1,000.00 in its Fixed Assets Register. However, that manual was only used by the Head Office and not by other Regional Offices.

The current officer responsible for fixed assets at the Head Office has put tremendous effort to compose everything together to come up with a Master Asset Register for 2013. Though the Head Office was using the manual, the register was still not properly done. Likewise, all the Regional Offices' Fixed Assets Registers are not updated.

b) Stocktakes

The Foundation had not carried out any physical verification of its assets at Head Office and Regional Offices in the past years.

c) Capital Asset Tracking and Monitoring

I noted that all assets purchased in 2013 and prior years were not tagged with asset numbers. This made it difficult for me to select sample of assets to trace to Fixed Assets Register for completeness.

I recommended to the Foundation that an Assets Register be maintained to record all assets purchased for Headquarters/Regional Offices and the registers should be updated regularly. An annual stock take should also be conducted to verify the existence of all assets.

Management responded to my observation as follows:

"*The Asset Clerk is collecting all the information related to acquisition of fixed assets from Regional Offices including NSI and updating the Assets Register. The PNG Sports Foundation take note of the comments and is taking steps to improve on keeping records and updating Fixed Assets Register. AGO's suggestions and recommendations will be attended."*

10. Development Budget

The capital budget (sometimes referred to as public investment project) represents investments in capital development and infrastructure designed to support the provision of service and the benefits of which are to span over several years. The capital budget is meant for new buildings, major improvements to existing buildings, acquisition of land, plant and equipment and vehicles.

In the budget submission of 2013, four key projects totalling K80,965,000 were identified but the Foundation was not funded by the government for these capital works in its development budget. However, only K5 million was appropriated for sports enhancement and was administered by the Minister's Office.

The development funds that were sourced from the government in the year 2012 for infrastructure improvements and talent identification programs are as follows:

Infrastructure Improvement	-	K30,000,000
National Sports Institute PIP	-	K 2,000,000
Talent Identification Program	-	K 1,500,000
Total		**K33,500,000**

It was noted that most of the minor works/projects were not brought to the attention of the Board for endorsement and approval;

- I was not furnished with minor works contracts for the selected contractors;
- I was not provided with the agreement between the Foundation and the Defence Force for the design and construction of Murray Barracks pool, gymnasium and the Taurama swimming pool;

- I recommended that any work that is of a significant value should be reviewed by appropriate authorities so as to meet the minimum requirements and quality standards. This should be evidenced by the completion certificate upon completion of the Projects;
- All major projects should be endorsed and approved by the Board or Tender Committee;
- Contracts should be executed for both major and minor projects; and
- An agreement should be in place when the Foundation is designing, constructing and improving other Departments' facilities.

Management Response:

"In relation to disbursement of project funds, all funds are managed and accounting records are maintained in Head Office. Every records were available but officers assigned to assist on that request may have been not at work at the time of audit review."

I revisited the Foundation to collect the above documents and found out that the contracts were awarded without Minor Works Contracts. The contracts were awarded to contractors based on quotations only.

11.0 Finance and Accounting Section Review

This division is responsible for maintaining all accounting records relating to procurement, payments and prepares the budget for the Foundation.

During my review of Finance and Administration Section, the following weaknesses were noted:

- The Foundation lacks skilled and qualified officers to perform Finance and Admin tasks at the Head Office and the Regional Offices including National Sport Institute;
- The Foundation's financial statements were not prepared internally. They were outsourced to an Accounting Firm;
- There was no accounting software or system used by the Foundation for recording their financial information. Initially, they used CBA system from Able Computing and then migrated to Sun system in 2011 but it only lasted for three months. Currently, the Foundation is manually recording its financial transactions in an excel spreadsheet;

- There was no proper filing system used at the Head Office and the Southern Region Office to file away the accounting records. Most of the documents are lying on the chairs, tables, packed in boxes in their offices. As a result, documents requested during audit took quite a long time to retrieve;
- There was absence of proper coordination and guidance from the Head Office finance team to the Finance and Admin officer or responsible officers at the Regional Offices;
- All the processes and procedures used at the Head Office were not communicated to the Regional Offices to use. Head Office and the Regional centres operate in isolation without Head Office reviewing the work of the Regional Offices; and
- Due to absence of proper guidance and coordination from the Head Office, all the payment vouchers and revenue documents were kept at the Regional Offices and were not delivered to the Head Office for record purposes. Head Office do not send copies of the items they purchase for the Regional Offices to update their records.

I recommended the Foundation to recruit skilled and experience workforce to fill the vacancy of key positions. Further, proper coordination be established within the Foundation's Head Office and Regional Offices for smooth operation. Foundation must consider purchasing a suitable accounting package to automate its financial transactions. The Foundation should:

- Check duty statements of all the officers and the required qualifications needed and compare it against the officers' current qualifications;
- If additional training is needed, the Foundation should organise it with the trainer or course providers;
- Take lead in training need assessments and plan for training of personnel;
- Encourage the Regional Officers to send payment vouchers and revenue documents via carrier each month or fortnightly for Head Office;
- Closely communicate with the Regional Office to keep intact;
- Have the accounting documents locked and stored in a safe place;
- All accounting records and vouchers should be properly filed;
- Accounting records must be kept in the custody of a competent officer;
- Recruit an IT Officer to oversee all IT requirements of the Foundation; and
- Install an accounting software system (MYOB) so that the Foundation can prepare its own financial statements.

Management accepted my recommendation and responded as follows:

"Due to some senior officers within the Finance and Accounts section resigned recently there is currently manpower shortage within the section. Recruitment and selection is soon to be completed and the section will have the positions filled.

The PNG Sports Foundation accepts the concerns raised concerning operations of Accounts and Finance Division. The recommendations on putting people against current jobs on merit and making arrangement for staff training are taken note of and will make sure these issues are resolve when the recruitment is completed.

Installing of accounting software has delayed due to relocation of office space and the organisation is preparing to install MYOB accounting software."

50.2 STATUS OF FINANCIAL STATEMENTS

The Foundation, after receiving my Special Report had submitted its financial statements for the years ended 31 December 2005 to 2013 for my inspection and audit and arrangements were being made to commence the audits shortly.

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

51. PNG UNIVERSITY OF TECHNOLOGY

51.1 INTRODUCTION

51.1.1 Legislation and Objectives of the University

The PNG University of Technology was established under the *University of Technology Act (Chapter 170).* The University's aims are to provide tertiary educational facilities and to produce qualified men and women to play an important part in the development of PNG.

51.1.2 Functions of the University

The University's principal functions are to encourage and provide facilities for study, education and training of technological subjects and branches of learning at tertiary level, and to assist in research and the practical application of technological branches of learning.

51.1.3 Subsidiary of the University

The University has two wholly owned subsidiary companies, *National Analysis and Testing Services Limited and Unitech Development and Consultancy Company Limited*, which were incorporated under the *Companies Act.*

Comments in relation to the subsidiary Companies are contained in paragraphs 51A and 51B of this Report respectively.

51.2 AUDIT OBSERVATIONS

51.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the year ended 31 December 2010 was issued on 13 April 2015. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The opening balances of the financial year 2010 taken up in the books of the University were the closing balances as at 31 December 2009. My report for the prior year (2009) on the accounts of the University was an Adverse Opinion due to serious deficiencies in accounting and record keeping. Due to limitation of scope expressed in the previous year audit report, I was unable to confirm on the correctness of the opening balances recorded in 2010.

Un-Appropriated Surplus – K26,273,911

The Un-appropriated Surplus reported in the financial statements as at 31 December 2010 was K26,273,911. *Note 5* to the financial statements showed that the Unappropriated Surplus was derived after posting the prior period adjustments totalling K67,455,787. I was not provided with necessary supporting documentations in respect of the adjustments. As a result, I was not able to perform further audit procedures to confirm the appropriateness of the adjustments. Consequently, I am unable to comment on the correctness of the balance of the Un-appropriated Surplus as reported in the financial statements.

Fixed Assets – K34,932,011

The University did not maintain proper Fixed Assets Register during the year under review. The details in respect of fixed asset additions, disposals, locations and conditions at year-end were not made available for my review and inspection. As a result, I was unable to perform my audit procedures to ensure the validity, completeness and accuracy of the fixed assets of K34,932,011 reported as at 31 December 2010.

Investments – K144,575

The financial statements reported Investment totalling K144,575 as at 31 December 2010. I was not provided with all required supporting details including explanations on the movement in the account during the year. As a result, I was unable to extend my audit procedures to ensure the validity, completeness and accuracy of the investment balance.

Debtors and Prepayments – K6,136,639

The Debtors and Prepayments reported in the financial statements totalled K6,136,639 as at 31 December 2010. *Note 6* to the financial statements provided the details of this account as follows:

- ***Debtors (Student Fees) – K3,811,007***

  Included in the Debtors and Prepayment balance was an amount of K3,811,007 relating to Taraka Campus tuition fees receivable. During the year under review, the Taraka Campus tuition fees were recorded in MYOB accounting software. However, the MYOB accounting system crashed during the same period and the data was unavailable in order for me to confirm the correctness of the student fees receivable. Hence, I was unable to comment on the validity and completeness of the student fees receivable balance reported in the financial statements as at 31 December 2010.

- ***GST Refundable – K1,367,168***

  Note 6 to the financial statements reported a GST refundable balance of K1,367,168 as at 31 December 2010. This amount was taken directly from the IRC records and not from the University records then reconciled against the IRC records. The University did not prepare and provide GST reconciliations during the period under review. As a result, I was unable to ascertain the completeness and accuracy of the balance reported as GST refundable.

- ***Letter of Credit – K413,332, Others – K9,567 and Staff Debtors – K535,565***

  Included in the Debtors and Prepayments were accounts related to staff debtors of K535,565, outstanding letters of credit of K413,332 and others of K9,567. I was not provided with details and supporting documents in regards to these accounts. Therefore, I was unable to ascertain the completeness and accuracy of these accounts as reported in the financial statements as at 31 December 2010.

Cash on Hand – K185,004

The financial statements reported Cash on Hand of K185,004 as at 31 December 2010. This balance comprised of Petty Cash of K59,696 and Undeposited Funds of K125,308. Management did not prepare proper reconciliations to enable me to verify the funds on hand. As a result, I was unable to extend my audit test to verify the existence and accuracy of the Cash on Hand as reported in the financial statements.

Cash at Bank – K656,685 and Bank Overdraft – (K4,815,394)

The Cash at Bank balance of K656,685 and Bank Overdraft of K4,815,394 reported in the financial statements as at 31 December 2010 were from the eleven bank accounts operated by the University in 2010. Proper bank reconciliations were not carried out and the balances were taken directly from the bank statements. In regards to the bank overdraft, outstanding cheques were identified by determining the subsequently presented cheques. This procedure is considered improper. Further, I was not provided with the term of arrangement for the bank overdraft. As a result, I was unable to comment on the accuracy and correctness of the Cash at Bank reported in the financial statements.

Employee Provisions – K3,570,141 and Gratuity (K956,515) Credit

Employee Provisions of K3,570,141 and Gratuity expense of K956,515 credit were reported in the financial statements as at 31 December 2010. I noted that there were inaccuracies in the calculation of the long service leave and annual leave. I also noted that a gratuity was reported as credit balance in the financial statements.

In the absence of proper calculations and explanations I was unable to satisfy myself with the correctness and completeness of the balances reported in the financial statements.

Creditors – K2,459,583

Included in the above Creditors account was an amount of K803,990 relating to refundable student fees. The system used to record the student fees was MYOB accounting system, however, the MYOB system crashed during the period under review and the data was unable to retrieve. As a result, I was unable to establish the correctness of the refundable student fees.

Group Tax Payable – K4,730,910

Group Tax Payable of K4,730,910 reported in the financial statements was taken from the print out from Tax Office without proper reconciliations. I also noted that group tax returns were not lodged with the Internal Revenue Commission during the period under review and up to the present. As a result, I was unable to ascertain the correctness and accuracy of the group tax liability reported.

Consolidation of Subsidiary Accounts

The University has subsidiary Companies namely, Unitech Development and Consultancy Limited and National Analysis and Testing Services Limited. The financial transactions of these two accounts were not consolidated which deviated from the requirement of the International Accounting Standards, *IAS 27 – Consolidated and Separate Financial Statement*.

DISCLAIMER OF OPINION

Because of the significance of matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of Papua New Guinea University of Technology for the year ended 31 December 2010.

OTHER MATTER

Compliance with Public Finances (Management) Act 1995

The Papua New Guinea University of Technology has not prepared and submitted the financial statements to the Minister and the Auditor-General prior to 30 June for the year ending December proceeding, resulting in breaches of *Section 63(2)* and *Section 63(4*) of the *PFMA*. The financial statement was submitted on July 2013."

51.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the University for the year ended 31 December 2010 was issued on 13 April 2015. The report contained the following comments:

Compliance with the PNG University of Technology Act 1986

Section 10(1) subsection (a) of the *PNG University of Technology Act 1986* spells out the functions of the Council to be among others, to have charge over the management and administration of the income, property and personnel of the University and the conduct of the matters relating to the University. In view of the appalling state of affairs in respect of the financial management function of the University as highlighted means the Council during the period did not perform their functions as stipulated. The matter was brought to the attention of the Management and they responded as follows:

"The current Council and management are well aware of this anomaly and have recruited an experienced Internal Auditor who is taking charge in checking compliance with standards and the processes in place. The current Council has approved Audit Committee in compliance with the Public Finance Management Act 1995 that will be presented and launched on the 1st week of February 2015. The position of the internal auditor was not in existence since 2005 until 2014."

Compliance with the Income Tax Act 1959

The provisions of the *Income Tax Act 1959* apply to the University. My review of the operations of the University revealed that it is not compliant with the requirements of the Act. The University is yet to comply with requirements which mainly relate to submission of income tax and GST returns on time.

Control Environments and Internal Controls

- ***Council Oversight***

  My review of the council minutes indicated that adequate deliberation of financial information was not done at Council meetings. This means that issues affecting the University in respect of financial management were not adequately covered at the Council meetings in 2010. I brought this issue to management and they responded that the Council took for granted that management at that time was doing what was right.

- ***Policies and Procedures***

  The University does not have tailor made policies and procedures in place over its financial management function. Policies and procedures describe the parameters within which the University would like to operate and the risks that it would like to assume. I brought this to the attention of the management and they responded that the management is currently looking for a reputable entity that can do this taking into account the *PFMA* directives and General Orders.

- ***Information System***

  During my review of the University's information system, I noted that that the University is using PGAS system at the Taraka Campus to maintain its accounts and printing of cheques. However, outside campuses and service departments have been maintaining their accounting records through MYOB accounting software or through Microsoft Excel program. There is no consistency in the manner in which the information is channeled to the top management. The information system is not conducive to ensure complete and reliable information for Management or Council's decision making.

- ***Internal Control***

  As a whole, the University's internal control systems are not adequate to ensure assets of the University are protected, complying with the laws and regulations and the University's operations are effective and efficient. Specifically:

  - ***Records***
    Important register such as cashbook, fixed assets register, student fees register, etc are not properly kept.

  - ***Account Reconciliations***
    Accounts reconciliations are not done on a timely basis to detect errors going through the accounts such as Cash at Bank and Fixed Assets.

  - ***Payments***
    Payment control systems are not in place to ensure that the payments are for valid purpose and within budget limits.

  - ***Receipts***
    Receipts are not banked intact.

  - ***Source Documents***
    Records are not properly maintained evidencing the transactions. All accounting records should be kept away in safe place where it cannot be tampered with.

- ***Monitoring***
  Monitoring systems in place are not effective.

- ***Disaster Recovery Procedure***
  Disaster recovery plan must be in place to ensure that in the event of fire or natural disaster, the University can be able to retrieve its records to function properly.

Management responded as follows:

"Pursuant to the management's Financial Regulatory framework elaborated earlier, the processes and procedures on how to go about doing daily transactions will be specifically spelled out.

The current management is placing a lot of emphasis on bank reconciliations, safekeeping of accountable source documents that transpires on every transaction both for receipting and payments in compliance with our internal audit recommendations."

51.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year ended 31 December 2011 had been completed and results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year ended 31 December 2012 was in progress.

The financial statements of the University for the years ended 31 December 2013 and 2014 had not been submitted for my inspection and audit.

51A. NATIONAL ANALYTICAL AND TESTING SERVICES LIMITED (Subsidiary of University of Technology)

51A.1 INTRODUCTION

The National Analytical and Testing Services Limited was initially incorporated as Champion No: 67 Limited on 10 March 2011. However, on 24 March 2011 the former Company name (Champion No: 67 Limited) was changed to what is now the National Analytical and Testing Services Limited.

The shareholders of the Company are Unitech Development and Consultancy Limited and Star Mountains Institute of Technology Limited, each holding 61% and 39% of the total issued shares respectively.

51A.1.1 Functions of the Company

The functions of the Company are to provide analytical, pathological and mineral testing services:

- Analytical testing including tests for food, water, soil, mining or industrial waste;
- Pathology testing relating to test for human diseases; and
- Mineral (geo) testing involving testing for mineral compositions.

51A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2011 was substantially complete and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2012 and 2013 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

51B. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED (Subsidiary of University of Technology)

51B.1 INTRODUCTION

Unitech Development and Consultancy Company Limited is a Company incorporated under the *Companies Act.*

51B.1.1 Functions of the Company

The primary function of the Company is to carry on the business and activities of consultants, and to render management, industrial, commercial, financial, secretarial, public relations, industrial relations and other related services to any person, firm or corporation engaged in any business, trade or activity. The Company also carries on a business of insect farming.

51B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was complete and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

52. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND

52.1 INTRODUCTION

52.1.1 Legislation

The Parliamentary Members' Retirement Benefits Fund was established under the *Parliamentary Members' Retirement Benefits Fund Act 1997* which came into operation on 16 July 1997.

52.1.2 Objectives of the Fund

The objective of the Fund was to provide pensions and retirement benefits for Members and former Members of Parliament and the former House of Assembly and to provide benefits to dependant spouses and juvenile dependants. This Act repealed the *Parliamentary Members' Retirement Benefits Act* which came into operation in 1982.

52.2 AUDIT OBSERVATIONS

52.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the year ended 31 December 2013 was issued on 20 January 2015. The report did not contain any qualification.

52.2.2 Audit Observations Reported to the Ministers

My examination in accordance with *Section 8(2)* of the *Audit Act,* generally revealed satisfactory results.

52.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Fund had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

53. PUBLIC CURATOR OF PNG

53.1 INTRODUCTION

53.1.1 Legislation

The Office of the Public Curator of PNG was established under the *Public Curator Act (Chapter 81).*

53.1.2 Functions of the Public Curator

The main functions of the Public Curator are to act as an administrator of estates; an executor appointed under a will by a member of the public; and/or an official trustee.

53.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

53.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Public Curator's Office financial statements for the year ended 31 December 2011 was issued on 30 September 2014. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope – Opening Balances

My reports for the years ended 31 December 2009 and 2010 were disclaimed due to limitation on the scope of audit on opening balances. I was unable to confirm the opening balances resulting from non-submission of financial statements for the years ended 31 December 2004 to 2008. I was therefore, unable to satisfy myself as to the accuracy and completeness of the opening balances of term deposits, estate accounts, minor and insolvency accounts and suspense accounts of Port Moresby, Lae and Rabaul.

Since these opening balances entered into the determination of the results of operations and cash flows of the Public Curator's Office in 2011, I was unable to determine whether adjustments to the results of operations, receipts and payments might have been necessary for the year ended 31 December 2011.

Limitation of Scope – Accounting Records

The Public Curator's Office did not maintain proper books of accounts in 2011 and in prior years. The financial statements were prepared from manually maintained records on Excel spreadsheet.

The statements were prepared from incomplete and insufficient records without proper supporting reconciliations and documentations resulting in the limitation on the scope of my audit. As a result, it was impracticable for me to carry out all my planned audit procedures to determine the accuracy of the year end balances as disclosed in the financial statements.

Suspense Account – K17,975,564

My examination of this account revealed that the account is a clearing account maintained to keep track of proceeds from deceased individuals and transfers between various estate accounts pending reconciliation, proper identification and allocation to their respective estate accounts. However, I noted that accurate and timely reconciliations were not done in prior years to allocate these funds to their respective estate accounts. As a result, the balance in the suspense account has increased over the years to K17,975,564 as at 31 December 2011. Consequently the beneficiaries to these estate accounts may have been denied of their rights to have access to these funds.

Unidentified Deposit – K227,244

The Corporate Trust Bank Account of the Public Curator was credited with an unidentified deposit of K227,244 in May 2010. In my last report, the Management was advised to identify where the deposit was made from and if the money was not intended for this account, I recommended that the money be transferred back to where it originated from. However, per the bank reconciliations of this account, I noted an overdraft of K58,746 at year-end, showing the money had been depleted/used.

Estate Properties

I noted a list of nine hundred and eighty five unrealised and personal properties that were identified or in possession of and administered by the Public Curator's Office. I noted that these properties were not valued and disclosed by way of notes to the financial statements as the proceeds from the disposal of these assets would be properly identified and credited to their respective estate accounts or transferred (non-liquid form) to the beneficiaries at a later date. As a result, I was unable to satisfy myself as to the completeness or accuracy of receipts of K11,568,091 and the amounts due to the estates and trusts of K3,599,615 as disclosed in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Accordingly, I do not express an opinion on the financial statements of Public Curator's Office for the year ended 31 December 2011."

53.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Public Curator's Office for the year ended 31 December 2011 was issued on 30 September 2014. The report contained the following comments:

No Proper Accounting System and Lack of Audit Trail

The Public Curator's Office did not have a properly integrated Management Accounting System incorporating estate data from the regional centres together with Head Office. The records had been kept and prepared manually from the cashbook and bank statements. I recommended Management to have integrated accounting package that would capture and keep track of all information including estate data from the regional centres.

Management concurred with my comments and identified this as a important requirement and recommended staff for training. Management further stated that they were in consultation with an IT Company to secure an affordable accounting software for the Public Curator's Office.

Segregation of Duties

The internal control environment was very weak in terms of segregation of duties over the accounting process of receipting, depositing cheques, recording and posting of transactions to the cashbook, raising of requisition forms, cheque payments and bank reconciliations. I brought this issue to the attention of the Management.

The Management concurred with my comments and stated that this was due to under staffing within the accounts section.

Bank and Account Reconciliations

The Public Curator's Office over the years had not properly performed its bank and estate account reconciliations. As a result, the balance in the suspense account had been accumulating over the years.

I recommended Management to ensure that bank and estate accounts reconciliations be done on a monthly basis to correctly identify individual estate receipts/proceeds and post them to their respective individual estate accounts.

Minor and Insolvency Trust Account – Port Moresby

The monies held in this Minor and Insolvency Trust Account are basically for the purpose of maintenance, education and advancement of the minors. The disbursements would be done in accordance with *Section 22(a)* and *Section 7(2)* of the *Public Curator's Act 1951*. However, I noted that monies had been disbursed to relatives of the minors for other purposes.

Management concurred with my comments and directed staff to strictly comply with the requirements.

Management Structure, Staff Strength and Funding

The Public Curator's Office did not have the staff capacity with adequate skills to effectively carry out its mandated functions. The Office had a total of forty seven approved positions with only thirty nine funded and eight unfunded positions. Further, of the thirty nine funded positions, ten positions were vacant.

At the time of audit, there were a total of one thousand one hundred registered deceased estate properties and three thousand deceased estate oil palm blocks. Audit noted with concern that with the current staff strength, the Office would not be in a position to effectively discharge all its mandated functions, as most of the property matters registered with the Office involve complex legal issues.

In addition, the accumulating balance of the suspense account over the years was the evidence of not enough skilled staff to properly identify and allocate proceeds and transfers to their respective estate accounts.

53.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Public Curator's Office for the year ended 31 December 2012 was complete and the results were being evaluated.

The Public Curator's Office had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit, despite my reminders.

54. SECURITY INDUSTRIES AUTHORITY

54.1 INTRODUCTION

54.1.1 Legislation

The Security Industries Authority was established under the *Security (Protection) Industry Act 2004*. This Act came into operation on 1 March 2005. The Authority commenced its operations in April 2005.

54.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Grant licenses and permits under the Act;
- Fix minimum standards of training applicable to holders of licenses and permits respectively;
- Establish, provide or approve training institutions and facilities or permit such training institutions or facilities as it may approve, to conduct training or to be used for training for the purpose of training of persons who intend to perform security officers duties or security guard duties;
- Approve any equipment other than firearms used by a holder of a license or permit or required by a customer to be installed on his premises or property;
- Ensure that the holder of a license or permit operates or carries out his duties or performs his functions in accordance with the terms and conditions of the license or permit and subject to the provisions of this Act;
- Formulate a Code of Conduct governing the disciplinary matters and work ethics within the Industry; and
- Undertake such other functions and exercise such powers as may be conferred on it by this Act or any other law.

54.2 AUDIT OBSERVATIONS

54.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2011 was issued on 28 April 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Cash at Bank – K655,097

My examination revealed that the bank reconciliations were not properly prepared, checked and verified on a timely basis by the Authority.

The reconciliations provided for my verification were prepared in 2015 four years later. I also noted stale cheques totalling K5,664 remained outstanding for over a year. Based on the findings, I was unable to place reliance on controls surrounding the bank reconciliation process. As a result, I was unable to comment on whether the bank balances have been fairly stated in the accounts.

Fixed Assets – K165,566

My review of the Fixed Assets Register (FAR) revealed that the register was not properly maintained and updated on a timely basis in 2011. No proper stock-take was done to confirm the existence and to determine the fair value of each asset held at year end. I also noted that assets were not numbered/tagged and no acquisition dates were provided for me to verify the depreciation calculated on assets listed in the register. Based on the findings, I was unable to place reliance on controls surrounding the management of fixed assets. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K165,566 disclosed in the financial statements.

Other Income – K913,594

Other Income was disclosed as K913,594 for the year ended 31 December 2011. During my review I noted that proper records and supporting documents were not maintained by the Authority. This amount was taken directly from the bank statements and disclosed as Other Income in the financial statements. I was unable to obtain receipts amounting to K913,594 due to absence of invoices and receipts including bank deposit summaries. As a result, I was unable to conclude whether all monies received as other income were properly accounted for and reflected in the financial statements.

Staff Leave Provision – K104,172

My examination of the staff leave provision revealed that staff personnel files were not properly maintained. Due to the absence of personnel files, I could not verify the accuracy and measurement of the provisions disclosed as at 31 December 2011. Details such as commencement dates and employment history form the basis of calculating provisions which I was unable to verify. Consequently, I was unable to conclude whether the provision for the year has been fairly stated in the financial statements.

Accounts Receivable – K28,347

My examination of Accounts Receivable revealed that receivable balance comprises of dishonored cheques taken from the bank statements. The Authority has not maintained proper debtors' records detailing the debtors, invoices and other supporting documents to validate the actual existence of debtors.

As a result, I was unable to validate the existence of the debtors and the fair presentation of the Accounts Receivables amount in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

(a) the financial statements are based on proper accounts and records; and
(b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Authority as at 31 December 2011 and the results of its financial operations for the year then ended."

54.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2011 was issued on 28 April 2015. The report contained the following comments:

Non Acquittals of Travel Advances

My review of the travel expenses totalling K111,172 by staff on duty travel (domestic and overseas) again revealed that the Authority did not maintain a Travel Advances Register to ensure that the advances were properly recorded and timely acquitted. As a result, a total advance of K12,990 (from the sample) remained outstanding or unacquitted at year end. I drew this issue to the attention of Management and they responded as follows:

"We take note of your comments and recommendation. Otherwise, we have already taken reasonable steps to acquit all travel expenses for record and audit purposes."

Maintenance of Staff Personnel Records

My review of the Authority's Personnel Files revealed that Staff Personnel Files were not satisfactorily updated and maintained. Information such as commencement dates, qualifications, dependent declaration and other personnel information could not be sighted for my verification. I brought this to Management's attention and they took note of the concerns and responded that appropriate action would be taken.

Expenditure Control Weaknesses

During my inspection and review of the expenditure for the year ended 31 December 2011, I noted that the controls surrounding the payment system were weak. As a result, there were payments without supporting documents, payments without three quotes and cheque encashment without proper supporting documents.

I drew this issue to Management and they took note of the concerns and responded that appropriate action would be taken.

Licence and Permit Registers

Pursuant to provisions of the *Security (Protection) Industry Act 2004, Section 25,* the Registrar of the Authority is required to establish and maintain a Register of Permits and Licenses and at reasonable times make available the Register for inspection. I requested for the Register of Permits and Licenses but it was not furnished to me for my review.

In my view, the Authority had not complied with the *Security (Protection) Industry Act 2004* and there might be a risk of licenses and permits being issued without proper procedures being followed. As fees is the main income source for the Authority, there is a possibility that security firms may not renew licenses and permits which may go undetected and may lead to irregularities resulting in loss of income for the Authority.

Further, without the Register, I could not confirm if all security companies operating in PNG were properly licensed and registered as stipulated by the Act. I brought this matter to the attention of Management and they responded as follows:

"Your comments are noted and will ensure to maintain a Register of permits and licences pursuant to Section 25 (1) (a) of the Security Act 2004."

Staff Advance

I observed that the Authority disclosed its Staff Advances balance as K54,884 at 31 December 2011. My review revealed that this advances balance comprised of advance balances carried forward from prior years. The Authority was granting cash advances to staff without fully recouping previous advances. The advances balance presented also included the balance of cash advanced to several staff members who had since ceased employment with the Authority.

I drew this matter to the attention of Management and they responded as follows:

"We take note of comments and recommendations and will ensure reasonable steps will be taken to address these advances in due time."

54.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the years ended 31 December 2012, 2013 and 2014 had not been submitted for my inspection and audit, despite reminders.

55. SMALL BUSINESS DEVELOPMENT CORPORATION

55.1 INTRODUCTION

55.1.1 Legislation

The Small Business Development Corporation was established under the *Small Business Development Corporation Act 1990* which came into operation on 19 June 1990.

55.1.2 Functions of the Corporation

The functions of the Corporation are: to formulate and recommend to the Minister the policies on the promotion of small business, incentive schemes and financial support; to provide advisory, management and administrative services; to arrange and co-ordinate training and skills development programs; to provide advice on financial assistance; to promote and co-ordinate business practice and provide venture capital; and to carry out research and disseminate information to small businesses for their development and expansion needs.

55.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2012 was completed and the Management Letter was issued on 20 February 2015. However, the responses to the Management Letter and the signed financial statements were not provided by the Corporation to enable me to issue the report.

The Corporation had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit, despite reminders.

56. TOURISM PROMOTION AUTHORITY

56.1 INTRODUCTION

56.1.1 Legislation

The Tourism Promotion Authority was established under the *Tourism Promotion Authority Act 1993*. This Act came into operation on 3 June 1993 thereby repealing the *Tourism Development Corporation Act 1990*. The Authority commenced its operational activities on 1 April 1993.

Under the *Tourism Promotion Authority Act* all assets held by and obligations and liabilities imposed on the Tourism Development Corporation which related to the functions of the Authority were transferred to it (the Authority), and the rest of the assets and liabilities were transferred to the National Cultural Committee on 3 June 1993.

56.1.2 Functions of the Authority

The principal functions of the Authority are: to foster the development of tourism in PNG; to formulate a tourism policy for consideration by the NEC and to implement the tourism policy approved by the NEC; to promote PNG overseas as a tourist destination; to co-ordinate the overseas promotional efforts of the PNG tourism industry; to encourage the provision, development and expansion of tourism infrastructure, facilities and products in PNG; and to enhance awareness within PNG of the tourism industry and tourism opportunities.

56.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2014 had been completed and the Management Letter was issued to the Authority on 13 May 2015. The responses, together with the signed financial statements were awaited from the Authority to enable me to issue the audit report.

57. UNIVERSITY OF GOROKA

57.1 INTRODUCTION

57.1.1 Legislation

The University of Goroka was established under the *University of Goroka Act 1997.* This Act came into operation on 1 January 1997.

Under this Act, the Goroka Campus of the University of PNG was transferred to the University of Goroka together with all staff and students, buildings and grounds, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

57.1.2 Objectives of the University

The objectives of the University are dedicated to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

57.1.3 Powers of the University

The University shall have the power to:

- Grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- Provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- Co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;
- Subject to the *SCMC Act* to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residence;
- Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;

- Cancel, annul or revoke any act done in the exercise of these powers; and
- Do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

57.1.4 Subsidiary of the University

The University has a Subsidiary Company, *Unigor Consultancy Limited*. Comments in relation to this Company are contained in paragraph 57A of this Report.

57.2 AUDIT OBSERVATIONS

57.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the years ended 31 December 2011 and 2012 were issued on 20 August 2014 and 13 April 2015 respectively. These reports contained Disclaimer of Opinions, hence only the 2012 audit report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The 2011 audit report was issued with a disclaimer of opinion due to limitation of scope arising from inability to obtain satisfactory accounting records, source documentations and reconciliations to satisfy myself as to the accuracy and completeness of opening balances of Fixed Assets and Cash at Bank. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have consequential effects on the financial statements of the University for the year ended 31 December 2012.

Cash at Bank – K16,843,482

The University maintained four Bank Accounts (General, Student Fees, Public Investment Program (PIP) and Special Purpose) with a Cash at Bank balance of K16,843,482 as disclosed in the 31 December 2012 financial statements. However, I was unable to ascertain the accuracy and completeness of the stated balance due to the following anomalies:

- Bank reconciliations of above accounts were not done on a monthly basis. I noted that the 2012 bank reconciliations were prepared only in 2013. There was no evidence to indicate that the reconciliations were reviewed by an independent person for accuracy;

- The General Account was overdrawn by K393,509. However, the University did not take corrective action to reconcile and review the outstanding cheques at year-end. This situation was not improved since 2009;
- Cheques totalling K617,177 for the General Account were stated as un-presented in the December 2012 bank reconciliation. However, my review revealed that these outstanding cheques were not presented in the subsequent months' bank statements nor disclosed in the subsequent months' bank reconciliations as outstanding cheques.

  As a result, I was unable to place reliance over the University's bank reconciliation process and unable to confirm the General Account closing balance as reported in the financial statements at 31 December 2012; and
- 2011 cheques amounting to K347,763 for the PIP Account were captured in the 31 December 2012 bank reconciliation as un-presented cheques. These cheques had become stale, but were never written back to PIP Account or cleared in a timely manner.

Fixed Assets – K36,656,846

My review of the University's fixed assets account revealed the following:

- The University did not maintain a proper, complete and accurate Fixed Assets Register (FAR) to record the details of assets owned by the University. Due to lack of proper FAR, I was unable to physically inspect certain assets against the records and confirm the existence and conditions of the assets;
- Fixed assets were never been counted and tagged with number for easy reference and identification. In the absence of fixed assets stock take and numbering, assets that are idle, misplaced or stolen cannot be identified by the University; and
- Depreciation for fixed assets was calculated based on aggregate balance of the entire asset category rather than calculating depreciation on individual fixed asset item. As a result, it would be difficult to ascertain the net book value of asset and the profit/loss on disposal, when an asset was earmarked for disposal.

Due to above observations, I was unable to confirm the existence, valuation and completeness of the fixed assets balance reported in the financial statements as at 31 December 2012.

Account Balances Transferred to Equity Account

As reported in prior years the University did not properly maintain the Sundry Debtors' and Trade Creditors' Accounts.

As a result, these accounts had opening balances of K305,172 and K624,410 respectively without any supporting details and carried forward over the years. Since the University was unable to reconcile or provide evidence to support the above balances, the University has transferred the above balances to Equity Account during the year. The above transfer is not in line with the recommended accounting practice for which the Equity Account is maintained for.

57.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the University for the years ended 31 December 2011 and 2012 were issued on 20 August 2014 and 13 April 2015 respectively. For the purpose of this Report, only significant matters arising out of 2012 report is reproduced below.

Non-Compliance with the Public Finances (Management) Act 1995

The *PFMA Section 63 (2)* and *(4)* requires the University to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the University shall submit them to the Auditor-General who shall report to the Minister. However, the University has not prepared and submitted its financial statements for the year ended 31 December 2012 to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament before 30 June 2013. The University submitted its 2012 financial statements only in September 2014 to my Office to conduct the audit. Accordingly, the University has breached *Section 63(2)* and *63(4)* of the *PFMA.*

The University Management responded to the above issue as follows:

"We will improve and submit all outstanding financial statements to the Audit Office on timely manner in compliance with the PFMA."

Recurrent Budget Overspending

My review of the recurrent budget revealed that the University had exceeded its general account budget by overspending certain vote items totalling K2,964,512 which represents 113% overspending against the actual budget. The University may not be operating within its budget limits, thus resulting in overspending of certain vote items.

Management responded to my observation as follows:

"There were certain vote items that have exceeded their general account budget and that occurred due to expenditure requirements for core sector were not budgeted as expected. Further, funding from the National Government was inadequate for University's operation over the years."

DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation of scope on my work as described in the Basis for Disclaimer of Opinion paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I was unable to and do not express an opinion on the financial statements of the University for the year ended 31 December 2012."

Revaluation of Fixed Assets

In 2003, Unitech Development and Consultancy Limited revalued the assets of the University at a value of K53,918,605. To date, the University had failed to incorporate the said values in its books. As a result, the University's Fixed Assets were undervalued by K53,918,605 and did not represent the fair value of the University's Assets. I further noted that to date, there was no revaluation conducted subsequent to the revaluation done in 2003. As such, the University failed to comply with the *International Accounting Standards (IAS) 16 paragraph 34* which requires assets to be revalued at regular intervals.

Management responded to the above observation as follows:

"The revalued amount will be incorporated into the accounts and accounts will be amended where necessary and revaluation of assets will be considered. Currently it is a cost issue and less funding allocation has limited us to spend on priority areas."

Salary and Wages Tax and Dependents Declaration Forms

My review of personnel files revealed that most of the University's employees did not have Salary and Wages Tax Declaration Forms and birth certificates of officers' children in their personal files. A completed and signed salary and wages declaration forms and birth certificates are the basis for claiming dependent tax rebates and also for claiming dependents leave fares. In the absence of Salary and Wages Tax Declaration Forms, I was unable to state whether salary and wages tax were properly calculated without adjusting for dependent rebates. Further, the *Public Services General Order # 41.41* specify that the officers can claim leave fares for their spouse and children under the age of 19 who are wholly dependent and maintained by the officer.

However, due to lack of dependents declaration and birth certificates of the children, I was unable to comment on the legitimacy of dependents leave fares expense of K587,800 claimed by the officers during the year.

I recommended the University to ensure that all the staff members complete and sign a salary and wages declaration forms to declare their dependents which must be supported by birth certificates.

Duty Travel Advance Register

My examination of travel advances and the related travel and subsistence expenses revealed that the University did not maintain a Travel Advances Register to keep proper records of all the duty travel advances and expenses. I also noted that travel advances and expenses were never acquitted. It is a requirement under *Financial Management Manual Part 20 paragraph 12.2* that a Financial Delegate/Authorising Officer shall maintain a register of advances to officers on duty travel. It is a requirement under the *Financial Management Manual Part 20 paragraphs 11.2 and 12.10* that cash advanced to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel and advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form. In the absence of Travel Advances Register and the corresponding travel advance and expense acquittal documents, I was unable to confirm that the travel and subsistence payments made during the year were for the intended purposes.

The Management agreed with my findings and responded as follows:

"A Travel Advance Register will be maintained and acquittal be done by the officers within the required timeframe in the future."

Non Remittance of Salaries and Wages Taxes to Internal Revenue Commission (IRC)

Pursuant to *Section 299G* of the *Income Tax Act 1959* the group employer (in this case the University) is required to remit salary and wages tax to IRC within 7 days after end of each month. Failure to remit salary and wages tax on time will result in penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount that remains unpaid. However, I noted that since 2008 to 2012 the University did not remit salaries and wages tax to IRC and the salaries and wages tax payable to IRC accumulated to K4,473,829 as at 31 December 2012. As a result, the University had breached the above requirement.

The above issue was brought to the attention of Management and they responded as follows:

"K600,000 is annually estimated in the budget to settle the outstanding group tax liability of K4,473,829. Besides, all salaries and wages tax liabilities for 2013 and 2014 have been remitted to IRC."

Procurement Process

My review of the payment process of the University revealed that payments totalling:

- K223,787 were made without obtaining three written quotations from three different suppliers. It is a breach of *Financial Management Manual Part 12 Division 3,*which states that three written quotations must be obtained for purchases valued between K5,000 and under K100,000; and
- K1,038,587 were paid to suppliers based on quotations and not invoices. As a result, I was unable to ascertain as to whether the goods and services have been received by the University.

Due to above discrepancies, I was unable to place reliance over the controls surrounding the functions of payment process.

Management agreed with my findings and responded that in the future they will improve in the procurement procedures.

Contract Document

The University engaged Gold Bell Construction to construct two staff houses at a contract value of K514,933 and a 15% (or K77,240) of the contract amount was paid to Gold Bell Construction as mobilisation cost. However, I was not provided the signed contract document despite my request and numerous reminders. In the absence of the contract document, I was unable to verify payment made to Gold Bell Construction as valid and correct payment.

Delegated Financial Authority

The University had a Financial Manual specifying the delegated financial authority. However, on several instances I observed that some of the Deans of School and Head of Departments had approved payments above their limits. Accordingly, I was uncertain as to whether the University's Financial Manual was out of date or there had been amendments made to the delegated financial authority.

I recommended the University to clearly specify the delegated financial authority of the University officers and comply with the limit set by the delegated financial authority.

Management of Tuition Fees General Ledger (GL) Account

I noted that some tuition fees were deposited into General Bank Account instead of students and their sponsors depositing fees into Tuition Fees Bank Account. The fees deposited into General Bank Account amounting to K129,013 were subsequently posted to 4-2101 Tuition Fees GL Account. However, the amounts posted to Tuition Fees Account were not reconciled and confirmed to students' tuition fees deposit receipts. Consequently, I was unable to confirm that Tuition Fees GL Account was properly managed.

Management agreed with my observation and stated that in 2013, tuition fees related receipts are reconciled and managed properly and the University advised all the students to deposit fees into School Fee Bank Account and not in the General Bank Account.

57.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year ended 31 December 2013 was in progress.

The University had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit, despite reminders.

57A. UNIGOR CONSULTANCY LIMITED (Subsidiary of the University of Goroka)

57A.1 INTRODUCTION

Unigor Consultancy Limited is 100% owned by the University of Goroka. It was incorporated in March 2000 as a consultancy company under the *Companies Act.*

57A.1.1 Objectives of the Company

The Company's objectives are to:

- Advance, promote, assist and encourage the educational purposes of the University through;
  - Short term programs for and on behalf of the University tailored to the needs of clients; and
  - Research, consultancy and publication of all educational materials for commercial purposes;
- Conduct or undertake any other business activity both within and outside of PNG; and
- Expand and diversify business activities to maximise profits and to promote the interest of the Shareholder from time to time.

57A.1.2 Functions of the Company

The core function of the Company is to provide services in four key areas:

1. Professional consultancy services, teaching and dissemination of knowledge;
2. Merchandising of text books, educational supplies and stationary;
3. Printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
4. Catering and cafeteria services.

57A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2010, 2011, 2012 and 2013 had been completed and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit, despite reminders.

58. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT

58.1 INTRODUCTION

58.1.1 Legislation

The University of Vudal was established under the *University of Vudal Act 1997*. This Act came into operation on 1 January 1997. The University changed its name to University of Natural Resources and Environment in 2008 and became operative in the same year.

Under this Act, the Vudal University College Campus of the PNG University of Technology was transferred to the University of Vudal with all staff and students, buildings and land, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

Although the new entity was created by the Act in 1997, the finance and accounting function was transferred to the University of Vudal only on 1 January 1998.

58.1.2 Objectives of the University

The Act states the objectives of the University as: dedication to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

58.1.3 Powers of the University

Section 6 of the Act enshrines the University as having the power to:

- Grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- Provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- Co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;

- Subject to the *SCMC Act* appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residences;
- Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- Cancel, annul or revoke any act done in the exercise of these powers; and
- Do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

58.2 AUDIT OBSERVATIONS

58.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the year ended 31 December 2013 was issued on 26 March 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Fixed Assets - K66,346,495

The University disclosed its Fixed Assets as K66,346,495 at the year end. I noted that the University had not acquired its Fixed Asset Management System software to maintain and update its large record of Fixed Assets data but these details were maintained on a spread sheet. Further, the University did not carry out a valuation exercise on all its property since its last valuation done in 1997. As a result, I was unable to determine the fair value, existence and completeness of the Fixed Assets stated at the year end.

Capital Works In Progress - K4,358,442

The University disclosed its Capital Works in Progress additions as K4,358,442 in its financial statements. During my examination, I was not provided with necessary project progress reports to ascertain the nature of work carried out and the stages of completion of various projects undertaken by the University. I also noted that each project with large volume of transactions were maintained on a spread sheet which are susceptible to loss or manipulation due to lack of audit trail. As a result, I was unable to confirm the amount incurred for project expenses classified under capital work in progress during the year.

Farm Livestock - K7,105,384

The University's Vudal and Oro Campuses Farms have several herds of livestock as disclosed in the financial statements.

The year end physical stock count on livestock was not witnessed by me to confirm the actual number of livestock and its valuation.

Further, I was not provided with necessary stock listing and supporting schedules to verify the stock balance disclosed in the financial statements. As a result, I was unable to comment on the accuracy and completeness of account balance as stated at the year end.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualification paragraphs above:

a) The financial statements of the University are based on proper accounts and records; and

b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the University as at 31 December 2013, and the results of its financial operations and the cash flows for the year then ended."

58.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the University for the year ended 31 December 2013 was issued on 26 March 2015. The report contained the following observations:

Opening Balances

During my review, I noted that 2013 general ledger opening balances did not agree to 2012 audited account balances. The reason being that the MYOB accounting system had not been configured to roll over the year end closing account balances to the new accounting period. These accounts include bank accounts, fixed assets, accumulated depreciations, debtors and creditors. These accounts begin with a new transaction entry with zero opening balance.

I brought the matter to the attention of Management and they responded to my observation as follows:

"Bursary has realised this problem and has engaged MYOB Technology Ltd from Lae to conduct training on the use of MYOB for the bursary staff. There was a training conducted in December 2013 and all staff are now fully trained and certificates were issued to them and they are now able to do year end roll over through the use of MYOB.

2014 Financial Reports will now have the rollover closing balances of 2013 as opening balances for the 2014 report. All the Financial Reports in the future will be done in the uniform way using the MYOB."

Consultancy Contract Fee Payments

My review on consultancy contracts revealed that the University engaged consultants and project managers to manage the design and construction of new PNG University of Natural Resources and Environment library building. The design and supervision of the building construction cost K1.6 million and the payments were agreed to be paid by installments. I noted that a sum of K256,000 was paid in two installments (Claim 4 and 5) without any project status reports. Further, it was revealed that the contract clause did not stipulate the scope of work and kind of report that need to be attached to claim before the progress payments were made. The contractor was fully paid prior to the completion of the building project.

I brought this issue to the attention of Management and I was advised as follows:

"The Consultant and Project Managers were paid according to the initial contract between the Consultant and the University. The cost of keeping the Consultant would have gone up if the University was to hold the Consultant more than the contracted timing hence the consultant was paid off as per the initial contract. Some of the facts of the delay were because of the bad weather that delayed the construction and of course the change in the movement of the location and relocation of the sports field. However, the University accepts the fact that the consultants in future will be paid according to work schedules and based on the job completion within the contract deadlines."

Strategic Plan

During my review of the University's strategic plan, I noted that its Departments, Units or Sections did not have Management Plans or Divisional Work Plans to link to the Annual Budgets in order for the Management to determine and measure whether its divisional objectives were being met. As a result, the Management could not be in a position to monitor the performance and achievements of the University's objectives or programs, or effect necessary changes and determine areas where change may be required.

I brought the matter to the attention of Management and they responded to my observation as follows:

"In 2013 Office of Higher Education has engaged an Academic Audit Team that also highlighted the same issue as one of the 26 recommendations that was made to the University.

The Senior Executive Management (SEM) of the University has seriously looked at this issue in particular and has engaged all the Sectional Heads to draw up individual sectional management plans to align to the University's overall Development/Strategic.

So far three separate meetings have been conducted with the Sectional Heads and positive results have been seen. All Sectional Heads have developed positive plans with their staff to have come up with constructive Management Plans in their respective sections."

Policies and Procedures

I noted during my review of University's policies, guidelines and processes of the University's operations, that the University did not have appropriate policy manuals as part of the general framework policies that would support and enhance its operations. However, those policies that are in place and copies made available to us were either out-dated or in draft form. The Governing Council had not approved those draft policies nor had taken initiative in revising the out-dated policies.

I recommended Management have proper approved policies and procedures in place to guide the University operations. The University responded to my observation as follows:

"This was another area that the Office of Higher Education sanctioned Academic Audit Team has recommended and the Senior Executive Management (SEM) has tasked each sections to develop Legal, Policies and Procedures for their sections. Sections have taken that recommendation on board and as a result some of the policies and procedures are in their draft stages and others are yet to be reviewed and done."

Minutes of Meetings

The frequency of meetings held by the University's Governing Council, subcommittees of the governing council, project management team, tender committee, academic committee and other meetings enhances and enforces effective operation of the University. I was unable to ascertain whether meetings were conducted at regular intervals as required by the University's internal policy guidelines, I was provided with only the Governing Council meeting minutes. However, I noted that the first meeting of 2013 and 2014 were not signed by the Chairperson in order to confirm the minutes to be true and correct record of the matters discussed at the meeting. In the absence of signed meeting minutes of the Governing Council and other meeting minutes, I was unable to ascertain the validity of the resolutions passed at those meetings.

The University in its responses stated as follows:

"The committees are in place but unfortunately the meeting minutes were either misplaced or misfiled. However, the University will take on the Auditors recommendation of maintaining meeting minutes and have all of them signed to authenticate as valid meeting minutes."

University's Governing Council

In my review of the Council Members of the University, I noted that four Governing Council members positions were not filled for some time and this includes Pro-Vice Chancellor (Administration and Development); Pro-Vice Chancellor (Academic and Planning); A Community Representative (Private Sector) and one Female Graduate (Rep). I recommended that these appointments need to be filled with competent senior officers within the University or from outside within a reasonable time frame to effectively implement the University's policies.

Management responded to my observation as follows:

"The University Council has felt the effect of not having the full members and has already taken necessary steps to appoint the respective officers to fill the vacancies. In the next Internal Control Review all the vacancies will have been fully filled."

Internal Audit

During my review of the University's internal audit, I noted that it was manned by only one officer. This unit was not adequately resourced to perform its functions effectively to address the roles and responsibilities of the Internal Audit Unit. Further, internal audit policies (manual) that were in draft form were not approved by the Council. As a result, Internal Audit Unit was unable to effectively perform its independent audit on the Council.

The effectiveness of this unit depends on the manpower and funding to peform its tasks for the benefit of the University. Further, an audit committee must oversee the activities of the Internal Audit Function.

I brought this observation to the attention of the Management and I was advised as follows:

"The Senior Executive Management (SEM) of the University has tirelessly been trying to solve this problem by recruiting new Internal Audit Officers but unfortunately could not recruit because of the constraints in the Government's yearly funding. In 2013 and 2014 there was not a single increment in the funding from the government but in 2015 with the funding increment, we should be able to recruit."

Fixed Assets

During the review of the Fixed Assets Register, I noted that the Management did not acquire Fixed Asset Management System software to maintain and update its large record of fixed assets currently maintained by the University. The Planning Department of the University was responsible for all the properties and Fixed Assets and recorded additions over the years to date on a spreadsheet by way of transaction entries, but was unable to match these details to the detailed Accounting Depreciation schedule maintained by the Bursary.

I recommended Management to maintain a proper Fixed Asset Management system to properly account for its huge investments in Fixed Assets. The University responded to my observation as follows:

"The University has a Fixed Assets Register and it's all maintained in Excel as highlighted by the Auditors. The Senior Executive Management (SEM) has decided after the audit that a proper Fixed Asset Management System will be kept and this system will cost a lot of money. The University in its 2015 budget will include this as an item of priority so that the assets values will be properly managed."

Human Resources Management

In my review of the Human Resources Management function revealed that the Human Resource Management and Training Policy Manual was not approved by the Governing Council. I also observed that the University's approved Pro-Vice Chancellor (administration) and Pro Vice Chancellor (academic) positions were vacant for some time due to the positions not being funded by the Government.

I advised Management on this observation and it responded as follows:

"The Human Resources Management and Training Policies Manual is still in the draft state and when completed and endorsed by the Governing Council, the Human Resources Department will fully utilise it. The vacant positions will be advertised once the funds for 2015 are released."

Procurement and Payments

During my examination, I reviewed the adequacy of controls over the accounts payable function. I noted that the Sectional/Divisional Heads (except farm operations) were not furnishing their expenditure reports together with the paid vouchers on a regular basis to the Bursary Department for regular postings into the accounting system. Further, the payments were made on quotations; there were no delivery dockets to indicate the receipt of goods ordered and the back-orders for the goods in most cases were not received by the University.

Public Investment Projects

My review of the Public Investment Projects (PIP) of the University for the PIP funds received during the year 2013 up to September 2014 at the time of audit were as follows: (2013) K11,500,000 - (2014) K12,546,200 respectively. The following weaknesses were revealed:

a) The University did not submit quarterly reports on the receipts and payments on PIP funds to the Planning and Monitoring Department and Department of Finance. Further, the Project Management Team did not produce any report on the progress of the projects undertaken and submitted to the Management and Governing Council. Regular project inspection progress reports were not provided by the University to ensure projects were properly controlled and monitored. The re-scoping project approved by National Planning was not furnished to the audit. Further, completion certificates or reports of the completed projects were not made available for my review.

I advised Management on this observation and they responded as follows:

"The quarterly reports are normally submitted to the Planning Department and unfortunately during the audit, the Planning Department did not give the University sighted copies on time thus was not able to give a copy. However, we will request the Planning Department to furnish us the sighted copies of the quarterly report. We will provide copies to the Auditor General's Office as soon as we get them.

Some projects were completed especially buildings but the Certificate of Completion were not issued to the University as yet because the East New Britain Province's process is very slow with their Building Inspection and Certification thus we were not able to show the copies. However, as soon as we get the copies we will make copies available to the Auditor General's Office."

b) AP Engineering Limited was awarded the contract to construct the University Library at a cost of K17 million. According to the contract, the construction project was commenced in September 2012 and expected to be completed in March 2015. During my examination in September 2014, I noted that the project was still at the initial stage but in total K10.4 million (65%) was paid to the Contractor against the agreed sum of K16 million. I queried why such a huge amount was paid at the initial stage of the project and the University responded to my observation as follows:

"The total amount of K10,400,000 pay out to AP Engineering includes the relocation of the old playing fields to new and after which the Library is now in progress.

Some of the delays are caused by bad weather but slowly and gradually the construction is on course."

c) Audit noted that the staff duplex project at Kavieng was only 75% completed and not progressed well due to disagreements between the University and the National Fisheries College. I further noted that this building was slowly deteriorating without completion of the project due to dispute between the University Administration and the National Fisheries College.

I brought this to the attention of the University and it responded as follows:

"There were two staff complex built of which one was completed and another one was only 75% work in progress when the Memorandum of Agreement between the University and the Kavieng Fisheries College elapsed on the arrangement of teaching between them. When the time elapsed, for some unknown reason the Kavieng Fisheries College did not want to continue with the program with the University and this has caused the stop work.

The Constructor was pulled out and the buildings remained as they were and the University has asked the National Fisheries Authority (NFA) which the College comes under to reimburse the funds spent on the two buildings to the University so that similar buildings will be erected at Vudal Campus and they can have the buildings. The National Fisheries Authority (NFA) to this stage has not got back to the University and things are pending as it is to this time."

58.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the University had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

59. UNIVERSITY OF PAPUA NEW GUINEA

59.1 INTRODUCTION

59.1.1 Legislation

The University of PNG was established under the *University of PNG Act (Chapter 169)*.

59.1.2 Objectives of the University

The objectives of the University include the:

- Provision of facilities for study and education;
- Giving of instruction and training in all such branches of learning as are provided for by the Statutes;
- Aiding by research and other means the advancement of knowledge and its practical application;
- Conferring, after examination, of the degrees of Bachelor, Master and Doctorate and such other degrees, diplomas, certificates and other academic honours as are authorised by the Statutes;
- Provision of facilities for university education throughout the country by the affiliation of educational institutions, and by the establishment of tutorial classes, correspondence classes, university extension classes, and vacation classes, and by such other means as the Council thinks appropriate; and
- Liaison, collaboration and reciprocation with other universities and institutions of learning, within or outside the country, in the provision of facilities, the recognition of degrees and other status, and the interchange of staff, students and information, and in any other way not inconsistent with its status as the University.

59.1.3 Subsidiaries of the University

The University has two subsidiaries, Unisave Limited and Univentures Limited, which were incorporated under the *Companies Act 1997*.

Comments in relation to the subsidiaries are contained in paragraph 59A and 59B of this Report.

59.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the years ended 31 December 2009 to 2012 were complete and results were being evaluated.

The University had submitted its financial statements for the year ended 31 December 2013 and arrangements were being made to commence the audit shorty.

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

59A. UNISAVE LIMITED (Subsidiary of University of Papua New Guinea)

59A.1 INTRODUCTION

59A.1.1 Legislation

Unisave Limited was incorporated under the *Companies Act* on 18 October 2011.

The incorporation of Unisave Limited was as a result of a Memorandum of Agreement (MOA) signed between the Univentures Limited, (a company 100% owned by University of PNG) and S.I.T Co. Limited of the Republic of South Korea.

59A.1.2 Objective of the Company

The parties to this MOA shall endeavor to create mutual commercial benefits through assembly and sales of Information Communication Technology (ICT) products and various projects which have price and quality competitiveness compared with other organisations in PNG. This will be achieved by combining of infrastructures and marketing power in PNG provided by Univentures and the technical know-how and successful long-term various experience in Korean ICT market provided by S.I.T.

The main business of the Company is to assemble TVs, PCs, laptops, monitors and other items which can be included under mutual consent, such as systems integration, systems administration and maintenance in information technology.

59A.2 AUDIT OBSERVATIONS

59A.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act 1997* on the financial statements of the Company for the period 18 October 2011 to 31 December 2011 was issued on 25 August 2014. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope Regarding Accounting Records

The Company did not maintain adequate and proper accounting records and registers to form the basis for a systematic preparation of the financial statements. There were no proper control ledgers and documentary evidence in support of the account balance reported in the financial statements.

There was a serious breakdown in the accounting system as a whole which effectively meant that I was unable to place any reliance on the completeness and accuracy of the accounts.

The financial statements were poorly prepared and had no proper supporting documentation and reconciliations. They were prepared from incomplete and insufficient records resulting in the limitation in my audit scope. As a result, it was impracticable to extend my audit procedures sufficiently to determine the accuracy of the information recorded in the financial statements.

The following deficiencies are highlighted:

- The Unisave Limited was incorporated on 18 October 2011. However, the financial statements captured financial transactions for the full year, 2011. As a result, I was unable to comment on the accuracy and completeness of the financial information reported in the financial statements;
- Cash balance of the Company was stated as K137,125 as at 31 December 2011. However, the consolidated financial statements of the parent company (Univentures Limited) showed nil cash balance in the bank account of Unisave Limited. I was not provided with bank statements and monthly bank reconciliation statements for my review and confirmation;
- I was unable to ascertain the valuation and measurement of the *Stock Value* of K200,082 as stated in the financial statements since no stock cards were maintained. Also, the stock count sheets used for the year-end stock-take were not made available for my review;
- The total Fixed Assets value of the Company was stated as K2,000 in *Note 7* to the financial statements. However, the Company did not maintain a proper, complete and accurate Fixed Assets Register to record the details and movements of assets under its custody and control. Physical inspection of certain assets against the records to confirm their occurrence and existence was not possible because of the absence of a proper register. As a result, I was unable to determine the completeness, existence, accuracy and valuation of the fixed assets valuing K2,000;
- Issued shares (initial equity contribution) was presented as K203,606. However, I was unable to verify the initial transfer of cash or capital asset by the shareholders (Univentures Limited and S.I.T as Joint Ventures) which forms basis of equity contribution due to lack of source documentation and appropriate accounting;
- Total revenue of the Company was stated as K457,193 as at 31 December 2011. However, the consolidated financial statements of the parent company (Univentures Limited) presented the revenue of Unisave Limited at K99,734, giving an un-reconciled difference of K357,459.

Also, no adequate documentation on sales, receipting and banking was maintained by the Company. As a result, I was unable to verify the accuracy and completeness of the revenue balance of K457,193; and

- The correctness, occurrence and validity of the payments made for the period under review could not be verified since source documents were not made available for my review.

DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation on the scope of my work, as described in the preceding paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, I was unable to and do not express an opinion as to whether the accompanying financial statements give a true and fair view of the financial position of the Company's financial performance and its cash flows for the period 18 October 2011 to 31 December 2011.

(i) I am unable to form an opinion as to whether proper accounting records have been kept by the Company, so far as appears from my examination of those records; and

(ii) I have not obtained all the information and explanations I have required."

59A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2012, 2013 and 2014 had not been submitted for my inspection and audit, despite numerous reminders.

59B. UNIVENTURES LIMITED (Subsidiary of University of Papua New Guinea)

59B.1 INTRODUCTION

59B.1.1 Legislation

Univentures Limited was incorporated under the *Companies Act,* on 2 August 2007. The Company has a total issued capital of one ordinary share of K1.00 and is wholly owned by the University of Papua New Guinea.

59B.1.2 Functions of the Company

The activities of the Company are to sell and print books in the Bookshop and the Printery respectively, as a business arm of the University of Papua New Guinea.

59B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2012, 2013 and 2014 for my inspection and audit despite numerous reminders from my Office.

60. WATER PNG (Formerly PNG Water Board)

60.1 INTRODUCTION

60.1.1 Legislation

PNG Waterboard was established by the *National Water Supply and Sewerage Act 1986,* which came into operation on 1 January 1987. The 1986 Act repealed the *National Water Supply and Sewerage Act (Chapter 393)* and thereby abolished the National Water Supply and Sewerage Board. On 10 December 2010 PNG Water Board changed its name to Water PNG.

60.1.2 Functions of Water PNG

Water PNG is entrusted with co-ordinating, planning, designing, construction, management and charging for water supply and sewerage services throughout the country.

60.2 AUDIT OBSERVATIONS

60.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the years ended 31 December 2011 and 2012 were issued on 27 February 2015 and 30 March 2015 respectively. The reports contained Disclaimer of Opinions, hence only the 2012 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope due to Opening Balances

My audit report for the year ended 31 December 2011 was a Disclaimer of Opinion due to the limitation of scope on the opening balances. I was not able to satisfy as to the accuracy and completeness of the opening balances of fixed assets, trade debtors, other current assets, asset revaluation reserve, long term borrowings, trade payables and other payables for 2012 which is the closing balance for 2011.

Since these opening balances entered into the determination of the results of operations and cash flows of Water PNG for the financial year 2012, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December 2012.

Revaluation of Fixed Assets

The fixed assets of Water PNG represent a significant proportion of its Balance Sheet; therefore, revaluations are to be performed on an ongoing basis at least once in every three years. In 2010, the Board did not incorporate the new valuations of Land and Buildings based on the valuation report performed by TOL Valuer Limited as well in preparing the Depreciation Schedule based on the report. As a result, the financial statements for 2010 were materially misstated, which had impact on the 2011 and the 2012 financial statements.

Further, the valuation performed in 2010 was limited in scope for only the organisations Land and Buildings; however, the rest of assets owned by Water PNG were not revalued for number of years. This is in non-compliance with the International Accounting Standards *IAS-16 Property, Plant and Equipment.*

As a result, I was unable to ascertain the accuracy of the value of the total fixed assets disclosed in the financial statements as at 31 December 2012.

Land & Buildings at Arawa – Bougainville

The financial statements disclosed a total of K210,732,220 as fixed assets of Water PNG. This total amount includes assets held in Arawa, Bougainville, at a written down value of approximately K1.6 million. The assets held in Arawa, Bougainville include buildings and infrastructure and it has been impossible to visit the area since the crisis in 1989. Hence, it is likely that these assets are non-operational, obsolete, damaged, misplaced or stolen. Therefore, I was unable to ascertain the validity of these assets included in the financial statements as at 31 December 2012.

Land Title Deeds

Water PNG does not have complete records, title deeds or legal proof of ownership over the properties under Land & Buildings. Currently there is no comprehensive listing of the properties owned by the Water PNG. At the time of my audit, the organisation had title deeds for only 17 out of approximately 124 expected title deeds for the lands owned by Water PNG. As such, I was unable to confirm the legality of ownership over the pieces of Lands claimed to be owned by Water PNG as at 31 December 2012.

Work in Progress

Notes 7 to the financial statements under fixed assets reported a WIP total of K14,694,982 included an opening balance of K13,421,656 as Work-In-Progress. In 2012, Work-In-Progress valuing K1,413,516 was transferred to the other fixed assets groups and an additional of K2,804,356 was accounted during the year.

However, all the relevant source documentation, completion report and project audit report on these Work-In-Progress were not made available for my review to determine the validity and accuracy of the value of the projects capitalised or the current status of the Work-In-Progress. I was, therefore, unable to determine the accuracy of the value of the Work-In-Progress or the value of total fixed assets as disclosed in the financial statements at year end.

Physical Stock-take of Water PNG Assets

The physical stock-take on all the fixed assets of Water PNG, across the country, as reported in the financial statements has not been conducted for a number of years. As a result, no accurate information was available on the status of the assets in respect of disposed, obsolete, damaged or stolen assets.

This fundamental failure indicates a lack of control over Water PNG's fixed assets that are currently recorded at a net book value of K210,732,220. Consequently, I was unable to ascertain the accuracy of the value of the fixed assets taken up as K210,732,220 in the financial statements for the year ended 31 December 2012.

Financial Statements for Provincial Water Supply Projects

Water PNG with the assistance of National Government and Asian Development Bank initiated number of Provincial Water Supply Projects (PWSP). However, the audited financial statements of these projects were not made available for my review to determine whether all the projects were completed by the Project Management Unit for capitalisation, so that they could be transferred to the fixed assets. Furthermore, the audit report of the projects for the 2008 financial year remained outstanding. Therefore, I was unable to verify the value of the transfers made and the consequential effects on the financial statements of Water PNG for the year ended 31 December 2012 in respect of the Provincial Water Supply Projects.

Trade Receivables – K15,303,270

The Trade Receivables was disclosed at net of K15,303,270 as at 31 December 2012. Due to inadequate documentation made available for my review it was not possible for me to perform the audit procedure that the trade receivables were received in the subsequent period. Also, the policy of Water PNG in respect of provision for doubtful debts was not made available for my review to determine whether the provision was made as per the policy and whether it was adequate. As such, I was unable to determine the accuracy of the balance of K15,303,270 reported as Trade Receivables after allowing K18,718,701 as provision for doubtful debts as at 31 December 2012.

Other Trade Debtors - K707,817

Other Trade Debtors which amounts to K707,817 and consists of a number of material accounts that have been outstanding for more than ten years.

The documentation or supporting schedules for these amounts were inadequate to confirm the existence and to determine its recoverability. Therefore, I was unable to ascertain the existence and accuracy of the balance of K707,817 included in the trade receivables as at 31 December 2012.

Trade Creditors

Trade Creditors was reported as K2,264,720 in the financial statements. However, this amount was not reconciled and supported by any source document or supplier statement for me to determine the accuracy of the balance as at 31 December 2012. The trade creditors listing produced from the *Pronto System* was incomplete.

Other Payables and Accruals

Note 5(b) reported other payables & accruals totaled K5,681,798. I was not provided with the detailed schedules, reconciliations or source documents amount to K5,681,798 for my verification. Therefore, I was unable to confirm the accuracy of the amount recorded for Other Payables and Accruals as at 31 December 2012.

Asian Development Bank Loan

A total of K87,301,163 was recorded under long term borrowings as amount due to the Asian Development Bank (ADB). This amount represents the costs of water projects completed and funded by the ADB. However, as per the *Loan Agreement* dated 16 January 2001 the loan is entered into between the Government of PNG (GoPNG) and the ADB. As per the *Loan Agreement,* GoPNG is the borrower and ADB the lender of funds for specific projects which were to be carried out by Water PNG (previously PNG Water Board) and on completion of the water projects ownership of the assets is transferred to Water PNG.

As per the documentation on file, Water PNG is not a party in the repayment of the ADB loan but GoPNG as the primary borrower. I had been informed that there is a *Sub-Loan Agreement* between the GoPNG and Water PNG but I was not provided with a copy for my review to verify the claim.

My review revealed that no repayments have been made towards the Asian Development Bank Loan of K87,301,167. Also, no interest appears to be accruing or is being accounted for in respect of this loan in the books of Water PNG.

Due to the absence of complete accounting records and relevant supporting documentation, I was unable to confirm the existence or correctness of this liability to the ADB, whether the loan is being serviced and repaid in line with agreed terms of the agreement.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer Opinion paragraph, I have not been able to obtained sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of the Water PNG for the year ended 31 December 2012. ”

60.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the years ended 31 December 2011 and 2012 were issued on 27 February 2015 and 30 March 2015 respectively. These reports contained similar observations, hence only the 2012 observations are reproduced below:

Fixed Asset Register - General Observations

A high proportion of fully depreciated assets were still recorded in the Fixed Asset Register (FAR). Most of these appear to be very old assets which may or may not exist. As noted, Water PNG has failed to account for obsolescence or theft of assets. Additionally, many assets recorded in the FAR have no specific identifying details. There were insufficient details in the FAR as purchase orders were not used in a number of cases and some additions had no supporting documents. Payments for assets were often based on a quote with no invoice filed or available for review. Accounting for Goods Services Tax (GST) on asset acquisition was incorrect on a number of purchases made. Number of assets purchased during the year was included in the FAR inclusive of GST, and not fully deducted when recording the assets.

Inadequate Insurance Cover

I have noted that Water PNG has insurance cover on its fixed assets, however, given the uncertainty regarding the valuation or existence of these assets there is a risk that claims may be undervalued and not cover actual replacement costs of assets which have been damaged or stolen, may not be identified and therefore cannot be claimed from Insurance.

Without an accurate Fixed Asset Register and adequate insurance cover based on such a register, Water PNG is exposed to significant potential financial losses and legal risks from fire, theft and other destructive occurrences.

General Accounting and Internal Control Environment

The operation of the accounting system and the internal control environment at Water PNG appears to be deficient with the nature of its business.

The organisation suffers due to an ineffective management information system as well as an inadequate financial reporting structure. The result of which is slow, ineffective and incomplete accounting as well as unreliable information for management. This increases the risk of suboptimal decision making, as well as incomplete financial records and delayed financial statements.

The reports that were produced by the system were inaccurate and the Management was unable to substantiate many of the balances included in the general ledger. This effectively meant neither Management nor any third party could place reliance on the accounting system to give a complete and accurate information. Because of the failures in record keeping, internal control, segregation of duties and Management oversight, I am of the view that the Water PNG did not keep proper accounting records of its 2012 financial transactions.

I also observed that the Water PNG lacked a proper documentation system which prevented me from testing the internal control system. Number of essential documentation either could not be retrieved or simply did not exist. This resulted in delays and even failures to provide the requested audit information which impacted me to complete the audit as planned.

The lack of proper documentation and the non-adherence to standard procedures and processes is an example of an ineffective internal control system. The absence of documentary evidence of any control procedures restricted me from carrying out tests for compliance of control procedures and processes but in itself is evidence that the procedures were ineffective.

Compliance with Public Finances (Management) Act 1995

The audit of the 2012 statutory financial statements commenced in November 2014 which was after the deadline of 30 June 2013. As such, the Directors did not meet the deadline set by *Section 63* of the *PFMA* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

60.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of Water PNG for the year ended 31 December 2013 was in progress.

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

SECTION B

NATIONAL GOVERNMENT OWNED COMPANIES

61. FOREWORD

This Section of my Report deals with Companies in which the Government of PNG holds more than 50% of the Issued Share Capital. On 26 January 1983, the *NEC's Decision No. 12/93* expanded my responsibilities to include the audit of National Government Owned Companies and subsidiaries thereof. The audit of Government Owned Companies is also conferred on to me through *Section 3* of the *Audit Act*.

The auditing and reporting requirements of these companies are stipulated in the *Companies Act*.

Section 200 of the *Act* requires the auditor's report on the financial statements to include:

(a) The work done by the auditor;
(b) The scope and limitations of the audit;
(c) The existence of any relationship the auditor has with the Company;
(d) Whether all information and explanations required have been obtained;
(e) Whether in the auditor's opinion, proper accounting records have been kept;
(f) Whether in the auditor's opinion, the financial statements comply with generally accepted accounting practice and, where they do not, the respects in which they fail to comply; and
(g) Whether in the auditor's opinion, the financial statements give a true and fair view of the matters to which they relate and, if not, the respects in which they fail to give such a view.

My audit of Government Owned Companies is conducted in accordance with the requirements of the *Companies Act*. Under *Section 8 (2) of the Audit Act*, I am also expected to report to the Minister for Finance and Treasury, the matters of significance to do with the accounts and records, the financial transactions and the assets and liabilities. The members of the Company are also informed of the same.

62. AIR NIUGINI LIMITED

62.1 INTRODUCTION

62.1.1 Legislation

Air Niugini Limited wa incorporated under the *Companies Act.* It was formed to be the successor company of National Airline Commission, following the NEC decision of 20 June 1996 to corporatise the National Airline Commission in accordance with *Section 45* of the *National Airline Commission Act.*

As a result of the NEC decision, all assets, liabilities, staff and operations of the National Airline Commission were to be transferred at the written down book value (as at 31 August 1996) to Air Niugini Limited. Air Niugini Limited is a 100% State Owned Company.

62.1.2 Objectives of the Company

The principal objectives of the Company are to:

- Carry on the business of airline operators, general carriers, freight forwarders and forwarding agents, warehouse operators, shippers and general agents, ship owners charterers, hospitality and general traders, stevedores, cool store operators, flight contractors, carriers by land, air and water, insurers and insurance brokers and other business which may be usefully carried on in connection with such business;
- Provide transport service, carrier freight transport, courier, taxi truck, light or heavy haulage and delivery services which involves the use of aircraft, railways, ship, road vehicle or any other means of conveyance by land, road, railway, sea, river, canal, water or air to carry and convey passengers, mails, containers, packages, parcels, bulk commodities, goods, merchandise, livestock and produce and property of every description;
- Carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- Carry passengers by air, road, rail, land, sea or water and to operate any taxi service and to obtain any necessary licences for such purposes.

62.2 AUDIT OBSERVATIONS

62.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2013 was issued on 12 February 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Valuation of Rotables and Engines

Air Niugini (the Company) has a policy to revalue its rotables and engines once in every three years, with the last valuation being performed in 2010. In line with the policy, the Company hired an independent external valuer to perform the valuation of rotables and engines as at 31 December 2013. However, upon reviewing the draft valuation the Board of Directors and Management believed that the valuation which indicated a possible increase of K26.27 million in value of rotables and engines was excessive and did not reflect the true fair value of the assets. The Board has concluded that the present book value of the assets was more appropriate measure as at 31 December 2013.

The Company has not provided me with sufficient and appropriate audit evidence as to why the Board and Management rejected the independent external valuation and to conclude the present book value is more appropriate. It is impractical for me to determine a value for rotables and engines as at 31 December 2013. As such, I was unable to determine what adjustments might be necessary to the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2013 and for the comparative year ended 31 December 2012.

Componentisation of Assets

IAS 16 "Property, Plant and Equipment" requires that *"for each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately."* I noted that the Company does not depreciate the components of the aircrafts that it owns or finance leases in accordance with IAS 16, rather the aircrafts are depreciated as a whole. Due to the difficulty in identifying and separating the components (which are rotated) and calculating the estimated depreciation over their useful lives, I was unable to quantify the effect on the financial statements; however, I believe the accumulated effect would be material.

Due to the fact that the Company records its aircrafts at fair value based on valuations completed as at 31 December each year, the error would not have any effect on the net assets of the Company and any difference in the statement of financial position as at year end would be a difference between the Revaluation Reserve and the Company's Profit/Retained Earnings.

However, I was unable to determine what adjustments might be necessary to the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2013, and for the comparative year ended 31 December 2012.

Useful life of Aircraft

I noted that when an aircraft is revalued each year subsequent to its year of purchase, the original useful life of the aircraft is used to depreciate the new value of the aircraft and not the remaining useful life based on the purchase date. I further noted that certain aircraft have been in service for periods exceeding their original useful lives used for depreciation purposes. As a result, the Company is not formally re-assessing the useful lives of the aircrafts at each balance date. This may result in a number of different errors in depreciation calculations, and also in the revaluation increments when aircrafts are subsequently revalued.

As with componentisation of assets, due to the aircrafts being revalued every year, depreciation errors would not have an effect on the net assets of the Company at year end, however, I was unable to determine what adjustments might be necessary to the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2013, and for the comparative year ended 31 December 2012.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above:

(a) The financial statements of Air Niugini Limited for the year ended 31 December 2013:

  (i) Give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and
  (ii) The financial statements have been presented in accordance with the *Companies Act 1997, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;

(b) Proper accounting records have been kept by the Company; and
(c) I have obtained all the information and explanation as required except for the matter referred to in the qualification paragraphs."

62.2.2 Audit Observations Reported to the Minister

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2013 was issued on 12 February 2015. The report contained the following observations:

Inventory Aging Analysis

During 2013, I have noted that aging of inventory has not been set up in WinAir system and this was carried over and raised from 2012 and 2011 audit findings.

I have noted that an analysis of aged stock had not been completed as at year end which required adjustments to both Consumable and Commercial stock obsolescence during the audit and prior year. I also noted that that does not appear to be any formal process to identify obsolete stocks for consumable stock and commercial stock and is done on a manual adhoc basis by stores staff.

There had been delays in obtaining required supporting documents in assessing the reasonableness of provision of obsolescence. No aging analysis being done by Management may result in the valuation of inventory not being fairly stated as at year end.

Receipts and Issues of Rotables not properly Recorded

During my audit, I have noted a number of receipts and issues of rotables not being accounted for. By not correctly recording the movement of rotables, this may lead to misstatement of value at each reporting date. It may also result in the misappropriation of the assets. Management has noted that this is an ongoing issue and I have been informed that the Company is looking at ways to address this. I recommend to Management that an appropriate system be put in place that can track the movement of rotables and that sufficient controls are put in place to ensure all movements are recorded.

Accounting for Previously Unrecorded Land

During the year, the Management identified twenty eight blocks of land for which the Company was paying rates and taxes but were not included in the Company's assets register or financial statements. On the basis that Management were unable to recover acquisition documentation, including the original purchase price, Management have obtained an independent valuation and included the fair value of K7 million as an increment to Property, Plant and Equipment and the Revaluation Reserve.

I have not been provided with title deeds of the properties, nor any information in respect of the properties original acquisition. The Company has not been able to calculate the effect of this proposed error on prior year financial statements and no restatement of prior year financial statements has been made. I was unable to determine whether ownership of the land remains with the Company or whether any adjustments might be necessary to the statement of financial position, statement of comprehensive income, statement of cash flows and statement of equity for the year ended 31 December 2013, and for the comparative year ended 31 December 2012.

Information Technology

During the 2013 audit, I was unable to take a full controls approach to the audit as many of the Company's general IT controls are not effective.

This results in a far more substantive audit approach including more intrusive and time consuming procedures. The lack of IT controls should also be a concern for the Company as it indicates there is a higher possibility of misstatement or fraud. A number of specific deficiencies found have been detailed in the Management Letter provided to the Company. It is important that a company of Air Niugini size and complexity should have a functioning internal control environment.

I recommended to Management to review all IT controls (general and application) to find all deficiencies and rectify them effectively.

Compliance with Public Finances (Management) Act 1995

The Directors did not meet the deadline set by the *Section 63* of the *PFMA* for the year 31 December 2013 audited financial statements of Public Bodies to be furnished to the Minister before 30 June of the subsequent year.

62.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2014 was in progress.

63. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

63.1 INTRODUCTION

63.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the *Companies Act.* The share capital is wholly owned by the National Government.

63.1.2 Functions of the Corporation

The main activities of the Corporation are breeding and slaughtering cattle and pigs, purchasing and exporting insects, growing vegetables and fruits, and raising poultry.

63.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013 and 2014 for my inspection and audit.

I expressed my concern to the Minister for Agriculture and Livestock through my letter dated 11 March 2015 for the long delay experienced by the Corporation in submitting the financial statements to enable me to perform the audit for the above years.

64. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

64.1 INTRODUCTION

64.1.1 Legislation

The Mineral Resources Development Company Limited (MRDC) was incorporated under the *Companies Act*. The Company is wholly owned by the National Government. The authorised capital of the Company was increased from 10,000 Ordinary Shares to 10,000,000 Ordinary Shares of K1 each, in June, 1992. An additional 4,906,015 shares were issued to the Independent State of PNG in June 1992, converting the Government grant and the shareholders loan to equity. The Company also acquired the Government's 20% interest in Misima Mines Limited.

64.1.2 Objective of the Company

The principal objective of the Company is to hold the Government's equity in mineral and petroleum development ventures within PNG.

64.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

64.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2011 was issued on 27 February 2015. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OPINION

Compliance with International Financial Reporting Standards (IFRS)

The 2011 financial statements as presented did not contain all the disclosures required by *IFRS.* Material disclosures were omitted from the financial statements related to the following accounting standards:

- IFRS 7, Financial Instruments: Disclosures;
- IAS 24, Related Party Disclosures;
- IAS 27, Consolidated and Separate financial statements; and
- IAS 32, Financial Instruments: Presentation.

Related Party Receivables

Note 9(b) of the financial statements disclosed K7,623,000 as receivables from related party as at 31 December 2011.

However, I was unable to obtain sufficient appropriate audit evidence regarding the existence and accuracy of certain related party receivables totalling K6,122,000. Accordingly, I was unable to determine whether any adjustments to amounts due from related parties recorded in the financial statements was necessary.

Investments in Highlands Pacific Limited

Of the total investment of K50,823,000 shown in the financial statements, K3,833,000 (2010: K14,728,000) was invested in Highland Pacific Limited (HPL). As per *Note 12* to the financial statements, the Government of Papua New Guinea by *National Gazette Number G125* dated 02 August 2002 issued a vesting notice which effectively transferred MRDC's shares in HPL to Independent Public Business Corporation (IPBC). Subsequently, a *Gazette Notice Number G105* dated 8 August 2003 was issued reversing the transfer made in *Gazette Number 125*. Also, this notice required alterations to the effect from 20 June 2002. However, in 2007, the *Independent Public Business Corporation (Amendment) Act 2007* included a clause under *Section 50(7)* that any revocation notice issued by the Minister of any assets vested with the Corporation between the enactment of *IPBC Act 2002* and the *IPBC (amendment) Act 2007* is void and of no effect.

As such, I was unable to satisfactorily confirm MRDC's claim of ownership of Highland Pacific Limited shares valued at K3,833,000 included in the total investment of K50,823,000 as at 31 December 2011.

Investments in Coleman Property

As disclosed in *Note 12(c)* to the financial statements under investment, the Company invested in MRDC Pty Limited (Coleman Property), a foreign associate, totalled K2,637,000 (2010: K3,217,000) accounted under equity method. The Company's share of net loss of K580,000 (2010: Nil) is included in the Company's income for the year then ended. I was unable to obtain sufficient appropriate audit evidence over the carrying amount of the investments in MRDC Pty Limited as of 31 December 2011 and 31 December 2010, as well as the net loss for the year ended 31 December 2011, since I have not been provided with the audited financial statements of MRDC Pty Ltd for the relevant financial years or alternate evidence as to the carrying amount of share of earnings for the period. Accordingly, I was unable to determine whether any adjustments to investment in associates or share of loss of investment in associate are necessary and the flow on impacts to the statement presented.

Investments – Non Consolidation of Subsidiaries

Note 12(d) discloses certain investments relating to costs of projects under development, describing Mineral Resources Ramu Limited ("MRR") and Mineral Resources Madang Limited ("MRM") as subsidiaries of the Company.

As these entities are 100% owned subsidiaries of the Company, consolidated financial statements including these subsidiaries are required to be prepared in accordance with *IAS 27 Consolidated and Separate Financial Statements*. No such consolidated financial statements have been prepared. The Company has accounted for these investments on a cost basis, and is not compliant with the accounting standards.

Had MRR and MRM been consolidated, many elements in the accompanying financial statements may have been materially affected. I was unable to quantify or determine whether any adjustments, if any, are required to the financial statements of the Company to reflect the issue of not consolidating.

Investment in Ramu Nickel

As disclosed in *Note 12(d)*, the Company has an investment in the Ramu Nickel Project carried at K15,072,000 as at 31 December, 2011 through its investments in MRR and MRM. I understand the investment as disclosed in *Note 12(d),* represents the capital injection into the Ramu Nickel Project on behalf of these investments, thus, in reality representing an investment by the Company into MRR and MRM instead. I have not been provided with financial statements of the Ramu Nickel Project nor MRR and MRM, nor have I been provided with any documentation supporting the direct or indirect investment into, or loans to these investments. I was therefore unable to obtain appropriate evidence as to the existence and accuracy of these investments. Accordingly, I was unable to determine whether any adjustments were necessary in respect of the Company's investment in Ramu Nickel Project, MRR and MRM as at 31 December 2011 and 31 December 2010.

Tax on Employee Benefits and Entitlements

A significant number of MRDC employees allocate a portion of their salary package to meet their housing, motor vehicle purchase, school fees and other expenses. I was not provided with all sufficient evidence to satisfy myself that the applicable taxes had been appropriately calculated in accordance with the *PNG Income Tax Act*, nor that appropriate documentation was lodged with the Internal Revenue Commission (IRC) to support the allocations and payments.

I further was unable to determine whether this had been done in previous financial years. As such, I was unable to obtain sufficient appropriate evidence that employee group taxes payable as disclosed on *Note 13* to the financial statements were complete and accurate. Accordingly, I was unable to determine whether any adjustment is necessary to the *"Payable"* balance in the statement of financial position or applicable payroll expenses in the statement of comprehensive income in the 2011 or 2010 financial statements was necessary.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of Mineral Resources Development Company Limited for the year ended 31 December 2011."

64.2.2 Audit Observations Reported to the Minister

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2011 was issued on 27 February 2015. The report contained the following comments:

Managing Director's Contract

I noted that a *"Professional Services Agreement"* was signed on 15 May 2008 between MRDC and Augustine Mano as the *"Incumbent Professional"* of SMA Investment Limited *"the company".*

Section 4 of the contract states that MRDC will pay the Managing Director and SMA Investments Limited a monthly fee of K62,500 (K750,000 annually, GST excluded), based on an invoice provided by SMA Investment Limited.

However, the Managing Director had written to the payroll division of MRDC advising that his package be structured into two components; where K150,000 was to be paid as salary to him through the MRDC payroll, and K600,000 be paid to SMA Investments Ltd at K50,000 per month. The K50,000 monthly payment to SMA is divided into Housing (K20,000), Vehicle (K20,000) and other allowances (K10,000).

In my 2008 Management Letter to the Board and Management of MRDC, I have raised concern that this arrangement may be viewed as tax evasion. I have recommended in that letter, that the Management of MRDC should seek independent tax advice from reputable accounting firms immediately on the consequence of this arrangement and assessment of the under payment of tax. I also recommended that Management should withhold making the monthly payments to SMA until the tax advice had been sought.

Management of MRDC had responded to my 2008 Management Letter points, stating that the restructure was not an attempt to evade tax, but was a normal practice applied by MRDC to cater for the Managing Directors current needs.

Management also agreed to seek independent tax advice to confirm the above arrangement.

However, during the course of my audit of the year ended 31 December 2011, I have not been provided with any reports compiled by the independent tax advisors to confirm the above arrangement.

A Managing Director or Director of a Company is always a natural person. The Managing Director of MRDC is an employee of MRDC. All benefits of any employee are classed as salary and wages and must be taxed according to the tax rules applicable. The current arrangement of the Managing Director can be viewed as a measure to reduce or evade tax.

Should MRDC continue to allow this, the IRC can deem the payments as net of tax and demand MRDC to pay the tax. There are penalties for both the employer and employee pursuant to *Section 361* of the *Income Tax Act 1959*. Such a scenario can lead to undesirable consequences for both parties.

Due to the inaction by the MRDC management to seek further advice and clarification from IRC, I was of the view that the management is deliberately allowing this anomaly to continue.

Directors Fees and Retirement Benefit

Directors' fees payable is required to be approved by the Prime Minister responsible for MRDC, I was not provided with a copy of the approval in relation to the payments made to non-ex-officio directors totalling a gross of K345,000.

I also noted that a general provision of K968,000 had been made in the books to cater for retirement benefits for retiring Directors, which is not warranted for non-executive directors. In addition, I was not provided with information confirming the Ministerial approval for the fees paid to non-ex-officio directors.

Financial Reporting – Reconciliation and Supporting Documentation

During the course of my audit, it was identified that certain balance sheet reconciliations and the preparation of appropriate supporting documentation for balances and transactions recorded in the general ledger were not performed effectively. I also identified that some reconciliations were not done timely, and some reconciliations did not appear to be reviewed effectively as errors were identified through the audit process.

I recommended that a review of the control and review process, including available resources be conducted. Appropriate personnel should be engaged to ensure the review process is thorough and complete.

Credit-card Expenses Acquittal

During my review of credit-card reconciliations, I noted that the reconciliations do not show the nature of the specific business for which the expenses were incurred. Hence, I was unable to identify expenses incurred for personal use and those used on business.

Establishment of Audit Committee and Investment Committee

I noted that the responsibilities of MRDC had increased significantly as the government issued more development licenses for Oil, Gas and Mining operations in the country. MRDC is set to manage more investment vehicles for landowners. Therefore, it is important that the increased investment and operating activities are managed within a framework that ensures transparency and diligence.

As a result of MRDC's responsibility increased in managing the funds of the landowners its exposure to risk is very high. However, at present there is non-existence of an Investment Committee and an Audit Committee with appropriate specialist involvement. All investments must be approved by the Investment Committee before Board approval.

Compliance with Public Finance (Management) Act 1995

The financial statements for the year ended 31 December 2011 were approved and issued on 2 June 2014. The directors did not meet the deadline set by *Section 63* of the *PFMA* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

64.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2012 was in progress.

The financial statements for the years ended 31 December 2013 and 2014 had not been submitted for my inspection and audit.

65. MOTOR VEHICLES INSURANCE LIMITED

65.1 INTRODUCTION

65.1.1 Legislation

The Motor Vehicles Insurance (PNG) Trust Limited was incorporated under the *Companies Act* following the NEC Decision No. 4/98 of January 1998. It was formed to change the status of the then existing Motor Vehicles Insurance (PNG) Trust to conform to the intentions of the NEC for the then PNG Banking Corporation Holding Company No. 1 Limited to acquire the business of the Trust as part of the reform of the financial services sector.

The Trust was incorporated under the *Companies Act* as Motor Vehicles Insurance (PNG) Trust Limited (MVITL). The shares of this entity which were held by the Independent State of PNG were subsequently sold to the then PNG Banking Corporation, an entity also owned and controlled by the State.

On 31 December 1998, as part of the corporatisation and restructuring programme of the then PNG Banking Corporation Group, PNGBC Limited, PNGBC Holding Co. No. 1 Limited and Motor Vehicles Insurance (PNG) Trust Limited were amalgamated under the provisions of the *Companies Act* to form an amalgamated Company, PNGBC Limited. The ultimate parent Company of PNGBC Limited was Finance Pacific Limited, a Company wholly owned and controlled by the Independent State of PNG.

With effect from 1 January 1999 Motor Vehicles Insurance Limited was incorporated under the *Companies Act* to underwrite the third party insurance under the Act in succession to the Trust and MVITL.

The assets of MVITL immediately before the amalgamation with the then PNGBC Limited were transferred to MVIL when it took over the responsibility for providing third party insurance.

65.2 AUDIT OBSERVATIONS

65.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2011 was issued on 4 July 2014. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Loss on Equity Monetisation of BSP Shares

As at 1 January 2009, MVIL owned 530,105,100 shares in Bank of South Pacific (BSP). These shares under Equity Monetisation Contract (EMC) were mortgaged to Nominees Niugini Limited on 22 July 2009 for a loan of K100 Million. The value of these shares mortgaged at the date of transfer was K439,987,233, K0.83/share as per POM Stock Exchange.

On 6 June 2011 BSP reconstructed its shares by issuing one share for every ten shares held and 530,105,100 BSP shares owned by MVIL were converted into 53,010,510 shares. On 22 June 2011, 21,766,774 mortgaged BSP shares were retained by Nominee Niugini Limited as a result of the termination of the Equity Monetisation Contract and 31,243,736 BSP shares were transferred back to MVIL.

As a result of this Equity Monetisation Contract, MVIL incurred a loss of K45,837,385 as noted below:

Value of 53,010,510 shares as at 22 June 2011 @ K6.70/ Share	K355,170,417
Value of 31,243,736 shares transferred back to MVIL @K6.70/Share	K209,333,031
Gross Loss Incurred on the transfer	K145,837,385
Less: EMC proceed	K100,000,000
Loss on transfer of BSP Shares as at 22 June 2011	K 45,837,385

However, this loss was not provided in the accounts of MVIL for the year ended 31 December 2011. Therefore, I was unable to determine the accuracy of the loss taken up as K85,546,306 in the financial statements as at 31 December 2011.

Overseas Investments

Note 7(a) of the financial statements disclosed a total amount of K376,232,000 as Non-Current Investments. Of this, K62,304,769 relates to overseas investment of K100 million (gross) in Woodlawn Capital, Australia. As a result of this investment a provision for loss of K38,257,971 was made in the accounts for the year. The Fund Manager's confirmation disclosed that equivalent amount held in foreign currency (Australian dollars) was AUD $27,536,040. However, the relevant certificates of these investments were not made available for my review to verify the claim made by the Fund Manager. Therefore, I was unable to verify the accuracy of the non-current investments taken up as K376,232,000 in the financial statements as at 31 December 2011.

Valuation of Unquoted Shares

MVIL has not determined the fair value of Westpac and Pacific International Hospital shares as these shares are unquoted.

Therefore, I was unable to determine the accuracy and valuation of the unquoted shares taken up in the financial statements as K2.9 million.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above:

(a) The financial statements of Motor Vehicles Insurance Limited for the year ended 31 December 2011:
   (i) Give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and
   (ii) The financial statements have been presented in accordance with the *Companies Act, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

(b) Except as noted under the Basis of Qualified Opinion and Emphasis of Matter paragraphs, proper accounting records have been kept by the Company; and

(c) I have obtained all the information and explanation as required except for the matter referred to in qualification paragraphs and other matters.

EMPHASIS OF MATTERS

Without qualifying my opinion, I wish to draw the attention to the following matters which I consider significant.

Non-Compliance of Companies Act

Further to my qualification in respect of Monetisation of BSP shares of 530,150,100, I have noted that the MVIL Board has erred in law by convening an illegal meeting to obtain a *"Special Resolution"* of the Board for the Monetisation of BSP shares. According to *Section 2* of the *Companies Act 1997, "Special Resolution"* means the *"special resolution of shareholders"* and in this case, Independent Public Business Corporation (IPBC). IPBC has not given the consent for this Monetisation Contract before the contract and even after the transaction had taken place.

False declarations were made on the Finance Forms which form part of the Equity Monetisation Contract and Mortgage Contract.

The MVIL Board had contravened *Sections 110, 112, 114* and *115* of the *Companies Act 1997*. The respective provisions of the *Companies Act* referred to, requires that all the Company's major transactions entered into shall be approved by the shareholders of the Company which is the IPBC, by a *Special Resolution*. Further, the Directors of the Company shall act in good faith in the best interest of the Company, in that they shall not act or agree to the Company acting in a manner that contravenes the *Companies Act* and the *Constitution of the Company*.

As a consequence of their failure, I am of the view that the MVIL Board Members could be penalised under *Sections 112 (5), 114 (2) and 115 (2) of the Companies Act* and other relevant provisions relating to offences and penalties. These *Sections* impose significant penalties, including financial penalties for failure to comply with the *Act*.

In my 2009 and 2010 audit reports, I also reported the issue on the non-compliance of the *Companies Act* by Management of MVIL regarding the loan of K100 million from Nominees Niugini Limited by mortgaging 530,105,100 BSP shares. I mentioned too that the matter was subject to a Special Investigation by my Office.

At the time of preparing this Report, the Special Investigation referred to had been completed and the results were still being evaluated.

Non-Compliance of Independent Public Business Corporation Act 2002

The K100,000,000 loan arrangement and the mortgaging of the 530,105,100 BSP shares breached *Section 46B* of the *IPBC Act 2002* because the Section requires the Ministerial approval from the Minister of Finance and Treasury upon the recommendation of the Managing Director of IPBC."

65.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2012, 2013 and 2014 were in progress.

66. NATIONAL AIRPORTS CORPORATION LIMITED

66.1 INTRODUCTION

66.1.1 Legislation

National Airports Corporation Limited was incorporated under the *Companies Act*. The Company had begun operations in October 2009 after its incorporation on 6 October 2009. This Company was established in accordance with *Section 132* of the *Civil Aviation Act 2000 (as amended).*

National Airports Corporation Limited is regulated by the *Civil Aviation Authority Act 2000 (as amended)* as a Company having its own operating certificates. Except for the governance requirements specified in the *Civil Aviation Act*, it operates independently. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the Independent State of Papua New Guinea.

66.1.2 Functions of Corporation

The functions of the National Airports Corporation Limited are derived from *Section 132* of the *Civil Aviation Act*.

66.1.3 Subsidiaries of the Corporation

The Corporation has a subsidiary company, Airport *City Development Limited*. Comments in relation to that company are contained in paragraph 66A of this Report.

66.1.4 Project of the Corporation

The National Airports Corporation Limited also manages the *Civil Aviation Development Investment Program (CADIP)* which is funded by Asian Development Bank and counter funded by the Government of PNG (GoPNG). Comments in relation to the Project is contained in the **Special Project Audits Report to Parliament**.

66.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2011 was in progress.

The Company had not submitted its financial statements for the years ended 31 December 2012, 2013 and 2014 for my inspection and audit, despite repeated reminders.

66A. AIRPORT CITY DEVELOPMENT LIMITED (Subsidiary of National Airports Corporation Limited)

66A.1 INTRODUCTION

The Airport City Development Limited was incorporated on 20 August 2009 and was deregistered on 20 April 2010. However, the Company was reinstated on 19 September 2011 as a subsidiary company of the National Airports Corporation Limited. The Company came into operation on 19 September 2012.

66A.2 CHARTER OF THE COMPANY

The Company was incorporated to establish and manage the design, construction and operating stages of the Airport City Project to ensure economic, technically sound and expeditious completion of the Airport City Project.

66A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2012, 2013 and 2014 had not been submitted for my inspection and audit, despite reminders.

67. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)

67.1 INTRODUCTION

67.1.1 Legislation and Objectives of the Company

The NCD Water and Sewerage Limited was incorporated on 23 February 1996 under the *Companies Act*. The *NCDC (Transfer of Assets) Act 1996* provided for the vesting in the Company of the assets required for the supply of treated water and the treatment of sewerage from the NCDC.

67.1.2 Functions of the Company

The principal functions of the Company are to provide the supply of treated water, and the treatment and disposal of sewerage within the NCD.

67.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

67.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act 1997* on the Company's financial statements for the year ended 31 December 2013 was issued on 23 April 2015. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Fixed Assets – K48,935,809

The Company has disclosed its Fixed Assets at a written down value of K48,935,809 as at 31 December 2013. Of the total Fixed Assets, I was not able to verify K15,808,611 worth of assets classified under Water and Sewerage Assets categories. Further, the Company has not maintained a fixed assets register for all the fixed assets under the custody and control of the Company. As a result, I was not able to verify the accuracy, measurement, existence and completeness of the carrying amount of the fixed assets at the year end.

Stock – K3,225,011

During the review of the Company's stock valuation balance of K3,225,011 as at 31 December 2013, I noted that the Company did not maintain a proper inventory system to enable me to verify the accuracy and completeness of the stock account. As a result, I was not able to verify the stock balance at year-end.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above:

(a) The financial statements of NCD Water and Sewerage Limited for the year ended 31 December 2013:

  (i) Give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
  (ii) The financial statements have been presented in accordance with the *Companies Act 1997* and *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;

(b) Proper accounting records have been kept by the Company; and
(c) I have obtained all the information and explanation required.

OTHER MATTER

Compliance with Public Finances (Management) Act 1995

The financial statements for the year ended 31 December 2013 was approved and issued on 21 April 2015. The Directors did not meet the deadline set by *Section 63* of the *PFMA* for audited financial statements of public bodies to furnish to the Minister before 30 June of the subsequent year."

67.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Company for the year ended 31 December 2013 was issued on 23 April 2014. The report contained the following observations:

Balance Sheet Reconciliations and Schedules

To ensure that the accounts are complete and accurate, all balance sheet account items from the trial balance must be reconciled, differences identified, adjustments taken and copies made ready for audit examination as and when required. This has not been the case whereby staff attended to audit request on adhoc basis. Due to the delay in providing reconciliations, audit schedules and supporting documents, audit examinations have been affected and causing delays in completing the audit. I recommended to Management that reconciliation process should be on a regular basis and all supporting schedules should be made available during the audit.

Budget Control

Budget is a plan that guides the organisation on inflow of income and outflow of expenses at the same time. This means budgetary controls is very important for any money making organisation. In this case, several expenditure accounts were overspent by huge amounts when comparing the actual against the budget.

Expense Account	Actual	Budget	Variance	% Variance
Legal Cost	1,678,009	600,000	1,078,009	180
Overtime	1,160,483	556,000	604,483	109
Minor Works	3,696,752	2,260,000	1,436,752	64
Equipment Hire	4,199,442	1,117,400	3,082,042	276
MV Repairs	3,028,676	530,000	2,498,676	471
Hire Cars	365,385	20,000	345,385	1,727
Travel & Accommodation	890,853	710,000	180,853	25
Security Cost	2,147,521	1,045,000	1,102,521	105

I recommended Management ensure that budget control measures are in place and strictly monitored so that the organisation makes a profit as required by the shareholder. Management responded as follows:

"Legal costs – the increase was due to legal options sought externally before and immediately after the BOT agreement was terminated.

Overtime – due to so much of repair and maintenance work done during the period than expected.

Minor Works – the new Board wanted refurbishment work on various installations.

Hire of Heavy Equipment – this is hire of backhoes. The Board met and made a decision to double the hourly rate from K200 to K400 per hour and also allowed a K200 per hour for standby time.

MV repairs – increase in the number of vehicles. The replaced vehicles were still in use with higher R&M costs.

Hire Cars – this was for vehicles used by Police and the Board for security reason immediately after taking office as well as during the BOT termination period.

Travel & Accommodation – overseas trips taken by the Board and senior management.

Security Costs – security was paramount for the new Board and the CEO straight after taking office."

Payment Vouchers

My examination of the payment vouchers showed the following weaknesses:

- 18 cheques and payment requisitions were not signed by the authorised signatories;
- 12 payment vouchers were not located in the files either missing or misplaced; and
- 5 payment vouchers did not have complete documentations where copy of the Board Resolution was not attached to justify the payment.

I recommended that Management should ensure that proper authorisation procedure is complete to validate the payment. In addition, proper filing of relevant records is required by law, therefore, all documents must be filed intact. Management concurred with my recommendation.

67.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the year ended 31 December 2014 had not been submitted for my inspection and audit.

68. NPCP HOLDINGS LIMITED

68.1 INTRODUCTION

68.1.1 Legislation

This Company was incorporated under the *Companies Act* on 4 March 2014 and was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. IPBC is the sole shareholder of NPCP Holdings Limited and all the shares which were held by IPBC in National Petroleum Company PNG (Kroton) Limited (NPCP) were transferred to NPCP Holdings Limited as its sole shareholder.

68.1.2 Objective of the Company

NPCP Holdings Limited and its wholly owned subsidiaries are the only group of State Owned Companies from which the State would nominate one or more of them to participate in all future Petroleum Projects as State nominee for the purposes of *Section 165* of the *Oil and Gas Act 1998*.

68.2 AUDIT OBSERVATIONS

68.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statement for the year ended 31 December 2014 was issued on 16 June 2015. The report did not contain any qualification.

68A. NPCP INVESTMENTS LIMITED (Subsidiary of NPCP Holdings Limited)

68A.1 INTRODUCTION

68A.1.1 Legislation

This Company was incorporated under the *Companies Act* on 15 October 2014. This Company was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. NPCP Holdings is the sole shareholder of NPCP Investments Limited.

68A.1.2 Objective of the Company

The Principal objective of the Company is to hold the State's shareholding interest in Oil Search Limited and other Investments by the State in oil and gas in Papua New Guinea. In this respect, on 4 March 2014, Independent State of PNG (ISPNG) acquired 10.01% shareholding (149,390,244 shares) in Oil Search Limited (OSH) at a price of AUD8.20 per share for a total consideration of AUD1,225 million. The funding for purchase of the ISPNG interest in OSH was provided by UBS Australia. On 23 December 2014, ISPNG transferred its 10.01% shareholding interest in OSH and the obligations arising from the loan facilities provide by UBS to NPCP Investments Limited and NPCP Holdings Limited.

68A.2 AUDIT OBSERVATIONS

68A.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2014 was issued on 16 June 2015. The report did not contain any qualification.

68B. NATIONAL PETROLEUM COMPANY OF PNG (KROTON) LIMITED (Subsidiary of NPCP Holdings Limited)

68B.1 INTRODUCTION

68B.1.1 Legislation

National Petroleum Company of PNG (Kroton) Limited was incorporated under the *Companies Act* and was acquired by IPBC on 24 November 2008.

IPBC was approved as the State's nominee in the PNG Liquefied Natural Gas (PNGLNG) Project as resolved by *NEC in its Meeting No. 36/2008 through Decision No. 223/2008*. NPCP Holdings Limited is the 100% Shareholder of National Petroleum Company of PNG (Kroton) Limited as per NEC *Decision No. 108/2011* dated 7 July 2011, which came into effect in 2013. All the Company's shares held by IPBC were transferred to NPCP Holdings Limited in 2013.

68B.1.2 Objective of the Company

The objective of National Petroleum Company of PNG (Kroton) Limited is to invest in the PNG LNG Project as PNG State's nominee holding 16.57% Equity in the Project.

68B.2 AUDIT OBSERVATIONS

68B2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2011, 2012, 2013 and 2014 were issued on separate dates. The 2011 and 2012 reports were issued on 28 November 2014, 2013 and 2014 reports were issued on 27 January and 16 June 2015 respectively. The reports did not contain any qualifications.

68C. NPCP PIPELINE AND GAS SUPPLY LIMITED (Subsidiary of NPCP Holdings Limited)

68C.1 INTRODUCTION

68C.1.1 Legislation

This Company was incorporated under the *Companies Act* on 19 September 2014. This Company was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. NPCP Holdings Limited is the sole shareholder of NPCP Pipeline and Gas Supply Limited.

68C.1.2 Objective of the Company

NPCP Pipeline and Gas Supply Limited objective is to provide pipeline facilities to the upcoming various Liquefied Natural Gas (LNG) projects. In 2014, the Company has purchased 100% shareholding in Cue PNG Limited at a cost of US$7 million and changed the name as NPCP Oil Company Limited registered in Melbourne, Australia.

68C.2 AUDIT OBSERVATIONS

68C.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2014 was issued on 16 June 2015. The report did not contain any qualification.

69. PNG PORTS CORPORATION LIMITED (Formerly PNG Harbours Limited)

69.1 INTRODUCTION

69.1.1 Legislation

PNG Harbours Limited was incorporated under the *Companies Act* on 19 June 2002. This initiative was in accordance with the privatisation policy approved by the NEC in 1999. The Company changed its name to PNG Ports Corporation Limited on 7 March 2006.

69.1.2 Functions of the Company

The general functions of PNG Ports Corporation Limited include the regulation, management, control and operation of declared ports; the movement of shipping therein; and the maintenance of light ships, buoys, beacons, moorings, wharves, docks, piers, jetties, landing stages, slips, landing ramps, and platforms.

69.2 AUDIT OBSERVATIONS

69.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2012 and 2013 were issued on 25 August 2014 and 13 April 2015 respectively. The reports contained Qualified Opinions, hence only the 2013 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Revaluation of Property, Plant and Equipment – Revaluation of Entire Class of Assets

The Company carried out a revaluation in 2011 of land, building and wharf facilities resulting in an increase in the value of the property, plant and equipment by K568 million. However, wharf facilities with a carrying value of K73 million were not considered for revaluation. This in my opinion is a departure from International Accounting Standards 16 – Property, Plant and Equipment (IAS 16) which requires that where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Had the wharf facilities been completely revalued in their entirety, the carrying value of property, plant and equipment and revaluation reserve may have been materially different to that recorded in the attached financial report. The financial effect of this matter is unable to be quantified.

Non-Consolidation of Subsidiaries

In 2011, the Company incorporated Dylup Estate Holdings Ltd and North Coast Agri Services Ltd, which are fully owned subsidiaries. However, these subsidiaries were not consolidated by the Company on the basis that their business activities are dissimilar to the Company's operations and are expected to be sold in near future. This in my opinion is a departure from International Accounting Standards 27 (IAS 27) *"Consolidated and Separate Financial Statements"* which requires these subsidiaries should be consolidated. Had these subsidiaries been consolidated, the non-current assets would have been increased and the current assets would have been decreased by K4.79 million at 31 December 2013 and the profit after tax for the year then ended would have been decreased by K1.16 million.

Capital Work in Progress

As at 31 December 2013, costs incurred in relation to delays amounting to K47 million for the Lae Port Project No. 280 were recognised and capitalised as part of capital work in progress. The contractor has claimed there have been serious delays in the execution of works and made claims for costs relating to the delays on the basis that they result from error in the design of various aspects of the work amounting to K47 million. In accordance with IAS 16, the cost of abnormal amounts of wasted material, labour, or other resources is not included in the cost of the asset. Had the Company recognised the delay cost as expense, the carrying value of the capital work in progress and retained earnings and profit for the year in 2013 would have decreased by K47 million.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above:

(a) The financial statements of PNG Ports Corporation Limited for the year ended 31 December 2013:
   (i) Give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
   (ii) The financial statements have been presented in accordance with the *Companies Act 1997, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;

(b) Proper accounting records have been kept by the Company as far as it appears from my examination of those records; and

(c) I have obtained all the information and explanations required.

EMPHASIS OF MATTER

Without qualifying my opinion, I wish to draw your attention to the following matter which I consider significant.

Compliance with the Companies Act 1997

The financial statements for the year ended 31 December 2013 have not been submitted to the Registrar within the required timeframe. This is in my opinion, a contravention to the *Companies Act 1997*, which requires the Directors of every Company to, within five months after the balance date of the Company, submit the duly signed financial statements to the Registrar unless the Registrar extended the period on the application of the Company."

69.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2014 was in progress.

70. PNG AIR SERVICES LIMITED

70.1 INTRODUCTION

70.1.1 Legislation

PNG Air Services Limited was incorporated under the *Companies Act 1997*. The Company began its operation in January 2008 after its incorporation on 30 April 2007. The Company was established in accordance with *Section 143(6) of the Civil Aviation Act 2010 (amended)* which envisaged the establishment of a Company to deliver *"air traffic services, aeronautical navigation services and aeronautical communication services and all related services in Papuan New Guinea and the airspace for which it is responsible."*

PNG Air Services Limited as a State Aviation Enterprise (SAE) and is an independent self-funding Company. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the State of Papua New Guinea. The Company has its own operating certificates and operates independently from other Aviation Entities established under the *Civil Aviation Act 2010 (amended).*

70.1.2 Functions of the Company

PNG Air Services Limited was established with a purpose of delivering safe and efficient air navigation services to the aviation industry and the travelling public. It ensures provision of quality Communication, Navigation, Surveillance (CNS) and Air Traffic Management (ATM) services to both domestic and international customers who operate within the PNG airspace, at a reasonable cost, hence to be a leader in providing world standard air navigation services. PNG Air Services Limited makes sure that the radio coverage in PNG both VHF and HF are improved and that efficient and effective air traffic services are maintained.

70.2 AUDIT OBSERVATIONS

70.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2013 and 2014 were issued on 4 August 2014 and 29 June 2015 respectively. The reports contained Qualified Opinions, hence only 2014 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Fixed Assets – K39,520,744

The financial statements and the Fixed Assets Register disclosed assets that were acquired since 2008 totalling K39,520,744 (net). However, assets that are presently used by the Company but previously held by the Civil Aviation Authority have yet to be transferred and accounted for in the Company books. These assets include the Control Tower Building, MES and HQ Building, HF Receiver Station, James Hill (DVOR/DME) and Rader Hill.

Furthermore, the measurement of these assets is uncertain as neither costs nor valuation amounts have been made available for my review.

No resolution had been made between the concerned parties in this regard. Therefore, I was unable to ascertain the accuracy of the completeness of the Fixed Assets taken up in the financial statements as K39,520,744 as at 31 December 2014.

QUALIFIED OPINION

In my opinion, except for the effects on the matter referred to in the qualification paragraph:

(a) The financial statements of PNG Air Services Limited for the year ended 31 December 2014:

  (i) Give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
  (ii) The financial statements have been presented in accordance with the *Companies Act, International Financial Reporting Standards* and other generally accepted accounting practice in PNG.

(b) Proper accounting records have been kept by PNG Air Services Limited as far as appears from my examination of those records; and
(c) I have obtained all other information and explanations required."

71. PNG DATACO LIMITED

71.1 INTRODUCTION

71.1.1 Legislation

The PNG DataCo Limited came into existence on 2 December 2010 after the name changed from Whittlesea Limited. Whittlesea Limited was incorporated under the *Companies Act 1997* on 21 April 2010.

On 6 February 2014, the National Executive Council (NEC) in its *Decision No: 32/2014* approved for immediate operations of the PNG DataCo Limited as a 100% Majority State Owned Enterprises (SOE) to oversee and implement the National Transmission Network Impact Project (NTN) Strategy and Objectives as approved by the NEC *Decision No: 268* of 2010, NEC *Decision No: 107* of 2011 and NEC *Decision No: 108* of 2012.

PNG DataCo Limited is governed by the *Companies Act*, the *IPBC Act*, and the regulator - *NICTA Act*. The Company came into operations from February 2014.

71.1.2 The Objectives of the Company

The key objectives of the Company are to:

- Work towards the PNG Government's Policy on ICT to refurbish the existing transmission network, extend its availability across the country, allow new transmission networks to develop, and to increase technical capabilities to support high-speed broadband;
- Develop the National Transmission Network (NTN) as the efficient domestic and international telecommunication transmission network and that the NTN is available on a wholesale and non-discriminatory basis to all licensed operators of the telecommunication industry to stimulate and foster social and economic developments in Papua New Guinea using State Owned assets and new network investments;
- Provide internet gateway services at the international gateway;
- Improve the availability of broadband transmission telecommunication services within PNG and internationally;
- Improve performance of telecommunication services in terms of responsiveness;
- Lower the cost of telecommunications services to end users; and
- Ensure the current network operations are scalable, standardise network and IT, invest in required capabilities to build low-cost position, develop deal making capabilities, and best-in-class execution capabilities.

71.1.3 The function of the Company

The main functions of the Company are to:

- Develop the National Transmission Network (NTN) as the efficient domestic and international transmission network; and
- Supply high value and market driven suite of data services on a wholesale and non-discriminatory basis to all licensed operators and ISPs (i.e. holders of a Network or applications licenses) leveraging its exclusive network asset base.

71.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had submitted the financial statements for the year ended 31 December 2014 and arrangements were being made to commence the audit shortly.

72. PNG POWER LIMITED

72.1 INTRODUCTION

72.1.1 Legislation

PNG Power Limited (PPL) was incorporated by the Privatisation Commission under *Section 3(1)* of the *Electricity Commission (Privatisation) Act 2002* as the successor company to the PNG Electricity Commission *(ELCOM)*, a statutory corporation established under the *Electricity Industry Act (Chapter 78).*

- The *Electricity Commission (Privatisation) Act* transferred to PNG Power Limited:
  - **(i)** All of ELCOM's right, title and interest to any and all assets other than those transferred to PNG Dams pursuant to item *1(a)* and *(c)*, including, without limitation, the electricity generation assets located in the areas of Sirinumu Dam and Yonki Dam;
  - **(ii)** All of ELCOM's liabilities other than those transferred to PNG Dams pursuant to item *2(b);* and
  - **(iii)** All water use permits held by ELCOM and referred to in *Section 7(1)* of the *Act.*
- Transferred all of the employees of ELCOM to the employment of PNG Power Limited;
- Declared PNG Power Limited as a "Specified Entity" for the purposes of Section 8 of the Act;
- In accordance with the privatisation policy of the Privatisation Commission, all the issued shares of PNG Power were transferred to the Privatisation Commission (and deemed transferred to the successor to the Privatisation Commission, the Independent Public Business Corporation of Papua New Guinea (IPBC of PNG) as the trustee of the General Business Trust under the *IPBC of PNG Act*; and
- The consideration for the transfers referred to in items 1 and 2 was nil.

72.1.2 Functions of the Company

The functions of the Company are to plan and co-ordinate the supply of electricity throughout the country; to generate, transmit, distribute, reticulate and sell electricity; and to provide to the public bodies and the State, services related to sale, consumption and use of electricity.

72.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 had been completed. The signed financial statements were not submitted by the Company despite reminders to enable me to issue the report.

The financial statements for the year ended 31 December 2014 had been submitted and the audit will commence shortly.

73. POST (PNG) LIMITED

73.1 INTRODUCTION

73.1.1 Legislation

Post (PNG) Limited was incorporated on 24 December 1996 under the *Companies Act*. This Company was formed following the *NEC Decision No. 18/96 of 17 April 1996* to corporatise the Post and Telecommunications Corporation (PTC) and separate it into three entities, namely: Telikom PNG, Post PNG and PNG Telecommunication Authority (PANGTEL) now known as National Information and Communications Technology Authority (NICTA) as established by *Section 8* of the *National Information and Communications Act*.

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Postal Services were, as per the allocation statement approved by the Minister for Communications, transferred on 31 December 1996 at net book value to Post (PNG) Limited. Post (PNG) Limited is a 100% state-owned Company and it commenced trading on 1 January 1997.

73.1.2 Objectives of the Company

The primary objectives of the Company are to:

- Provide domestic and international postal services to meet the reasonable needs of the people, Government, non-governmental organisations and business enterprises of PNG;
- Manufacture and market postage stamps, philatelic products and other products for use in connection with services provided by Post PNG;
- Provide money transfer services within the Independent State of PNG and between PNG and other places;
- Engage in research relating to postal products and activities;
- Provide packet and parcel carrying services;
- Provide courier and freight services;
- Provide mail house, documents exchange and contract mail management services;
- Carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- Provide fund transfer services, act as agent on behalf of other entities, bodies and organisations in relation to banking arrangements and in the collection of premium rates, licence fees, other like services and operate a savings bank; and
- Perform functions relating to the provision of postal services in a manner consistent with PNG's obligations under any convention.

73.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

73.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act*, my report for the year ended 31 December 2014 was issued on 15 June 2015. The report did not contain any qualification.

73.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2014 was issued on 15 June 2015. The report contained the following comments:

Control of Retail Business (Post Offices)

I noted that the Company continues to have management problems with some of its retail businesses (Post Offices). I have noted cash being stolen by employees. Further, I have noted from numerous internal audit reports of stock and cash discrepancies between what has been reported and what has been counted.

I recommended Management that to continue to manage the retail business by employing appropriate staff to manage the business. Further, continue to increase the audits on the retail business on a regular basis to detect fraud and other irregularities. This should include implementation and follow up on internal audit recommendations.

Management responded as follows:

"Because of Financial Services, our retail sites need to keep cash in the safe overnight to allow for next day payouts based on an allocated limit. We have zero tolerance on staff who committed fraud/theft which resulted terminations at certain sites. Our plan is to increase the frequency of our Post Office audits given that we are increasing the capacity of our Internal Audit Team."

Fixed Assets Policy

I noted that major direct acquisitions did not strictly undergo the tender process as in the case with project related acquisitions and engagements. The paper trails were loosely maintained for evidence of compliance with any established tender and approval process. In addition, assets were disposed after being fully depreciated but without a properly established disposal policy and process. I recommended Management that the Company should tighten up this aspect of the capital acquisition process through its additions policy.

I further recommended that the Company should seek to have a disposal policy in place to avoid any compromise or unforeseen issues in future when disposing Company assets. A proper and approved Tender Policy document will address this issue. The Management agreed to my recommendation and a policy will be done in 2015.

74. TELIKOM (PNG) LIMITED

74.1 INTRODUCTION

74.1.1 Legislation

Telikom (PNG) Limited was incorporated under the *Companies Act.* This Company was formed following the *NEC Decision No. 18/96* of *17 April, 1996* to corporatise the Post and Telecommunications Corporation (PTC) and to separate it into three entities namely: Telikom (PNG) Limited, Post PNG Limited and PNG Telecommunication Authority (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Telecommunication Services were transferred on 31 December 1996 at the net book value to Telikom (PNG) Limited as per the allocation statement approved by the Minister for Communications. Telikom (PNG) Limited is a 100% state owned Company and it commenced trading on 1 January 1997.

74.1.2 Objectives of the Company

The primary objectives of the Company are to:

- Be the successor Company to the Telikom Divisions of PTC within the meaning of and for the purposes of the *Telikom (PNG) Limited Act;*
- Supply telecommunication services within PNG and between PNG and other places;
- Carry on any business or activity relating to telecommunications either inside or outside PNG;
- Publish telecommunications directories, and to supply directory information service;
- Supply, install and maintain customer equipment and customer lines;
- Develop, manufacture, market and supply facilities and software;
- Supply value added services;
- Utilise its network, installations and facilities for purposes other than telecommunications, to the extent that such network installations and facilities are not fully utilised in the supply of telecommunications;
- Carry on any business incidental to telecommunication;
- Unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the NEC to:
  - Act as an adviser to the Government of PNG on matters relating to telecommunication activities in PNG;
  - Represent PNG as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;

- Enter into international agreement relating to telecommunication activities; and
- Perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention; and

- Exercise such powers to negotiate, prepare, execute and perform any contracts or management arrangements of the State as may be delegated to it or conferred on it.

74.1.3 Subsidiaries of the Company

The subsidiaries of Telikom (PNG) Limited are *Kalang Advertising Limited* and *PNG Directories Limited*. Comments in relation to these subsidiaries are contained in paragraphs 74A and 74B of this Report.

74.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was substantially completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2014 was in progress.

74A. KALANG ADVERTISING LIMITED (Subsidiary of Telikom (PNG) Limited)

74A.1 INTRODUCTION

74A.1.1 Legislation

Kalang Advertising Limited was incorporated under the *Companies Act*. The Company is wholly owned by Telikom (PNG) Limited.

The ownership of the Company changed following the *National Court Order of 9 September 1997* which allowed Telikom (PNG) Limited to convert the debt due from Kalang Advertising Limited into shareholding. Subsequently, Kalang issued 535,424 ordinary shares to Telikom (PNG) Limited on 31 October 1997.

74A.1.2 Functions of the Company

Kalang Advertising Limited was set up primarily to take over the activity of commercial radio broadcasting previously under the National Broadcasting Commission.

The Company carries on the business of producers, consultants and promoters of Broadcast Television, Community Television, Video, Audio, Film, Visual, Cassettes Recordings, Productions and Recordings.

74A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2013 and 2014 were in progress.

74B. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited) (Subsidiary of Telikom (PNG) Limited)

74B.1 INTRODUCTION

Edward H.O'Brien Limited is a Company incorporated under the *Companies Act*. The Company is jointly owned by Telikom (PNG) Limited (54%) and Edward H.O'Brien Enterprise of Sydney, Australia (46%). During the year 2002, the Company changed its name to PNG Directories Limited.

74B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was substantially completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2014 was in progress.

SECTION C

NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

75. FOREWORD

This Section of my Report deals with Companies in which the Government owns 50% or less of the issued Share Capital of a Company.

The auditing and reporting requirements of these Companies are stipulated under the *Companies Act*, and these have been elaborated in Paragraph 61 of this Report.

As the Government of PNG does not hold majority interest in these Companies, the accounts of these Companies are audited by Private Auditors.

However, because public monies are invested in these Companies, my responsibilities require the inclusion of the summaries of their accounts and the comments of the Private Auditors' Reports in this Section of my Report.

76. BOUGAINVILLE COPPER LIMITED

76.1 INTRODUCTION

Bougainville Copper Limited, formerly Bougainville Copper Pty Limited, was incorporated under the *Companies Act*. The main objectives of the Company are to prospect, explore, quarry, develop, excavate, dredge for, open, work, purchase or otherwise obtain copper and other various metals and minerals.

From 1972 until 1989, the Company operated a large open pit mine and processing facility at Panguna on the island of Bougainville in the North Solomons Province of PNG. It produced concentrate containing copper, gold and silver which was sold primarily under long-term contracts to smelters in Asia and Europe. On 15 May 1989 production was brought to a halt by militant activity and has not recommenced since.

At 31 December 2012 the issued capital of the Company was 401,062,500 ordinary shares of K1 each, fully paid. Of these, the Government of PNG held 76,430,809 ordinary shares of K1 each, or 19.06% of the total shares.

76.2 REPORT OF THE COMPANY'S AUDITORS

A Private Firm of Auditors conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December 2014 and the audit report was issued on 20 February 2015. This report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

The financial statements of the Company for the year ended 31 December 2013 included a Disclaimer of Opinion as we were unable to determine whether the impairment provision in relation to the mine assets was adequate and the carrying value of the mine assets was properly stated at that time. In addition, the mine assets had not been depreciated for the period from the closure of the mine, which was a departure from International Financial Reporting Standards.

For the reasons set out in *Notes 1 (c)* and *7* of the financial statements, the mine assets were impaired to a nil value during the 2014 financial year. As the opening balances for mine assets enter into the determination of the financial performance for the year ended 31 December 2014, we were unable to determine whether any adjustments might have been necessary in respect of expenses for impairment recognised during the year and the loss for the year reported in the statement of comprehensive income.

DISCLAIMER OF OPINION

In our opinion, because of the significance of the matter described in the Basis for Disclaimer of Opinion on the financial performance paragraph above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial performance for the year ended 31 December 2014. Accordingly, we do not express an opinion on the financial statements."

77. GOGOL REFORESTATION COMPANY LIMITED

77.1 INTRODUCTION

Gogol Reforestation Company Limited was incorporated under the *Companies Act*. The objective of the Company is to be involved in reforestation.

At 31 December 2009, the issued and fully paid up capital of the Company comprised 102,001 'A' class ordinary shares of K1.00 each and 98,001 'B' class ordinary shares of K1.00 each. Of these, the Government of PNG held 98,001 'B' class ordinary shares of K1.00 each, representing 49% of the issued Capital at a cost of K98,001.

77.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the audited financial statements and the audit report of the Company for the years ended 31 December 2010, 2011, 2012, 2013 and 2014 had not been submitted for my inspection and verification.

Further, I was informed by Management that the Company was no longer in operation since 2011 due to the winding down of the Company.

In 2014, I communicated with IPBC requesting for the winding down documents and IPBC responded that they had not received any winding down application nor deregistration documents with regards to Gogol Reforestation Co. Limited. A Company search with Investment Promotion Authority (IPA) revealed that the Company was not deregistered.

78. OK TEDI MINING LIMITED

78.1 INTRODUCTION

Ok Tedi Mining Limited, formerly Mt. Fubilan Development Company Limited, was incorporated under the *Companies Act.* The main function of the Company is mining.

At 31 December 2011, the issued and fully paid up capital of the Company was K195,102,000 (192,700,000 Ordinary Shares with no par value). Of these, the Government of PNG held fully paid 47,000,000 Ordinary Shares valued at K47,000,000 representing 24.4% of the Ordinary Share capital. On 19 September 2013, the Parliament passed the 10th Supplemental Agreement cancelling the 122,200,000 shares of PNG Sustainable Development Program and issuing 122,200,000 new shares to the State of PNG, making the Company a 100% State owned Enterprise.

78.2 REPORT OF THE COMPANY'S AUDITORS

A Private Firm of Auditors have conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December 2014 and the audit report was issued on 26 February 2015. The report did not contain any qualification.

79. PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

79.1 INTRODUCTION

79.1.1 Legislation

The PNG Sustainable Development Program Limited was incorporated in Singapore under the *Singapore Companies Act (Cop. 50)* on 20 October 2001.

As a Company limited by guarantee PNG Sustainable Development Program Limited has no share capital, debentures, share options and unissued shares.

The principal activity of the Company is to promote sustainable development within, and advance the general welfare of the people of PNG, particularly those of Western Province through supporting programs and projects in the areas of capacity building, health, education, economic development, infrastructure, community self-reliance, local community leadership and institutional capacity and other social and environmental purposes for the benefit of those people.

79.1.2 Objectives of the Company

The objective of the Company is to promote and improve the quality of life of current and future generations of the people of PNG, especially of Western Province by:

- Investing and managing wisely the income and resources of the Company;
- Undertaking investments and supporting development programs and projects that are sustainable, providing significant benefits in the short and long-term to the people, local communities, provinces and the nation;
- Meeting the best international standards – financial, physical, cultural, social and environmental in our activities; and
- Working together with the people of PNG in partnership with the government, churches and other non-government and business partners.

79.1.3 Functions of the Company

The primary functions of the Company are to:

- Promote sustainable development in Western Province and PNG more generally; and
- Manage the Long Term Fund to support a high level of development expenditure in Western Province in particular and PNG in general for at least 40 years after the closure of the Ok Tedi Mine.

79.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its audited financial statements and the audit reports for the years ended 31 December 2012, 2013 and 2014 for my verification.

SECTION D

PROBLEM AUDITS

80. FOREWORD

This Section of my Report deals with problem audits. Problem audits denote audit of entities in respect of which I have not been able to carry out audits for circumstances detailed in the respective paragraphs.

80.1 EXCLUSION OF ENTITIES FROM FUTURE REPORTS

The following [2]entities were transferred to Provincial Government Audit Division and as such these entities would be excluded (once all outstanding audits are cleared) in my future Part IV Reports to Parliament and would be reported in my Part III Report.

- Motu Koitabu Council and its Subsidiaries
- Tabudubu Limited (Subsidiary of Motu Koitabu Council)

[2]At the time of preparing this Report inspection and audit of the accounts and records of the financial statements of Motu Koitabu Council (paragraph 17) and Tabudubu Limited (paragraph 17A) for the years ended 31 December 2003 to 31 December 2007 have been completed however, management in its letter dated 12 August 2001 informed me that the Council and its Subsidiary were unable to provide any of the financial records and informations requested by my Office due to difficulty locating the documents and records. In addition, the Council and its Subsidiary were unable to provide the signed financial statements to enable me to provide an opinion on its accounts and records. Due to the limitation of scope of this audit, I intend to exclude this entity from my future reports to Parliament. . From 2008 onwards the reports on the two entities will be reported under Part III of my Annual Report.

81. AUDITS IN ARREARS

81.1 GENERAL

Audits in arrears are those in respect of which financial statements have not been submitted on time for audit to be undertaken, thus placing my Office in a position where audits are not able to be conducted on a current year basis consistent with the requirements of the *Companies Act* and the *PFMA*. Two serious consequences develop from this. Firstly, it results in a build-up of audits in arrears, and these are all audits other than the current year (2014) audits. The other serious consequence is that audit certificates issued more than a year or two in arrears serve only to meet the administrative or legislative requirements, but their validity from a decision making stand-point may be lost due to the time lag.

81.2 RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The responsibility for the preparation and presentation of financial statements is that of the management of the auditee organisation. That being the case, the audit of the financial statements by the Auditor-General does not in any way relieves management of its responsibility to have financial statements prepared on time.

This responsibility also requires management to ensure that an adequate and effective internal control system is maintained so as to ensure, inter-alia, that complete and accurate financial statements are produced on a timely basis. To assist management in producing financial statements that meet the qualitative characteristics, the management's responsibility also extends to ensuring that professionally qualified and experienced accounting personnel are engaged.

It is generally true that irrespective of their completeness, accuracy or reliability, financial statements that are unduly delayed, lose their relevance. Although there is no consensus regarding the length of time that ought to be allowed to elapse between the predetermined reporting date and the date when the financial statements lose their relevance, there is a need to weigh the relative merits of preparing them on a timely basis, let alone the legislative requirements.

Relevant and reliable information therefore is useful for decision making when these are timely prepared and made available to concerned parties. Relevance here is relative to the value and usefulness of the audited financial information to management and the parties concerned for decision making. Current information is of more relevance in the fight against corrupt practices than information that is out of date.

81.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, *Section 63 (1)* of the *PFMA* makes it mandatory for Public Bodies to prepare and furnish audited financial statements, to the Minister responsible, before 30 June each year *(Section 63 (2)).* The fact that audit of 27 entities as depicted in **Schedule B(iv)** had been in arrears due to non-submission of financial statements is a direct contravention of the requirements of *Section 63 (1)* referred to above.

Strict adherence of this requirement, despite its mandatory nature, has not been enforced by the respective entities' managements and the authorities concerned. My strong contention is that, enforcement of the above requirements by the authorities concerned and the Minister responsible may have been lacking in the past. There may therefore be a need, whilst ensuring timely accountability of public resources, to take certain Public Bodies to task for non-compliance with mandatory statutory requirements. It is in this connection, that my Office welcomes the introduction of *Section 63(6)* of the *PFMA*. This Section imposes penalties on public bodies for non-submission of annual reports to the Minister responsible for financial management.

By virtue of *Section 63(5)* of the *PFMA*, the Ministers responsible are required to table the reports of the respective Public Bodies in Parliament after they are received. The following arrears situation implies that a lot of Public Bodies reports may not have been tabled in Parliament as required, and thus, the accountability to Parliament in these respects has been far short of the desired.

81.4 CURRENT YEAR AUDITS (2014 AUDITS)

Entities totalling **100** subject to audit by the Auditor-General comprise **81** Public Bodies and their subsidiaries, **19** National Government owned companies, and **4** companies in which the National Government has share holdings (referred to as Section 'C' Companies). In addition, I also carried out audits of **11** Projects managed by Public entities as implementing agencies. **Table 1** and **Chart 1** below provide details of these.

TYPES OF ENTITIES SUBJECT TO AUDIT

Table 1

Section	Types of Audit	Number of Entities	
		2014/2015	2013/2014
(A)	Public Bodies and their Subsidiaries	81	74
(B)	National Government Owned Companies	19	15
(C)	National Government Shareholdings in other Companies	4	6
	Projects	11	9
		115	104

Table 1. *Shows the total of Types of Entities subject to Audit*

Chart 1

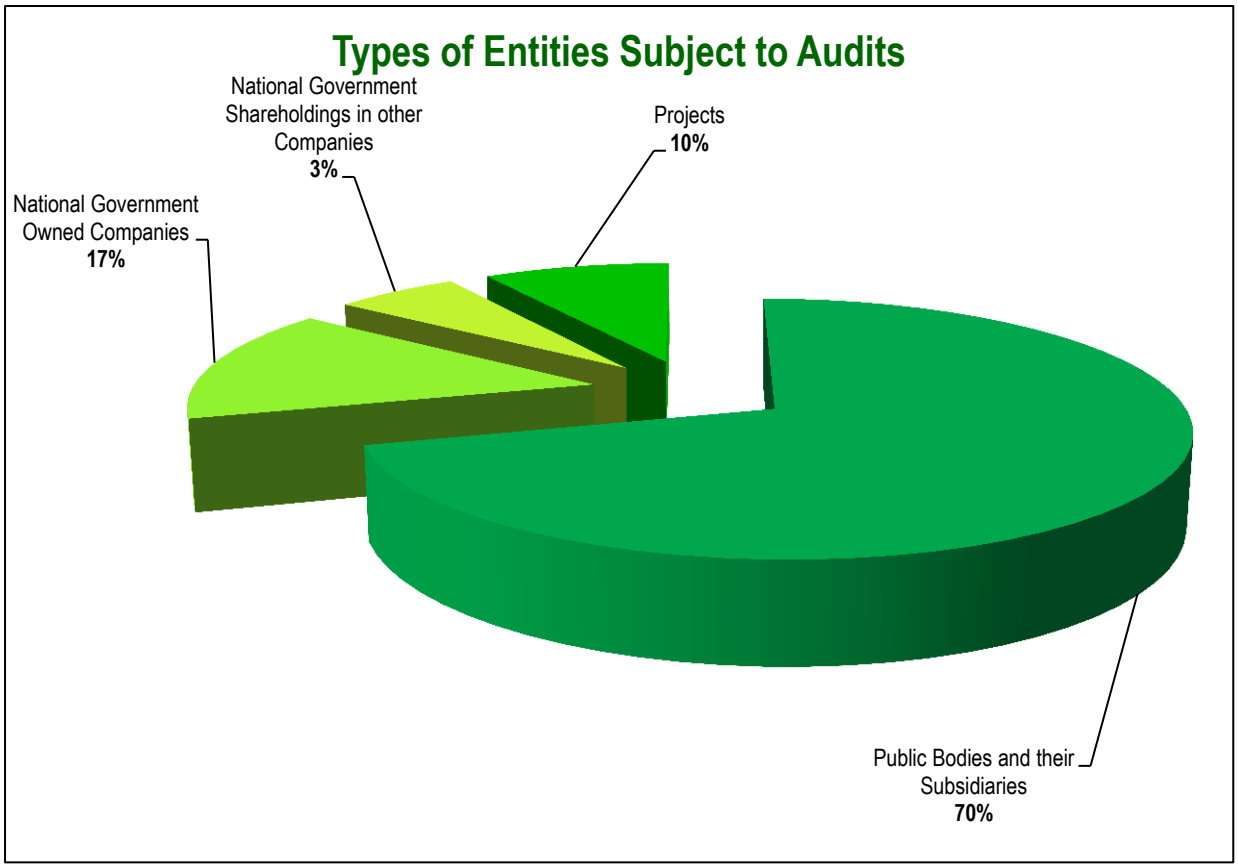


Chart 1. *Shows the percentages of Types of Entities subject to Audit during 2014/2015 Audit Cycle.*

81.5 STATUS OF CURRENT YEAR AUDITS

Each of the **100** entities, including the **11** Projects except Section 'C' Companies are subject to audit and required under *Section 63(4)* of the *PFMA* to submit annual financial statements for audit. Information available in my Office shows that only **33** (30 entities and 4 projects) have submitted their financial statements for 2014 (**Schedule A**) for audit up to the time of preparing this Report. A total of **66** (65 entities and 1 project) have not submitted their 2014 financial statements (**Schedule A**) for audit in 2015. It could therefore be logically concluded that, about 65% of the public bodies might not have submitted their annual reports and financial statements for 2014 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before June 2015.

Table 2 and **Chart 2** shown below, and **Schedule A** attached show the status and the details of the current year audits planned for in 2014.

STATUS OF CURRENT YEAR AUDITS 2014

Table 2

No.	Status of Current Year Audits	Number of Entities	
		2014/2015	2013/2014
(A)	Audits completed and reports issued thereon	18	14
(B)	Audits substantially completed	2	5
(C)	Audits in progress	8	5
(D)	Audits to commence shortly	5	10
(E)	Financial Statements not submitted	66	62
(F)	Audit Portfolios transferred to Provincial Government Audit Division	0	0
(G)	Ceased Companies	0	0
	Total	**234**	**96**

Table 2. *Shows the total of Status of Current Year (2014) Audits. (Schedule A)*

Chart 2

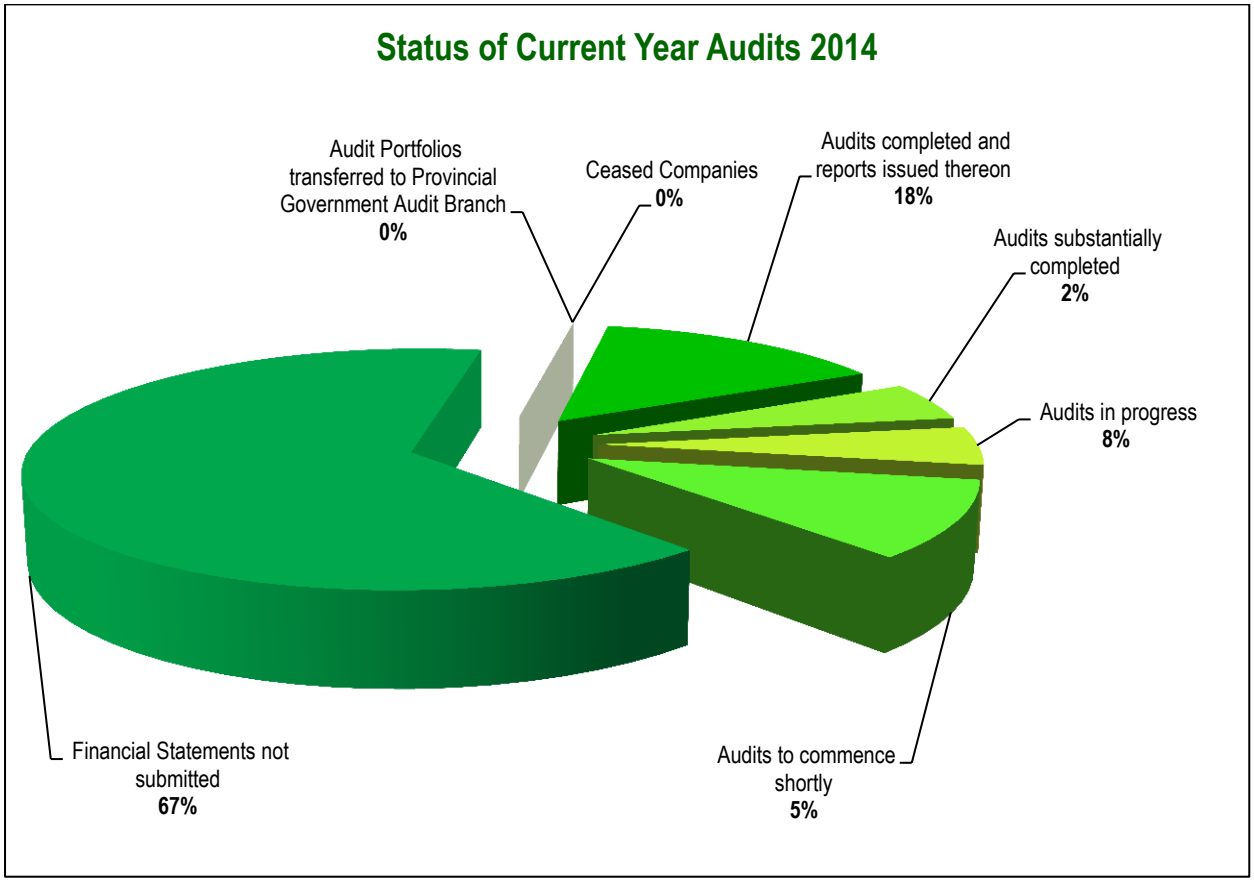


Chart 2. *Shows the percentages of Audit Status for the Current Year (2014) during 2014/2015 Audit Cycle. (Schedule A)*

81.6 AUDITS IN ARREARS (2013 AND PRIOR YEARS)

Records available in my Office show that a total of **86** entities (134 audits) were in the Audit in Arrears category due to non-submission of financial statements on time. **Table 3** and **Chart 3** shown below, and **Schedule B** attached provide more details of these.

STATUS OF AUDITS IN ARREARS BY NUMBER OF ENTITIES (2013 AND PRIOR YEARS)

Table 3A

No.	Status of Audits in Arrears by Number of Entities (2012 and Prior Years)	Number of Entities	
		2014/2015	2013/2014
(A)	Audits substantially completed	24	30
(B)	Audits in progress	27	7
(C)	Audits to commence shortly	8	11
(D)	Financial Statements not submitted	27	30
	Total	**86**	**78**

Table 3A. *Shows the Status of Audits in Arrears by number of Entities for 2013 and Prior Years during 2014/2015 Audit Cycle. (Schedule B)*

Chart 3A

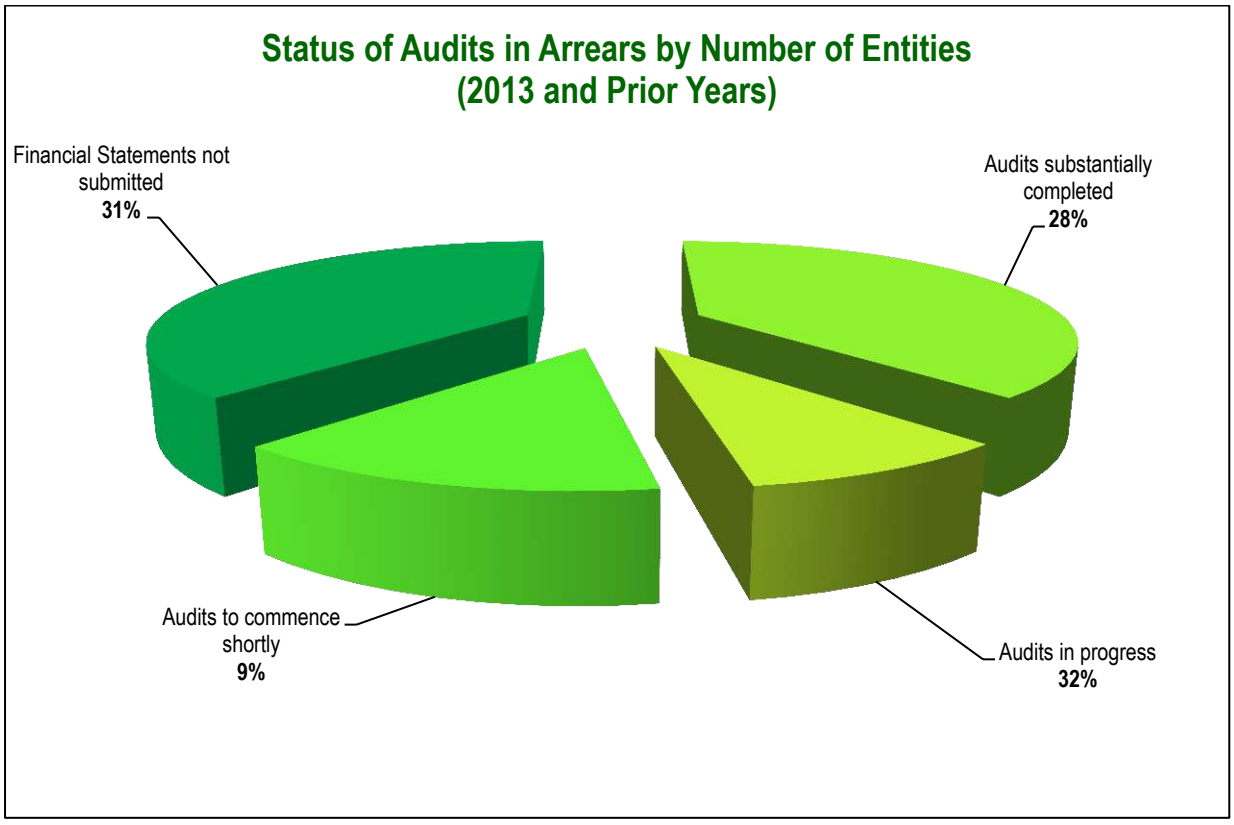


Chart 3A. *Shows the percentages of Audit Status for Audits in Arrears by number of Entities for 2013 and Prior Years during 2014/2015 Audit Cycle. (Schedule B).*

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2013 AND PRIOR YEARS)

Table 3B

No.	Status of Audits in Arrears by Number Of Audits (2013 and Prior Years)	Number of Audits	
		2014/2015	2013/2014
(A)	Audits substantially completed	44	52
(B)	Audits in progress	32	9
(C)	Audits to commence shortly	17	17
(D)	Financial Statements not submitted	41	54
	Total	**134**	**132**

Table 3B. *Shows the Status of Audits in Arrears by number of Audits for 2013 and Prior Years during 2014/2015 Audit Cycle. (Schedule B)*

Chart 3B

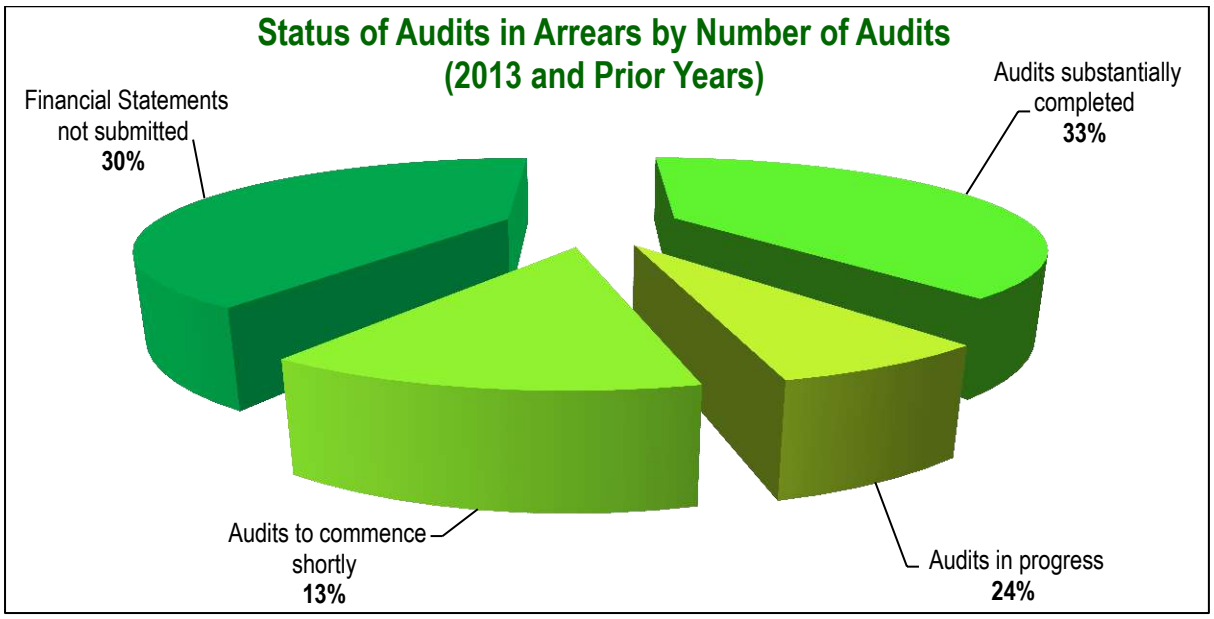


Chart 3B. *Shows the percentages of Audit Status for Audits in Arrears by number of Audits for 2013 and Prior Years during 2014/2015 Audit Cycle. (Schedule B)*

81.7 LONG OUTSTANDING FINANCIAL STATEMENTS

During this Audit Cycle (2014/2015) **27** audit entities were in the arrears category, decrease of three compared to prior year (2013). Of these **27** entities, **41** financial statements for periods ranging from one year to three years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2011 to 2013. Details of these are shown below in **Table 4, Chart 4** and also in **Schedule C** attached.

LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF ENTITIES (2013 AND PRIOR YEARS)

Table 4A

No.	Years Outstanding by Entities	Number of Entities	
		2014/2015	2013/2014
(A)	One Year	17	19
(B)	Two Years	8	7
(C)	Three Years	2	1
(D)	Four Years	0	0
(E)	Five Years	0	2
(F)	Six Years	0	0
(G)	Seven Years	0	0
(I)	Eight Years	0	1
	Total	**27**	**30**

Table 4A. *Shows the total of Long Outstanding Financial Statements by number of Entities during 2014/2015 Audit Cycle. (Schedule C)*

Chart 4A

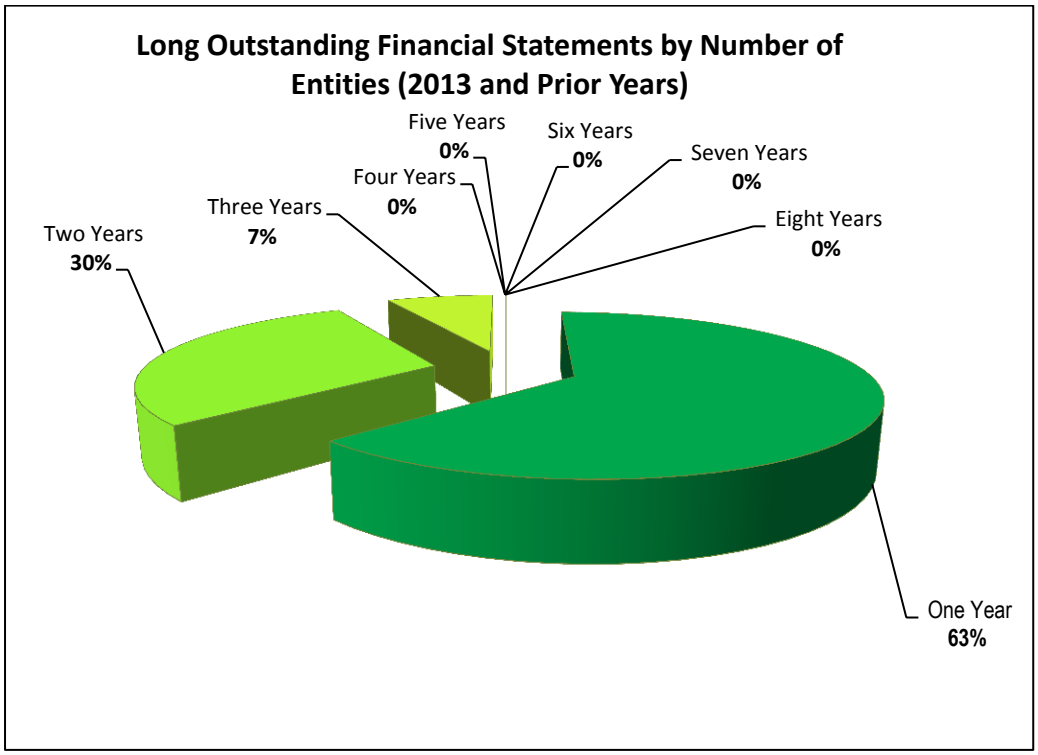


Chart 4A. *Shows the percentages of Long Outstanding Financial Statements by number of Entities during 2014/2015 Audit Cycle. (Schedule C).*

LONG OUTSTANDING FINANCIAL STATEMENTS
BY NUMBER OF AUDITS
(2013 AND PRIOR YEARS)

Table 4B

No.	Years Outstanding by Audits	Number of Audits	
		2014/2015	2013/2014
(A)	One Year	17	19
(B)	Two Years	16	14
(C)	Three Years	8	3
(D)	Four Years	0	0
(E)	Five Years	0	10
(F)	Six Years	0	0
(G)	Seven Years	0	0
(H)	Eight Years	0	8
	Total	**41**	**54**

Table 4B. *Shows the total of Long Outstanding Financial Statements by number of Audits during 2014/2015 Audit Cycle. (Schedule C)*

Chart 4B

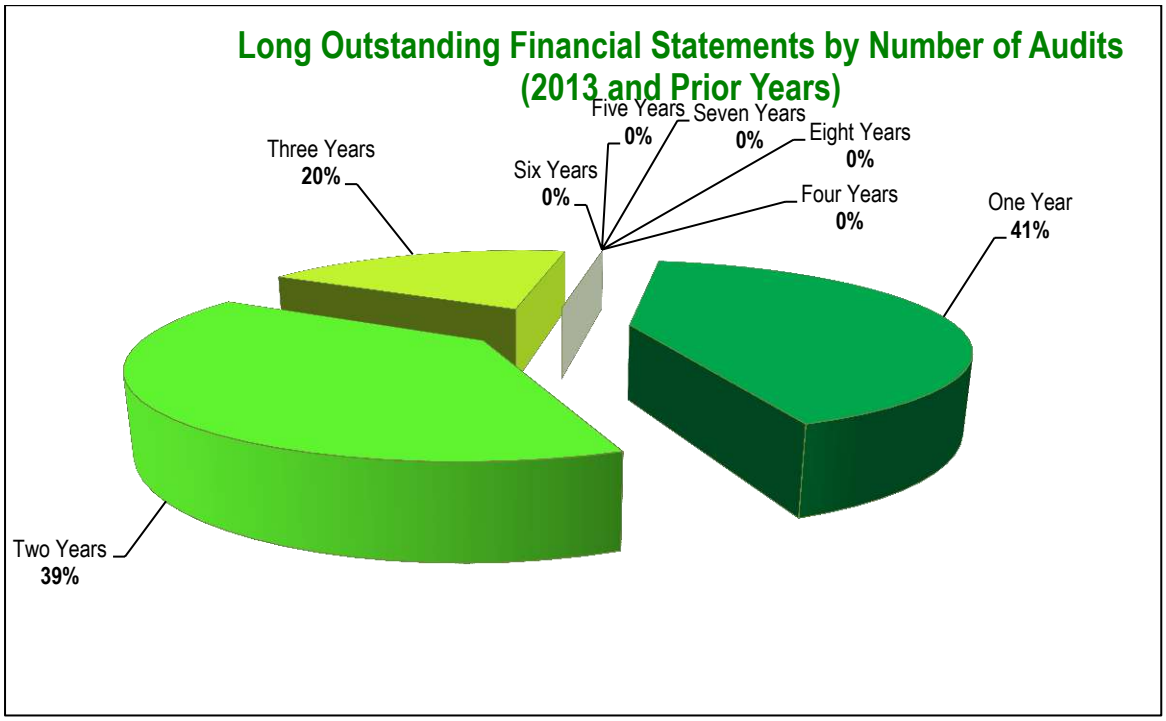


Chart 4B. *Shows the percentages of Long Outstanding Financial Statements by number of Audits during 2014/2015 Audit Cycle. (Schedule C).*

81.8 STATUS OF AUDITS AS AT 30 JUNE 2015

As illustrated in **Executive Summary Table 1**, during July 2014 and June 2015 Audit Cycle a **total of 200 audits** were undertaken by the Audit Office. Out of **200 audits** carried out, **114 audit** reports were issued. **Table 5 and Chart 5** shown below provide the details of the Status of Audits during the period July 2014 to June 2015.

STATUS OF AUDITS AS AT 30 JUNE 2015

Table 5

No.	Status of Audits	Number of Audits	
		2014/2015	2013/2014
1	Audits completed and reports issued thereon *(Schedule A & E)*	114	101
2	Audits substantially completed *(Schedule A & B)*	46	57
3	Audits in progress *(Schedule A & B)*	40	14
4	Audits to commence shortly *(Schedule A & B)*	22	27
5	Financial Statements not submitted *(Schedule A & B)*	107	116
	Total	**329**	**315**

Table 5. *Shows the Status of Audits as at 30 June 2015 for the 2014/2015 Audit Cycle. (Schedules A&E and A&B)*

Chart 5

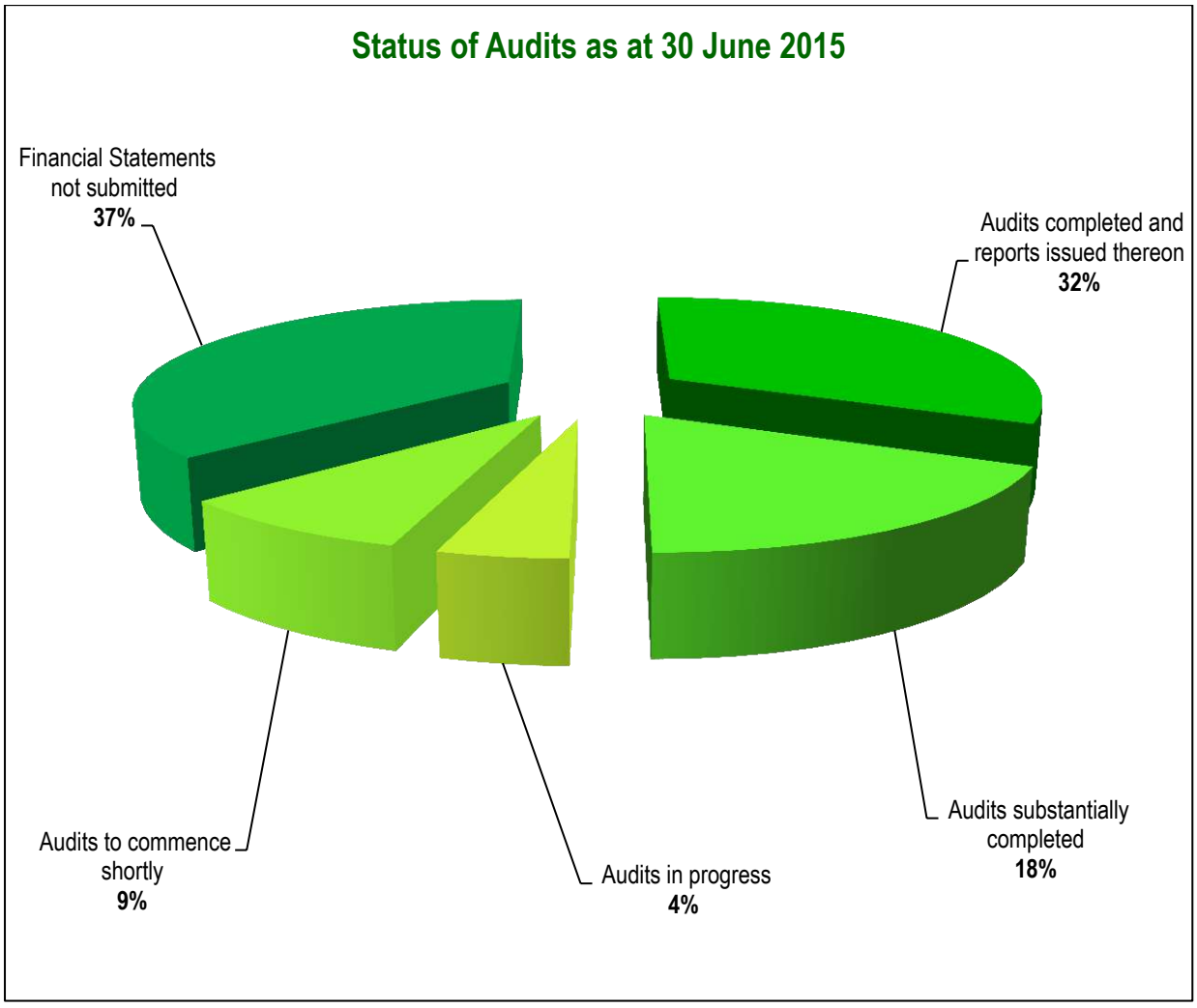


Chart 5. *Shows the percentages of Audit Status as at 30 June 2015 for the 2014/2015 Audit Cycle (Schedules A&E and A&B)*

ACKNOWLEDGEMENTS

My audit staff worked conscientiously and successfully completed audits entrusted to them. Their devotion to duty, their integrity and loyalty are highly appreciated.

I extend my appreciation and gratitude to the Government Printing Office staff, for their efforts in completing the printing of this Report within the limited time frame available. I also acknowledge the co-operation and the assistance of all Heads of Public Bodies and National Government Owned Companies, and Registered Company Auditors and their staff who assisted as my Authorised Auditors.

I would also like to thank the Chairman and the members of the Permanent Parliamentary Committee on Public Accounts of PNG and the Secretary for the continuous interest shown in my work.

SIGNED AT WAIGANI ON 24 OF JULY
TWO THOUSAND AND FIFTEEN

PHILIP NAUGA
Auditor-General of Papua New Guinea

SCHEDULES

Schedule 'A'

STATUS OF CURRENT YEAR (2014) AUDIT

(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

No.	Section	Para. No.	Entity
1	A	2	Bank of Papua New Guinea
2	A	9	Independent Fellowship Trust
3	A	10	Independent Consumer and Competition Commission
4	A	14	Investment Promotion Authority
5	A	15	Kokonas Indastri Koporesen
6	A	15A	Papua New Guinea Coconut Extension Fund
7	A	15B	Papua New Guinea Coconut Research Fund
8	A	20	National Agricultural Research Institute
9	A	25	National Economic and Fiscal Commission
10	A	30	National Maritime Safety Authority
11	A	33	National Research Institute
12	A	36	National Training Council
13	B	68	NPCP Holdings Limited
14	B	68A	NPCP Investment Limited
15	B	68B	National Petroleum Company PNG (Kroton) Limited
16	B	68C	NPCP Pipeline and Gas Supply Limited
17	B	70	PNG Air Service Limited
18	B	73	Post (PNG) Limited

(ii) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity
1	A	13	Internal Revenue Commission
2	A	56	Tourism Promotion Authority

(iii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity
1	A	27	National Gaming Control Board
2	A	27A	National Gaming Control Board Community Benefit Fund Trust
3	B	62	Air Niugini Limited
4	B	65	Motor Vehicle Insurance Limited
5	B	69	Papua New Guinea Ports Corporation Limited
6	B	74	Telikom PNG Limited
7	B	74A	Kalang Advertising Limited
8	B	74B	PNG Directories Limited

(iv) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity
1	A	19	National Agriculture Quarantine and Inspection Authority
2	A	21	National AIDS Council Secretariat
3	A	35	National Roads Authority
4	B	71	PNG DataCo Limited
5	B	72	PNG Power Limited

(v) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	Last Report Issued	Date of Report
1	A	3	Border Development Authority	2011	27.10.14
2	A	3A	Papua New Guinea Maritime Transport Limited	New Entity	
3	A	4	Civil Aviation Safety Authority	2012	27.02.15
4	A	5	Cocoa Board of PNG	2013	22.05.14
5	A	5A	Cocoa Stabilisation Fund	2013	23.05.14
6	A	5B	Cocoa Pod Borer Project Fund	2012	22.09.14
7	A	6	Cocoa Coconut Institute Limited of PNG	2012	25.04.14
8	A	7	Coffee Industry Corporation Limited	2012	17.02.14
9	A	7A	Coffee Industry Fund	2012	17.02.14
10	A	7B	Patana No. 61 Limited	2012	17.02.14
11	A	8	Government Printing Office	2011	25.03.14
12	A	11	Independent Public Business Corporation	2012	18.11.14
13	A	11A	Aquarius No 21 Limited	2012	15.08.14
14	A	11B	General Business Trust	2012	14.05.14
15	A	11C	PNG Dams Limited	2012	28.08.14
16	A	11D	Port Moresby Private Hospital Limited	2012	28.08.14
17	A	12	Industrial Centers Development Corporation	2011	30.03.15
18	A	16	Legal Training Institute	2012	24.05.14
19	A	17	Mineral Resources Authority	2011	13.04.15
21	A	22	National Broadcasting Commission	2012	25.04.14
22	A	23	National Capital District Commission	2012	04.05.15
23	A	23A	National Capital District Botanical Enterprises Limited	2012	04.05.15
24	A	23B	Port Moresby City Development Enterprises Limited	2012	04.05.15
25	A	23C	Port Moresby Nature Park Limited	New Entity	
26	A	24	National Cultural Commission	2011	09.11.13
27	A	26	National Fisheries Authority	2011	26.03.13
28	A	28	National Housing Corporation	2010	31.03.14
29	A	28A	National Housing Estate Limited	New Entity	
30	A	29	National Information and Communication Technology Authority	2011	26.05.14

No.	Section	Para. No.	Entity	Last Report Issued	Date of Report
31	A	31	National Museum & Art Gallery	2012	22.09.14
32	A	32	National Narcotics Bureau	2012	22.09.14
33	A	34	National Road Safety Council	2013	26.01.15
34	A	37	National Volunteer Service	2013	27.02.15
35	A	38	National Youth Commission	2011	26.03.13
36	A	39	Office of Climate Change and Development	New Entity	
37	A	40	Oil Palm Industry Corporation	2010	28.06.13
38	A	41	Ombudsman Commission	2013	27.03.15
39	A	42	Pacific Games (2015) Authority	New Entity	
40	A	43	Papua New Guinea Accident Investigation Commission	New Entity	
41	A	44	PNG Immigration & Citisenship Service Authority	2011	11.04.14
42	A	45	Papua New Guinea Forest Authority	2009	23.10.14
43	A	46	PNG Institute of Medical Research	2013	23.04.15
44	A	47	Papua New Guinea Institute of Public Administration	2011	31.10.14
45	A	48	Papua New Guinea Maritime College	2012	31.10.14
46	A	49	Papua New Guinea National Institute Standard Industrial Technology	2010	23.10.14
47	A	50	Papua New Guinea Sports Foundation	2004	31.10.13
48	A	51	Papua New Guinea University of Technology	2010	13.04.15
49	A	51A	National Analytical Testing Services Limited	New Entity	
50	A	51B	Unitech Development and Consultancy Limited	2012	25.10.13
51	A	52	Parliamentary Members Retirement Benefit Fund	2013	20.01.15
52	A	53	Public Curator of PNG	2011	30.09.14
53	A	54	Security Industry Authority	2011	28.04.15
54	A	55	Small Business Development Corporation	2011	28.04.15
55	A	57	University of Goroka	2012	13.05.15
56	A	57A	Unigor Consultancy Limited	2009	19.03.13
57	A	58	University of Natural Resources & Environment	2013	26.03.15
58	A	59	University of Papua New Guinea	2008	17.10.12
59	A	59A	Unisave Limited	2011	25.08.14
60	A	59B	Univenture Limited	2011	24.06.14
61	A	60	Water PNG	2012	30.03.15
62	B	63	Livestock Development Corporation	2009	31.10.12
63	B	64	Mineral Resources Development Corporation	2011	27.02.15
64	B	66	National Airport Corporation Limited	2010	08.10.12
65	B	66A	Airport City Development Limited	New Entity	
66	B	67	NCD Water and Sewerage Limited (Eda Ranu)	2013	23.04.15

(vi) AUDIT PORTFOLIOS TRANSFERRED TO PROVINCIAL GOVERNMENT AUDIT DIVISION

No.	Section	Para. No.	Entity	Last Report Issued	Date of Report
1	A	18	Motu Koitabu Council	No Report Issued	
2	A	18A	Tabudubu Limited	No Report Issued	

Schedule 'B'

STATUS OF AUDITS IN ARREARS (2013 AND PRIOR YEARS)

(i) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2012	1
2	A	3A	Papua New Guinea Maritime Transport Authority	2011 & 2012	2
3	A	8	Government Printing Office	2012	1
4	A	12	Industrial Centres Development Corporation	2012 & 2013	2
5	A	16	Legal Training Institute	2013	1
6	A	18	Motu Koitabu Council	2013 - 2007	5
7	A	18A	Tabudubu Limited	2003 - 2007	5
8	A	26	National Fisheries Authority	2012	1
9	A	40	Oil Palm Industry Corporation	2011	1
10	A	42	Pacific Games (2015) Authority	2012 & 2013	2
11	A	44	PNG Immigration and Citisenship Service Authority	2012 & 2013	2
12	A	45	Papua New Guinea Forest Authority	2010	1
13	A	48	Papua New Guinea Maritime College	2013	1
14	A	49	Papua New Guinea National Institute of Standards & Industrial Technology	2011-2013	3
15	A	51	Papua New Guinea University of Technology	2011	1
16	A	51A	National Analytical Testing Services Limited	2011	1
17	A	51B	Unitech Development and Consultancy Limited	2013	1
18	A	53	Public Curator of Papua New Guinea	2012	1
19	A	55	Small Business Development Corporation	2012	1
20	A	57A	Unigor Consultancy Limited	2010 – 2013	4
21	A	59	University of Papua New Guinea	2009 – 2012	4
22	A	72	PNG Power Limited	2013	1
23	A	74	Telikom (PNG) Limited	2013	1
24	B	74B	PNG Directories Limited	2013	1
					44

(ii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2013	1
2	A	7	Coffee Industry Corporation Limited	2013	1
3	A	7A	Coffee Industry Fund	2013	1
4	A	7B	Patana No. 61 Limited	2013	1
5	A	11	Independent Public Business Corporation	2013	1
6	A	11A	Aquarius No. 21 Limited	2013	1
7	A	11B	General Business Trust	2013	1
8	A	11C	PNG Dams Limited	2013	1
9	A	11D	Port Moresby Private Hospital Limited	2013	1
10	A	17	Mineral Resources Authority	2012	1
11	A	22	National Broadcasting Corporation	2013	1
12	A	23C	Port Moresby Nature Park Limited	2012 & 2013	2
13	A	24	National Cultural Commission	2012	1
14	A	26	National Fisheries Authority	2013	1
15	A	28	National Housing Corporation	2011	1
16	A	29	National Information and Communication Technology Authority	2012	1
17	A	39	Office of Climate Change and Development	2011	1
18	A	43	Papua New Guinea Accident Investigation Commission	2011 & 2012	2
19	A	45	Papua New Guinea Forest Authority	2011 & 2012	2
20	A	51	Papua New Guinea University of Technology	2012	1
21	A	51A	National Analytical and Testing Services Limited	2012 & 2013	2
22	A	60	Water PNG	2013	1
23	A	64	Mineral Resource Development Company Limited	2012	1
24	A	65	Motor Vehicles Insurance Limited	2012 & 2013	2
25	A	66	National Airports Corporation Limited	2011	1
26	A	74A	Kalang Advertising Limited	2013	1
					31

(iii) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2013	1
2	A	6	Cocoa Coconut Institute Limited of PNG	2013	1
3	A	21	National AIDS Council Secretariat	2013	1
4	A	24	National Cultural Commission	2013	1
5	A	28	National Housing Corporation	2012	1
6	A	38	National Youth Commission	2012 & 2013	2
7	A	50	Papua New Guinea Sports Foundation	2005 – 2013	9
8	A	59	University of Papua New Guinea	2013	1
					17

(iv) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	2013	1
2	A	5B	Cocoa Pod Borer Project Fund	2013	1
3	A	8	Government Printing Office	2013	1
4	A	17	Mineral Resources Authority	2013	1
5	A	23	National Capital District Commission	2013	1
6	A	23A	National Capital District Botanical Enterprises Limited	2013	1
7	A	23B	Port Moresby City Development Enterprises Limited	2013	1
8	A	28	National Housing Corporation	2013	1
9	A	28A	National Housing Estate Limited	2010 – 2013	4
10	A	29	National Information and Communication Technology Authority	2013	1
11	A	31	National Museum and Art Gallery	2013	1
12	A	32	National Narcotics Bureau	2013	1
13	A	39	Office of Climate Change and Development	2012 & 2013	2
14	A	40	Oil Palm Industry Corporation	2012 & 2013	2
15	A	43	Papua New Guinea Accident Investigation Commission	2013	1
16	A	45	Papua New Guinea Forest Authority	2013	1
17	A	47	Papua New Guinea Institute of Public Administration	2012 & 2013	2
18	A	51	Papua New Guinea University of Technology	2013	1
19	A	53	Public Curator of PNG	2013	1
20	A	54	Security Industries Authority	2012 & 2013	2
21	A	55	Small Business Development Corporation	2013	1
22	A	59A	Unisave Limited	2012 & 2013	2
23	A	59B	Univenture Limited	2012 & 2013	2
24	A	63	Livestock Development Corporation	2010 - 2013	4
25	A	64	Mineral Resources Development Company Limited	2013	1
26	B	66	National Airports Corporation Limited	2012 & 2013	2
27	B	66A	Airport City Development Limited	2012 & 2013	2
					41

Schedule 'C'

LONG OUTSTANDING FINANCIAL STATEMENTS (2013 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE YEAR

No.	Section	Para. No.	Entity	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	1
2	A	5B	Cocoa Pod Borer Project Fund	1
3	A	8	Government Printing Office	1
4	A	17	Mineral Resources Authority	1
5	A	23	National Capital District Commission	1
6	A	23A	National Capital District Botanical Enterprises Limited	1
7	A	23B	Port Moresby City Development Enterprises Limited	1
8	A	28	National Housing Corporation	1
9	A	29	National Information and Communication Technology Authority	1
10	A	31	National Museum and Art Gallery	1
11	A	32	National Narcotics Bureau	1
12	A	43	Papua New Guinea Accident Investigation Commission	1
13	A	45	Papua New Guinea Forest Authority	1
14	A	51	Papua New Guinea University of Technology	1
15	A	53	Public Curator of PNG	1
16	A	55	Small Business Development Corporation	1
17	A	64	Mineral Resources Development Company Limited	1
				17

(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	39	Office of Climate Change and Development	2
2	A	40	Oil Palm Industry Corporation	2
3	A	47	Papua New Guinea Institute of Public Administration	2
4	A	54	Security Industries Authority	2
5	A	59A	Unisave Limited	2
6	A	59B	Univenture Limited	2
7	B	66	National Airports Corporation Limited	2
8	B	66A	Airport City Development Limited	2
				16

(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	28A	National Housing Estate Limited	4
2	A	63	Livestock Development Corporation	4
				8
				41

Schedule 'D'

NON OPERATIONAL ENTITIES AND OTHERS

(i) AUDIT PORTFOLIOS TRANSFERRED TO PROVINCIAL GOVERNMENT AUDIT DIVISION

No.	Section	Para. No.	Entity	Last Year of Audit
1	A	18	Motu Koitabu Council	2007
2	A	18A	Tabudubu Limited	2007

(ii) OTHERS - NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Remarks
1	C	76	Bougainville Copper Limited	2014 completed.
2	C	77	Gogol Reforestation Company Limited	Audited financial statements not submitted (2010 - 2014).
3	C	78	Ok Tedi Mining Limited	2014 completed.
4	C	79	PNG Sustainable Development Program Limited	Audited financial statements not submitted (2012 - 2014).

(iii) PROJECT AUDIT PORTFOLIOS

No.	Section	Para. No.	Entity	Status of Audit
1	N/A	N/A	Civil Aviation Development Investment Program	2013 substantially completed
2	N/A	N/A	Cocoa Pod Borer Project	2010 - 2012 substantially completed and 2013 not submitted.
3	N/A	N/A	Cocoa Quality Promotion Project	2011 substantially completed, 2012 and 2013 not submitted.
4	N/A	N/A	Japan Fund for Poverty Reduction Project	2011 and 2012 completed and 2013 not submitted.
5	N/A	N/A	Lae Port Development Project	2012 substantially completed and 2013 not submitted
6	N/A	N/A	National Agriculture Research Institute/PNG Incentive Fund Project	Completed for the whole project.
7	N/A	N/A	National Capital District Commission Urban Youth Employment Project	2013 completed.
8	N/A	N/A	Port Moresby Sewerage System Upgrading Project (POMSSUP)	2010 - 2012 substantially completed and 2013 not submitted.
9	N/A	N/A	Productive Partnership in Agriculture Project	2013 completed.

Schedule 'E'

AUDIT IN AREARS (2013 AND PRIOR YEARS) COMPLETED DURING 2014/2015 AUDIT CYCLE

2013 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	9	Independence Fellowship Trust
2	A	14	Investment Promotion Authority
3	A	19	National Agriculture Quarantine and Inspection Authority
4	A	27	National Gaming Control Board
5	A	27A	National Gaming Control Board Community Benefit Fund Trust
6	A	30	National Maritime Safety Authority
7	A	33	National Research Institute
8	A	34	National Road Safety Council
9	A	35	National Roads Authority
10	A	36	National Training Council
11	A	37	National Volunteer Service
12	A	41	Ombudsman Commission of Papua New Guinea
13	A	46	Papua New Guinea Institute of Medical Research
14	A	52	Parliamentary Members Retirement Benefits Fund
15	A	58	University of Natural Resources and Environment
16	B	62	Air Niugini Limited
17	B	67	NCD Water and Sewerage Limited (Eda Ranu)
18	B	68B	National Petroleum Company of PNG (Kroton) Limited
19	B	69	Papua New Guinea Ports Corporation Limited
20	B	70	PNG Air Services Limited
21	N/A	N/A	Civil Aviation Development Investment Program (CADIP)
22	N/A	N/A	Japanese Fund for Poverty Reduction Project
23	N/A	N/A	Town Electrification Investment Program
24	N/A	N/A	Wutung Pilot Border Trade and Investment Project

2012 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	4	Civil Aviation Safety Authority of Papua New Guinea
2	A	5B	Cocoa Pod Borer Project Fund
3	A	9	Independence Fellowship Trust
4	A	11	Independent Public Business Corporation
5	A	11A	Aquarius No.21 Limited
6	A	11C	PNG Dams Limited
7	A	11D	Port Moresby Private Hospital Limited
8	A	21	National AIDS Council Secretariat

9	A	23	National Capital District Commission
10	A	23A	National Capital District Botanical Enterprises Limited
11	A	23B	Port Moresby City Development Enterprises Limited
12	A	31	National Museum and Art Gallery
13	A	32	National Narcotics Bureau
14	A	36	National Training Council
15	A	37	National Volunteer Service
16	A	46	Papua New Guinea Institute of Medical Research
17	A	48	Papua New Guinea Maritime College
18	A	57	University of Goroka
19	A	60	Water PNG
20	B	68B	National Petroleum Company of PNG (Kroton) Limited
21	B	69	Papua New Guinea Ports Corporation Limited
22	N/A	N/A	Lae Port Development Project
23	N/A	N/A	Port Moresby Sewerage System Upgrading Project
24	N/A	N/A	Town Electrification Investment Program
25	N/A	N/A	Wutung Pilot Border Trade and Investment Project

2011 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	3	Border Development Authority
2	A	5B	Cocoa Pod Borer Project Fund
3	A	11A	Aquarius No.21 Limited
4	A	11D	Port Moresby Private Hospital Limited
5	A	12	Industrial Centers Development Corporation
6	A	17	Mineral Resources Authority
7	A	21	National AIDS Council Secretariat
8	A	23	National Capital District Commission
9	A	23A	National Capital District Botanical Enterprises Limited
10	A	23B	Port Moresby City Development Enterprises Limited
11	A	31	National Museum and Art Gallery
12	A	32	National Narcotics Bureau
13	A	36	National Training Council
14	A	37	National Volunteer Service
15	A	47	Papua New Guinea Institute of Public Administration
16	A	48	Papua New Guinea Maritime College
17	A	53	Public Curator of Papua New Guinea
18	A	54	Security Industries Authority
19	A	57	University of Goroka
20	A	59A	Unisave Limited
21	A	60	Water PNG
22	A	64	Mineral Resources Development Company Limited

No.	Section	Para. No.	Entity
23	A	65	Motor Vehicles Insurance Limited
24	B	68B	National Petroleum Company of PNG (Kroton) Limited
25	N/A	N/A	Port Moresby Sewerage System Upgrading Project
26	N/A	N/A	Town Electrification Investment Program
27	N/A	N/A	Wutung Pilot Border Trade and Investment Project

2010 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	5B	Cocoa Pod Borer Project Fund
2	A	23	National Capital District Commission
3	A	23A	National Capital District Botanical Enterprises Limited
4	A	23B	Port Moresby City Development Enterprises Limited
5	A	32	National Narcotics Bureau
6	A	36	National Training Council
7	A	49	Papua New Guinea National Institute of Standards and Industrial Technology
8	A	51	Papua New Guinea University of Technology
9	N/A	N/A	Port Moresby Sewerage System Upgrading Project

2009 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	23A	National Capital District Botanical Enterprises Limited
2	A	23B	Port Moresby City Development Enterprises Limited
3	A	45	Papua New Guinea Forest Authority
4	N/A	N/A	Lae Port Development Project

2008 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	23A	National Capital District Botanical Enterprises Limited
2	A	23B	Port Moresby City Development Enterprises Limited
3	N/A	NA	Lae Port Development Project

2007 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	23A	National Capital District Botanical Enterprises Limited
2	A	23B	Port Moresby City Development Enterprises Limited

2006 AUDITS - COMPLETED DURING 2014/2015

No.	Section	Para. No.	Entity
1	A	23B	Port Moresby City Development Enterprises Limited

INTERNAL CONTROL REVIEW

No.	Section	Para. No.	Entity
1	A	50	Papua New Guinea Sports Foundation